INTRODUCTION AND OVERVIEW OF CONSUMER CREDIT: DEVELOPMENT, USES, KINDS, AND POLICY ISSUES

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Introduction and Overview of Consumer Credit

Development, Uses, Kinds, and Policy Issues

Without question, the post–World War II decades have witnessed many significant changes to the American economy; not the least of them is the ongoing revolution in the money management habits of the large and growing middle class. In the early years after the war, the range of financial decisions for most people seems simple by today's standards: what proportion of savings to hold in government savings bonds versus deposits, how to choose depository institutions to open savings and checking accounts, and where to obtain loans, either for split-level homes in the developing subdivisions or for the new car models finally available after the end of wartime restrictions. Most of these financial decisions required relatively little investigation or intellectual effort for most people.

By contrast, today the variety and use of financial services have grown sufficiently to become a staple of discussion, even on talk radio and at lunchtime and evening seminars. Stock markets, mutual funds, exchange traded funds, variable annuities, IRAs, 401(k)s, 529s, tax-exempt bonds, defined benefit and contribution pension plans, health savings accounts, universal life insurance, and even formerly exotic products such as put and call options now are commonplace discussion topics. On the household liability side, consumers must contend with adjustable-rate mortgages, balloon mortgages, subprime mortgages, home equity credit lines, other secured loans, unsecured credit lines, other unsecured loans, and even thin plastic devices that access credit accounts usable worldwide. Today it is possible to transact in these and other asset and debt instruments not only at the office of a financial institution or broker, in person or over the telephone, but also impersonally in one's own den on a computer or almost anywhere else using a computer or cell-phone wireless link. Consumer sector financial management even became a staple of the nightly television news during the financial crisis of 2008–2009. For some people, the understanding and management of personal finances has become a hobby; for others, it is a nightmare.

Within the breadth of new and redesigned consumer financial products and services, none is more ubiquitous (or more controversial) than the various types of products known as consumer credit. Obviously, loans of various kinds to finance real estate purchases are common today (and even provoked the worldwide financial crisis beginning in 2008), but even more common are smaller extensions of credit. Specifically, the term *consumer credit* as used here refers to all kinds of credit employed by individuals that are not collateralized by real estate (that is, not home loans and home equity credit, which are *mortgage credit*) or by specific financial assets such as stocks and bonds and that are not used for business purposes. Typical auto loans, home improvement loans, appliance and recreational goods credit, unsecured cash loans, mobile home loans, student loans, and credit card credit all fall into the consumer credit category. From its origin as a small grouping of financial services used typically by the lower- to middle-income segments of the middle class between the world wars (and actually restricted by federal controls during World War II and the Korean War), modern consumer credit has grown so much that virtually all consumers are users at some point in their financial lives; certainly, almost all are at least aware of its benefits and risks.

What has caused consumer credit to move so far into the mainstream? Providers of financial services would probably answer with something about the demands of customers. Consumers would probably reply about the growth of useful product offerings by suppliers. Both would be right, of course, since it always takes both demand and supply to make a market. But these are simple answers, and, like so many easy responses, they are only part of a larger, more interesting, and arguably more important story. It is a truism that markets develop where demand meets supply, but consumer credit has grown so much, and the available financial products are now so numerous and their distribution system so extensive and diverse, that there must be a lengthier tale.

This book explores that part of the consumer indebtedness story not explicitly related to credit based on real estate collateral, related to stocks and bonds or other financial collateral, or used for business purposes. In other words, it examines the domain of consumer credit. It is the saga of wealth creation in the middle class over time that has led to demand for a wider range of financial products, including completely new forms of credit. It is also the story of the evolution and regulation of financial institutions that have grown to supply those needs and desires. It is simultaneously a tale of growth and competition among these financial providers and of the consequent pressures to attract customers while reducing production costs. Today these competitive forces continue to contribute to the ongoing revolution in product offerings. Innovations such as credit scoring, risk-based pricing, automated electronic credit reporting systems, product delivery through automated teller machines (ATMs) and more recently the Internet, and virtually instantaneous access to billions of dollars of credit worldwide illustrate a progression without an ending, as markets continue to evolve and as institutions plan and implement new financial services and delivery mechanisms. Even periodic financial crises are unlikely to slow this long-term trend very much.

