

NOW, ABOUT THOSE CREDIT-CARD DEBTS ...

With the clear and obvious problems, known to have been facing Citigroup Incorporated – although, initially, management lied and said that there were not any cash-flow considerations that were of any material concern – the focus, probably sooner than later, must shift from the health of financial institutions to the financial health of credit-card issuers and the numbers of defaulters that these entities are facing.

And the burning question may well be: Will the US Government have to bail out such entities in due course, also?

Last Friday, US Federal regulators took over Downey Savings and Loan Association of California, with The Federal Deposit Insurance Corporation, named as Receiver.

According to statistics, the US Government is cognisant that there are at least 171 banks/financial institutions in the US in serious trouble, today.

It is the highest number since 1995.

Thus far this year, a total of 22 US banks have failed – that is, they have gone into bankruptcy.

To say that the situation is serious is to state the obvious.

But little has been said, up to today, with regard to credit-card issuers in the US and their problems.

It is fact that credit-card debts have risen by about \$US360 billion since 2000.

The figure for credit-card debts is put, today, conservatively, at about \$US1 trillion.

US households are staring at mortgage debts of about \$US10.65 billion – which is considerably less than credit-card debts.

US households' mortgage debts, according to the latest, US Government statistics, are just about 135 percent of households' disposable income.

In the past 8 years, the ratio of mortgage debt to disposable income has risen by about 35 percentage points – and continues to rise.

Today, it is estimated that payment arrears in respect of credit-card debts are about 5 percent of the total, credit-card debts outstanding.

In round figures, that is about \$US50 billion.

A very sizeable chunk of change for any credit-card issuer.

While mortgages may vary and may be adjustable, from time to time, it is, indeed, rare for credit-card issuers to be generous and to consider forgiving a credit-card debt.

In fact, in the history of the world, there has never been a time when credit-card issuers have been lenient toward their customers, preferring to charge in and to take action at the first indication of a default, regardless of how small the default may be.

Case in point is American Express whose rough-house tactics, over the years, are legend whenever there has been the slightest possibility of a credit-card holder, being unable to meet his or her financial commitments to this issuer.

Many US consumers tend to finance purchases, using credit-cards as the preferred manner, mainly because retail banks are not interested in extending further loans to most existing customers – and most banks have little interest in obtaining new customers.

The same situation is true in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), but, in these 416 square miles, credit-card defaulters are not as plentiful as in the US on a per capita basis.

Getting back to The Land of The Free and The Home of The Brave, it is estimated that unemployment will reach at least 7 percent by this time next year.

As such, one may expect at least a similar, or even greater, increase in credit-card defaulters in the country.

The chances are, however, that credit-card debts will increase proportional to the unemployment level – and, then, some.

History has proved that this is, usually, the case and, if history is to be considered a reasonable yardstick, one knows what to expect within the next year or so.

Lower key-interest rates in the US will ameliorate the situation, somewhat, but with households, finding themselves unable to meet their financial commitments in full, no matter how low interest rates fall, finding the wherewithal to repay credit-card issuers will continue to be a struggle.

The debt-service of most US households, today, is known to be at least 18 percent higher than disposable incomes.

Partial payments by credit-card users to issuers may keep the wolf away from the door for a period of time, but the double-digit, compound interest rates, charged by credit-card issuers to defaulters, eventually, will overpower credit-card holders.

They, eventually, will have to give up the ghost.

If one multiplies that situation by a few million, US credit-card defaulters, one can see a huge problem, emerging from the mist; and, it is likely that some credit-card issuers will find themselves, staring at a cash-flow problem.

Enter, Stage Centre, the US Government, armed with buckets, loaded of cash?

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