

How We Americans Can Break Our Addiction to Personal Debt

As a consumer bankruptcy attorney I have seen many clients through the years who have become for lack of better term “addicted to debt.” They’ve grown up in a consumer society bombarded with advertisements for all types of “must have” consumer goods from wide screen TVs to luxury motor vehicles in addition to the American dream of the house with the white picket fence. At the same time they were offered through the mail, TV commercials and the internet credit cards, personal loans, car loans, no income verification mortgages, 100% loan to value mortgages, interest only mortgages, lines of credit etc. to finance these purchases. Consumer debt drove our economy only to see it crash due to the mortgage foreclosure crisis that not only wrecked our economy, but the economy of the whole world.

Who is to blame for the predilection of so many Americans to overburden themselves with personal debt? There are those who say that it starts and stops with each individual’s responsibility to recognize what their limits are and not buy what they cannot afford. There is certainly some truth to this opinion and clearly a pressing need to practice this principle going forward, but I do not believe it is that simple. One can ask has the Federal Government set a good example for our citizens when it comes to managing debt. The answer would have to be a resounding NO! Deficit spending has become the norm in Washington. If Social Security can’t sustain itself from current contributions, borrow the money to keep it going. If the wars in Iraq and Afghanistan need billions and billions to sustain them, increase the budget deficit. That’s the answer! Medicare! Pork Barrel Projects! Spend! Spend! The Federal Government is clearly an anti-role model when it comes to responsible spending habits.

One would hope consumers would be able to look at our financial institutions as sound economic role models. Recent history has shown that this is clearly not the case. From Citibank to AIG to Countrywide Mortgage the failure of our financial institutions to exercise prudent lending practices combined with gross mismanagement and actual malfeasance has created the worst economic crisis since the Great Depression. Specifically focusing on the sub-prime mortgage crisis there were the shady mortgage brokers pushing loans that borrowers could not afford, the appraisers overvaluing properties to keep it all going and certain real estate agents all too happy to market and push housing prices higher and higher as their commissions increased. These factors combined with a public that as a whole is woefully uneducated as to properly manage debt and maintain a family budget could only result in an American society overburdened with debt.

Not all Americans have fallen victim to the downward cycle of unsustainable personal debt. Some use their credit cards as convenient tools to purchase services and items they can afford. They pay the balances off monthly without incurring any interest charges. Now with debit cards becoming so widely one can use them with the convenience of a credit card while paying for items on a cash basis. This approach to

personal spending will need to be adopted by all Americans who want to maintain a balanced budget and avoid the trap of personal debt. It will require many to adjust their consumer appetites and exercise good judgment as to where their hard earned dollars are spent. I have always been impressed with the thrifty attitude of the elderly who grew up and lived through the Great Depression. We can learn a lot from their approach to spending. It is a time to focus on the needs of our families and not so much on the wants, the extravagances that we cannot really afford. The fact your credit card provides you with a \$20,000.00 limit doesn't mean you have \$20,000.00 to spend on HD TVs, Disney vacations, videogames, IPODS etc. It will take education at all levels of society to teach people to how to manage their debt. There have been some band-aid attempts at this as part of the Bankruptcy Reform Act, but this is not enough. There should be mandatory courses at the high school level for all students to learn about credit and how to properly manage debt and the consequences of failing to do so. Credit Card companies should not be allowed to hide in small print the interest rate penalties and late charges that unwary consumers can incur with one late payment. These disclosures should made in plain understandable language that will properly advise consumers as to their obligations when incurring debt. The mortgage business needs to be cleaned up and regulated for the protection of consumers and responsible lenders alike.

Finally, in this article I do not want to imply in any way that the majority of my bankruptcy client are spendthrifts who irresponsibly ran up their debts. The overwhelming majority of consumers that contact me to file bankruptcy have lost a job, suffered an injury or debilitating illness, gone thru a divorce or suffered some other economic loss that has caused them to seek the relief that bankruptcy offers to them. I stress with them it is a chance for a fresh start that requires them to rebuild their credit in a responsible manner to avoid financial trouble again in the future. I fully expect to be very busy over the next few years as the recession takes it toll on our society. My hope is in the future as our economy improves so will the approach of future generations to the management of personal debt. I may be less busy and looking for another area of law to focus on, but would welcome the positive change to our society as a whole.