CONSUMERS AND THEIR CREDIT

The idea of credit for households is certainly not new; in fact, there are well-known negative views of lending and personal debt in the Bible (Exodus, Leviticus, Deuteronomy), *Hamlet, Poor Richard's Almanac,* and *David Copperfield,* among many others from long ago.[1] For years, consumer debt as we know it today did not cause too many widespread domestic worries, however; debt growth for what today are common consumer purposes was almost unknown through much of American history before the late nineteenth century.

A Modern Phenomenon with Distant Roots

From colonial times until the Civil War, most free Americans lived on farms and plantations or in small villages among extended families. Families typically built their own farmhouses or bartered for construction help, and family members provided aid directly to children, siblings, and cousins in emergency situations. There was use of credit, to be sure, but largely as a substitute for circulating coin money that often was in short supply. For example, farmers often purchased store goods on credit while they awaited harvest time and the barter or sale of farm products that followed. Artisans of various sorts also extended credit if they, like the shopkeepers, were to sell their services and be paid at all.[2] But without much in the way

1. Exodus 22:25 (King James translation): "If thou lend money to my people poor by thee, thou shalt not be to him as an usurer, neither shalt thou lay upon him usury." (Until about the sixteenth century, the term *usury* referred to any taking of interest, not just high rates of interest.) Leviticus 25:35–37: "And if thy brother be waxen poor, and fallen in decay with thee; then thou shalt relieve him; yea, though he be a stranger, or a sojourner; that he may live with thee. Take then no usury of him, or increase; but fear thy God; that thy brother may live with thee." Deuteronomy 23:19–20: "Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything.... Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury."

Pronouncements against debt have also produced some of the best-known literary quotations in the English language. In Act 3 of *Hamlet*, Polonius offers his son, Laertes, the famous advice: "Neither a borrower nor a lender be; For loan oft loses both itself and friend, And borrowing dulls the edge of husbandry." Poor Richard has a number of pithy things to say about debt. Among the more memorable is "If you want to know the value of money, go and try to borrow some; for he who goes a borrowing goes a sorrowing.... the borrower is a slave to the lender."

Charles Dickens, who was personally familiar with the difficulties sometimes associated with debts, had his famous debtor Mr. Micawber say to David Copperfield, "My other piece of advice, Copperfield, you know. Annual income twenty pounds, annual expenditure nineteen, nineteen, six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery. The blossom is blighted, the leaf is withered, the God of day goes down upon the dreary scene, and in short you are forever floored. As I am!"

2. For example, this author was able to purchase from a historian and antiques dealer a promissory note, dated April 1794, payable to his fifth great-grandfather and carefully signed by him (in three places), agreeing to receive time payment for carpentry work in building a house in the then-small village of Lebanon, Pennsylvania.

of consumer goods to choose from or much of a trade economy anyway, at least compared with today, there was little need for additional household credit beyond purchase-mortgage loans for farms, agricultural credit for planting, and deferred payments to shopkeepers and artisans for a few necessities until the crops came in. Ultimately, farm loans were extensions of business credit by lenders, when available at all, and would not be considered consumer credit then or now.

This is not to say that credit, and especially agricultural loans, was unimportant in the economic or political affairs of the earlier years of the republic. Rather, banking and agriculture were central concerns and divisive political issues up to and throughout the nineteenth century. Controversy over chartering a Bank of the United States instead of only smaller, local banks that would be more closely responsive to the needs of farmers was a major political issue throughout the first five decades of the country's history (see Hammond 1957). The controversial enthusiasm of Alexander Hamilton, an early "eastern financier" and the first US Treasury secretary, for the first Bank of the United States in the late eighteenth century is well known. So is the vehement opposition four decades later of Andrew Jackson, the first western president, to the second Bank of the United States. After Jackson vetoed the renewal of the second bank's national charter in 1832, that bank (rechartered in Pennsylvania as a state bank) became a notable financial failure in the recession and financial collapse that occurred later in that decade.

After the Civil War, there was widespread agrarian unrest over financial matters for the rest of the century. The political centrality of falling prices and associated credit difficulties for farmers (and other debtors) culminated during these years in the Greenback and Free Silver political movements and the final victory of the gold standard in the presidential election of William McKinley in 1896. Agricultural finance, metallic coinage, inflation, deflation, and the role of banks in society continued to be among the most important political issues for decades.[3]

Banking issues have remained vital politically in the twentieth and twenty-first centuries, if mostly not quite so divisive. The early years of the twentieth century witnessed the peak influence of financier J. Pierpont Morgan, whose name still echoes through Wall Street. A financial collapse and panic in 1907 produced extensive public review of finance, leading directly to passage of the Federal Reserve Act in 1913. A bit later, the onset of massive numbers of bank failures associated with depressed economic conditions during the 1930s produced another round of political centrality for banking matters. The Federal Deposit Insurance Corporation (FDIC) and the Securities and Exchange Commission (SEC) both were created during this period. Banking came to the forefront again in the 1980s, with the implosion of much of the network of savings and loan associations. Bankruptcy law changes in 2005 affecting consumer indebtedness and upheavals in the market for subprime mortgage loans in 2008–2009 affecting a whole host of financial institutions brought banking and finance as a highly visible political issue into the twenty-first century.

3. See Friedman and Schwartz (1963) for a scholarly treatise on monetary and financial matters during these years and up to 1960.

But compared with the other functions of domestic credit such as commercial lending, government finance, and housing loans, consumer credit as we think of it today is a relatively modern phenomenon. Despite some installment-purchase plans by sellers of furniture, sewing machines, and some other domestic goods and even clothing during the nineteenth century, consumer credit use was nothing like the common experience it is today. There simply were few needs before the 1920s for the auto loans, boat loans, durable goods credit, college tuition credits, and home modernization and repair loans that make up the bulk of consumer credit use today. Much of the demand for consumer credit arose with the development of urbanization, mass production of consumer goods, and growth of the middle class that began slowly in the nineteenth century but mostly came later, especially in the decades after World War II.[4]

There also were few financial institutions in the nineteenth and early twentieth centuries willing to extend credit in the small amounts consumers might need, and credit for households beyond housing debt was generally regarded as somewhat disreputable anyway. To be sure, in the later part of the nineteenth century, some enterprises began to extend credit to households for purchasing their products; for example, the Singer Sewing Machine Company began to offer time payments on its products in the 1850s, and some local sellers also offered time payments on their merchandise. But the development of major household-oriented durable goods industries based on electricity and the internal-combustion engine early in the twentieth century started consumer credit on its way to being the mass-market collection of financial products that it is today. Much of the impetus to consumer credit growth arose from efforts of manufacturing pioneers such as automakers to sell their products on a broader scale by also financing them. As a result, by the 1930s and afterward, household credit began to be more widely understood and appreciated as something beyond home loans, emergency funds for slightly down-and-out individuals, or a convenient way for a few rich people to avoid carrying around cash.[5]

The six decades and more since World War II have witnessed tremendous economic expansion in the United States. Consumer sector income, measured by disposable personal income, which consists of income after transfer payments and taxes, has risen more than seventy-five-fold in nominal dollars from 1945 to 2012 and to more than 600 percent of its 1945 level in inflation-adjusted terms (see table 1.1). Consumer sector total assets have grown even more rapidly over the same period, but consumers' debts have risen faster still, in percentage terms. At the end of 2012, home mortgage credit outstanding measured more than \$9 trillion, and consumer credit was more than \$2.5 trillion. The rapid growth of installment

4. Economic, monetary, financial, and banking history are all sizable areas of scholarship. In the banking area, important works include Redlich (1947), Hammond (1957), Friedman and Schwartz (1963), Fischer (1968), Homer and Sylla (1996), and Bodenhorn (2003). For historical discussion of consumer credit and its institutions, see Michelman (1966), Rogers (1974), Olney (1991), Calder (1999), and Gelpi and Julien-Labruyere (2000).

5. For an especially lively and readable account by a cultural historian of the historical development of consumer credit as a cultural phenomenon in the United States in the nineteenth and early twentieth centuries, see Calder (1999).

credit raises the question of whether debts have risen too fast, an analytical discussion area for consumer credit with a history all its own (see chapter 2).

Demand and Supply

Today, regardless of any concerns over growth trends, most informed observers agree that consumer credit availability in the modern economy provides a number of important economic benefits. First, consumer credit makes engaging in household investment undertakings easier and more timely for many families. In this context, the term *household investments on credit* does not refer to financial investment in such assets as stocks, bonds, or mutual fund shares. Rather, it means making expenditures for high-value goods or services (such as automobiles, appliances, home repairs and furnishings, education, and significant hobby items such as boats and motorcycles) that provide their benefits over a period of time and whose cash purchase does not usually fit comfortably into monthly budgets. By facilitating such investment spending, credit enables consumers to change the timing of their saving and consumption flows to a preferred pattern.

Specifically, rather than postponing the purchase of household investment goods and services and the consumption benefits they provide until funds are

Table 1.1 Selected Measures of Assets, Debts, and Income of American Consumers, Selected Years, 1945–2012

	1945	1955	1965	1975	1985	1995	2005	2010	2012
Current dollars (billions)									
Disposable personal income[a]	152	283	498	1,187	3,079	5,457	9,277	11,127	11,931
Total assets	722	1,534	2,794	5,670	16,071	32,370	71,020	71,070	76,930
Financial assets	559	1,019	1,960	3,679	9,995	21,783	44,903	49,848	54,390
Deposits	106	176	380	924	2,551	3,400	6,217	7,953	9,046
Other financial	454	843	1,580	2,754	7,444	18,384	38,686	41,895	45,345
Total liabilities	30	139	342	740	2,224	4,744	11,586	12,932	12,751
Home mortgages	19	88	219	459	1,450	3,319	8,907	9,890	9,430
Consumer credit	7	43	98	207	611	1,168	2,321	2,442	2,779
Other liabilities	4	9	25	74	164	257	358	500	541
Net worth	692	1,395	2,452	4,930	13,847	27,626	59,434	57,991	64,179

Table 1.1 Continued

	1945	1955	1965	1975	1985	1995	2005	2010	2012
2012 dollars (billions)									
Disposable personal income[a]	1,941	2,425	3,628	5,067	6,571	8,821	10,907	11,714	11,931
Total assets	9,203	13,143	20,364	24,200	34,292	48,767	83.493	74,817	76,930
Financial assets	7,134	8,727	14,289	15,700	21,327	32,818	52,789	52,476	54,390
Deposits	1,347	1,506	2,771	3,945	5,443	5,122	7,309	8,373	9,046
Other financial	5,787	7,220	11,519	11,754	15,884	27,696	43,480	44,104	45,345
Total liabilities	383	1,199	2,486	3,158	4,746	7,147	13,621	13,614	12,751
Home mortgages	239	753	1,599	1,959	3,093	5,000	10,471	10,411	9,430
Consumer credit	87	368	711	883	1,303	1,760	2,728	2,676	2,779
Other liabilities	51	77	182	316	350	387	421	526	541
Net worth	8,827	11,943	17,880	21,040	29,547	41,620	69,872	61,204	64,179

[a]Measured at annual rate. All other amounts are year-end, not seasonally adjusted.

Adjustments to 2012 dollars are made using the Consumer Price Index for All Urban Consumers (CPI-U). Components may not add exactly to totals because of rounding.

Source: Federal Reserve Statistical Release Z1, "Flow of Funds Accounts of the United States," various issues. Figures shown are year-end, not seasonally adjusted. Table excludes assets but not liabilities of nonprofit organizations, thereby somewhat understating consumer sector net worth.

available from savings (a difficult task for many families, especially in the earlier stages of their earning years), consumers can use credit to purchase the investment goods and services first and pay for them while using them. In effect, they can save for them by making payments while actually using the goods and services. In exchange for this alteration in timing, lenders impose a cost known as interest or finance charge, which provides a return to those making the current resources available. When consumers decide to make such investments, it is reasonable to surmise that at least most of them engage in some sort of economic calculus concerning this cost relative to the associated benefits of using credit rather than waiting. Some elements of this decision are introduced briefly in the next section of this chapter, and it is discussed at greater length in chapters 3 and 4.

A second economic benefit of consumer credit is its substantial contribution to the growth of durable goods industries, where new technologies, mass production, and economies of scale historically have produced employment growth and new wealth. It is simply hard to imagine development of the suburbs or the automobile and appliance industries in this country and worldwide in the twentieth century, or, for that matter, the higher education system as it now exists, without the simultaneous rise of consumer credit to facilitate sale of the output. (This is sometimes known as *moving the metal* in the vernacular of the auto industry, without any recognized counterpart phraseology in education.) Little more will be said here about this aspect of economic development in the United States, but the importance of consumer credit in this area cannot go without mention.

Third, consumer credit provides an important outlet for employing financial resources available from net surplus components of the economy (savers), notably from consumers themselves. In fact, if not in common perception, the consumer sector of the American economy taken as a whole actually has always been a net lender in financial markets, not a net borrower. As revealed in the Federal Reserve's Flow of Funds accounting system, net financial lending and equity investment by the economy's consumer sector (either directly or through intermediaries such as banks and pension funds) passed the $1 trillion mark as long ago as 1958 (net of $183 billion of household liabilities at that time) and has continued to rise, mostly steadily, in the years since. Consumer sector *financial* assets totaled more than $54 trillion at the end of 2012 (see table 1.1). At that time, consumers' total liabilities were about $13 trillion. This left household sector *financial* net worth at more than $40 trillion in 2012 dollars. Even so, households obviously continue to borrow large amounts of funds, typically through financial intermediaries, sometimes from the same ones where they hold their reserves.

Ultimately, the source of funds for consumers who borrow is other (or even the same) consumers who have a financial surplus that they can hold as deposits, as life insurance and pension reserves, or as portfolios of securities including bonds, stocks, and mutual fund shares. By holding reserves in financial assets, typically through intermediation of financial institutions, these consumers/financial investors find an available source of financial return arising from the needs of the consumers who borrow. The transfer of resources from surplus to deficit consumers may actually take place through multiple intermediaries. Although the primary focus of this book is on the liability side of consumers' balance sheets, it also briefly explores the channels of this transfer of funds from those with a surplus to those with a borrowing need, along with some of the difficulties of effecting this transfer efficiently (chapter 5).

An important element of efficient transfer of these resources is availability of information that lenders can use to reduce default risk. This has led to development of the automated credit reporting agency (CRA), popularly known as the "credit bureau." The CRAs maintain electronic files on consumers' experiences with credit use so as to help satisfy lenders' need for better information on creditworthiness of credit applicants. Anyone making an application can claim that he or she is a good credit risk, but the automated files on past experiences confirm it or cast doubt. In this way, those with past success in meeting their obligations can command the lower prices (lower interest rates) that their preferable risk status implies. Those less successful in the past often can still be accommodated, albeit at somewhat higher risk-based price, pending generation of better experience making their status more favorable (chapter 6).

TYPES OF CONSUMER CREDIT

Modern consumer credit is diverse enough that it can be classified in many ways. Probably most familiar in conversation is by intended use of the funds. Common uses include automobile credit, student loans, boat loans, mobile home loans, home improvement loans, furniture credit, debt refinancing, and so on. There are some complications with this familiar form of referring to credit use, however, that go to the very heart of the reasons for using consumer credit in the first place.

Kinds of Consumer Credit, Classified by Usage

For descriptive purposes, it is common to say that consumers use consumer credit for such and such a purpose, including all those mentioned above and others. Many people owe on auto loans, student loans, and other obligations that they acquire as they purchase household assets and education and refinance other debts. Financial institutions widely offer debt products associated with such purchases, and hardly any consumers are unaware of the possibilities. Dealers and stores say that "financing is available." Car loans are trumpeted in television and radio advertisements and in the automobile sections of daily newspapers and on the Internet. Student loans are a topic of conversation in virtually any college cafeteria. Other credit products are just as well known to those who might employ them. Even Harley-Davidson has its own consumer financing subsidiary for its motorcycles, for example.

Nonetheless, a little reflection quickly shows that buying autos, household repairs and furnishings, major hobby items, and education is only part of the fundamental economic behavior that gives rise to these classifications of debt. Rather, it is useful to recall that a significant component of the underlying, basic economic demand motivation for consumer credit is the desire by consumers to change both the size and the timing of their resource inflows and outflows. Credit markets arise to change the lumpiness of the patterns, particularly of the outflows for purchasing housing and durable goods, and to bring household capital investment transactions forward in time to the present instead of far off in the future.

Most purchases on credit could be accomplished by accumulating cash first and then buying the item later, but this often is not the time pattern consumers prefer. For many goods, accumulating cash first could mean doing without the item or paying for more expensive substitute services for a period that might amount to years, both of which are costly. People could walk to work, for example, or they could ride bicycles or take the subway or bus rather than making payments on car loans. They could forgo the pleasures of easily visiting friends and family by car as part of the costs they would bear. They also could use laundromats and scrimp on other appliances and furniture or acquire used equipment. They could put on sweaters and coats if the furnace failed while saving to replace it, or they could live with relatives. Many people do all of these things in lots of places, but with the limited length of lifetimes that often involve children in relatively early years of a family's life cycle, waiting to make these investments is frequently not the preferred option in middle-class societies if there is an alternative. The types of credit we observe in the marketplace in large part come about because they are the least costly ways of providing an acceptable alternative.

In more detail, inflows from wages and salaries that make up the income of most employed workers in a modern economy typically are quite regular, and credit offers the opportunity to smooth the outflows. Lumpiness in outflows can occur during the course of the period between paychecks, but it certainly will occur during the course of longer periods such as a year, within a particular life-cycle stage, or over a consumer's or a family economic unit's whole lifetime. For example, for many families, expenditures increase during selected seasons such as vacation periods, back-to-school time in September, and around the year-end holidays. Then, in some years, there also are bigger, investment-type purchases, such as an automobile or a new home. A few years later, there may be need for another auto or a larger home and later still for college education for children. Purchase of a vacation home or a large recreational item such as a boat may occur once or twice in a lifetime. Credit facilitates all these transactions by enabling households to use future regular inflows to pay for lumpy expenditures made today. Consumers have shown that they are willing to pay a price in the form of interest and finance charges for the possibility of changing the time pattern of expenditures.

This picture of inflow and outflow/expenditure patterns illustrates how it often is not really correct to say that credit arises solely for the purpose of purchasing specific items. The purchases could often be made anyway, just on a different schedule. The accumulating could be done first, although this would also mean postponing the benefits of the investments and often paying for substitutes in the meantime. The correct interpretation in these cases is that credit markets arise to increase consumers' overall well-being by changing the time pattern of investment inflows and outflows to a preferred one.

The problem of classification by usage is especially obvious for an individual purchasing a $35,000 automobile or truck on credit who simultaneously holds $35,000 or more in financial assets. In some significant sense, this individual is not really using credit only to purchase the vehicle. Rather, the underlying motivation for credit use is to avoid some combination of not buying the car or truck now, not giving up some other current purchases either, not paying taxes and penalties for liquidating assets held in retirement accounts, and not reducing reserves stored in other financial assets. Risk-averse consumers may well prefer not to reduce their reserves, which are valuable to them. Credit obviates the need to do things consumers think are disadvantageous, such as running down financial reserves, while matching the pattern of outflows (payments) better to inflows (paychecks).

Certain kinds of credit associated with specific sorts of investment purchases arise because they permit changing the flow pattern in the least costly manner. Credit is often associated with automobile purchase transactions, for example, because the associated expenditure is large and since relatively large amounts of credit at relatively low cost are readily available to those who are willing to offer the auto or truck as collateral for the loan. Such loans are so common that "automobile credit" has become a large industry by itself. Credit generated in the process of making home improvements and buying automobiles, durable goods, education, and a variety of other transactions (including payment of taxes, debt consolidation, etc.) are all well-known types of consumer credit. Advertising for each usage is common, and many financial institutions memorialize these distinctions by separate departments and personnel, even separate subsidiaries.

For the most part, official figures for the volumes of credit for many "uses" are no longer assembled by the government's statistical mills, largely for the conceptual reasons mentioned and because of the practical difficulties of collecting necessary data from creditors to generate meaningful statistical aggregates according to consumers' use of the credit.[6] The only practical way to produce an estimate of consumer credit purpose is to design statistically reliable surveys of consumers, ask them about their credit experiences, and then in some manner extrapolate from their experiences to the broader public.

The Federal Reserve Board has provided the means of doing this with its series of surveys known as the Surveys of Consumer Finances, which began in 1946. The Surveys of Consumer Finances were annual from 1948 to 1970 and then periodic after that date, 1977, 1983, and 1989, before stabilizing on a three-year cycle beginning with the 1989 survey.[7] The surveys, of course, do not follow the fortunes of the same consumers over time as they age. Rather, they look at the financial experiences of representative samples of consumers through successive cross sections. Each survey is designed so that it is individually representative of the entire population at the time the surveying is undertaken.

Fortunately for making comparisons, the structure of the Surveys of Consumer Finances shows substantial similarities from one survey to the next. Over longer periods, as might be expected, the surveys have evolved along with consumer-oriented financial markets and the underlying questions of interest. Shortly after World War II, for instance, a major focus of the surveys was the distribution of holdings of federal savings bonds and other war-related federal debt among consumers. In the 1950s and 1960s, the surveys examined more closely use and holdings of consumer credit. Credit cards made their first significant appearance in the surveys in

6. In the past, the Federal Reserve Board collected information on amounts of consumer credit by usage in its monthly survey of credit volume at granting institutions, but the Board discontinued the usage collection decades ago. Before that time, the monthly surveys asked lending institutions to report credit according to whether it was for automobiles, durable goods, home improvement, or other, but even classifying credit into a few broad categories became increasingly difficult with the advent of open-end credit such as credit cards, where lending institutions knew little or nothing about account uses.

7. There also were limited surveys in 1971, 1978, and 1986 that can be considered part of this series. During the 1960s, the surveys were largely sponsored by private sources, including the Ford Foundation.

1970, and the 1977 survey focused especially on then-new federal consumer protection laws, such as the Truth in Lending Act and the Equal Credit Opportunity Act. In 1983, serious interest in consumer asset holdings returned to the surveys, and examination of the asset side of consumers' balance sheets remained primary in the 1990s and from 2001 to 2010. (Results of the 2013 survey will become available in 2015.) Although these differences within the project are apparent over time, the surveys offer much that is directly comparable.

The surveys show that most households are consumer credit users in recent years (upper panel of table 1.2). Focusing on consumer *installment* credit (encompassing any consumer credit involving multiple payments, which today constitutes by far the bulk of consumer credit), the table shows that about a third of households were users of this kind of credit in 1951, a proportion that rose to half by 1963 and to about three-fifths in 1977 (last line of the upper panel of the table). Since 1977, the fraction of households with consumer installment credit outstanding has fluctuated around 60 to 65 percent.

Employing the Surveys of Consumer Finances to provide further breakdown on the uses of consumer credit shows clearly the importance of credit to household investment spending (lower part of table 1.2). In fact, the bulk of consumer installment credit arises in the course of undertaking household investments that provide a return over time, especially purchase of automobiles, educations, and mobile home housing. The table also shows that *revolving* credit outstanding (defined more fully later but consisting mostly of credit card debt along with some unsecured credit lines not involving a credit card) has fluctuated in the range of one-fifth to approximately one-quarter of consumer credit since the 1983 survey. It is easy enough to see how it appears that this newer form of consumer credit that is especially difficult to classify by purpose has partly replaced older kinds of installment credit classified as nonautomobile durable goods credit, plus home improvement loans and "other" credit. In 1977, these three categories summed to 20 percent of consumer credit, but in 2010, they were only 12 percent. Over the same time, the revolving credit proportion, but without specific usage indicated, rose from 11 percent to 22 percent.[8]

8. Federal Reserve statistical information on consumer credit collected from creditors indicates that at year end 2013, about 28 percent of consumer credit is revolving credit, but this total includes "convenience credit" that is outstanding on credit cards when the monthly survey of institutions is made but is repaid within a month. Because of this rapid repayment, most observers do not consider this "credit" as anything more than a statistical artifact that is impossible to remove from the data. The Surveys of Consumer Finances exclude this credit from its definition of consumer credit outstanding and go to great trouble to try to remove it. The consumer surveys also try to remove credit outstanding on credit cards that is actually used for business purposes, often by owners of small businesses. It is not possible to remove this kind of credit from the totals of consumer credit in the monthly institutional surveys, but the periodic Surveys of Consumer Finances remove it. Both of these differences reduce the proportion of revolving credit in the consumer surveys relative to the institutional surveys. The consumer survey results are probably closer to the correct proportion of revolving credit that is actually used for longer-term consumer uses and within the normally used meaning of the term *consumer credit*. Chapter 2 discusses these statistical issues further.

Table 1.2 Consumer Installment Credit by Purpose of Credit Use, 1951–2010

Type of Credit	1951[a]	1956[b]	1963[b]	1970[c]	1977	1983	1989	1995	2001	2004	2007	2010
Proportions of households using consumer installment credit (percent)												
Closed-end installment credit												
Automobiles	26	21	26	29	34	28	33	31	34	35	34	30
Nonauto durables		30	22		14	10	9	7	5	3	5	4
Home improvement	3	6	6		6	5	3	2	1	1	1	1
Education					2	2	5	12	11	13	15	19
Mobile homes					2	2	2	2	2	2	2	1
Other	7	7	25	37	12	7	7	6	4	4	5	7
Any closed-end installment	32	45	50	49	49	41	44	45	44	46	46	46
Revolving credit account with balance				22	34	37	40	47	44	46	46	39
Closed-end or revolving installment credit	32	45	50	54	59	58	59	64	62	64	65	60

(*Continued*)

Table 1.2 (Continued)

Type of Credit	1951[a]	1956[b]	1963[b]	1970[c]	1977	1983	1989	1995	2001	2004	2007	2010
Shares of outstanding balances on consumer installment credit, by purpose (percent of total)												
Closed-end installment credit												
Automobiles	67	60	57	53	60	47	55	43	45	41	35	27
Nonauto durables		23	13		5	6	7	4	3	3	5	5
Home improvement	8	8	7		6	8	3	3	1	1	1	1
Education					1	3	5	16	19	21	25	37
Mobile homes					8	9	5	6	7	6	5	3
Other	25	9	23	42	9	5	5	3	2	6	3	6
Revolving credit account with balance				6	11	23	20	26	23	22	27	22
Closed-end or revolving installment credit	100	100	100	100	100	100	100	100	100	100	100	100

[a]In 1951, category "automobiles" also includes nonauto durable goods; category "other" also includes education and mobile homes.
[b]In 1956 and 1963, category "other" also includes education and mobile homes.
[c]In 1970, category "other" also includes nonauto durable goods, home improvements, education, and mobile homes.

Source: Data from the Surveys of Consumer Finances.

Growth of revolving consumer credit has nonetheless been controversial. Some observers have focused on the growth rates of revolving credit alone and have overlooked how much of this growth appears to arise from a substitution process. Much of revolving credit represents favorable consumer response to technological change that has permitted lenders to offer them a more convenient form of consumer credit, specifically, prearranged revolving credit available to them anywhere worldwide that their credit cards are acceptable for payments. The critics have argued instead that the growth of revolving credit has permitted everything from irrational purchasing by consumers to massive increases in consumer bankruptcies. These issues flow through the discussion in many of the chapters that follow, notably those on long-term growth of consumer credit (chapter 2), consumer credit demand and supply (chapters 3 through 6), credit cards (chapter 7), and consumer and market responses to over indebtedness, including the ultimate consumer legal response, consumer bankruptcy (chapter 13).

Regardless of one's views of revolving credit, consumer surveys provide a good look at the question of classification of consumer credit by usage and find that the bulk of consumer credit, including revolving credit, is associated with consumer investment spending for household durable goods and education. It is worth noting again and keeping in mind, however, that the full motivation is not just purchase of investment goods but also smoothing spending outflows to match income inflows and to change the timing of purchasing relative to saving. Surveys show that most consumer credit arises from the process of investment spending and not merely from some sort of consumer profligacy, as is sometimes alleged. A desire to change this timing is not especially surprising, given the limited length of human lifetimes.

Kinds of Consumer Credit, Classified by Flexibility of Repayment Terms

If it is not completely straightforward to categorize consumer credit by reason for borrowing, there still are other useful distinctions. One already alluded to is by flexibility of credit repayment pace. There are many variations, but three basic kinds of consumer credit are classified this way. First is noninstallment consumer credit, where lenders extend credit in a variety of ways but expect repayment in one lump sum (a small enough part of total consumer debt that it is no longer separately reflected in official statistics). Second is nonrevolving, or "closed-end," installment credit, where credit normally is extended at one time and repaid under contract in a series of similarly sized payments sometimes called "installments," typically monthly (automobile credit, for example). Third is revolving, or "open-end," installment credit, where credit is extended in variable amounts and repaid at the consumer's preferred pace through variable monthly installment payments, within contractual limits (credit card credit, for example). These latter two kinds of consumer installment credit were already introduced in table 1.2.

Noninstallment Credit

Noninstallment consumer credit is largely of historical interest today (and so it is left out of table 1.2), but it once was an important factor in consumer credit. At that time, and conceptually even today, it consisted of three components: charge accounts at merchants and dealers, service credit, and single-payment loans.[9]

Charge accounts are credit arrangements owed to retail stores and other purchase outlets that are payable in full at one time, typically at the end of the month or in thirty days. Sometimes goods such as furniture or computers are still sold this way today, and some merchants offer plastic cards known as "charge account cards" or "charge cards" as evidence of an ongoing account relationship. Terminology in this area often is applied loosely, but strictly speaking, charge cards are not the same as "credit cards" that permit payment over a longer period at the customer's option. Most plastic credit devices are credit cards in this sense, but the American Express Green Card is a charge card. Consumers can use Green Cards at a variety of merchants outlets, but payment in full is due at the end of the billing month.[10]

In years past, charge accounts were important at department stores, oil companies, appliance dealers, specialty clothing stores, and other neighborhood retailers. Charge cards are still held and used today, but the majority of retailers have given up their charge account plans in favor of accepting credit cards, either their own or American Express, Discover, MasterCard, and Visa cards offered by third parties. Today the amount of consumer credit outstanding on merchant charge cards and accounts is small, and much of the credit outstanding on the American Express Green Cards is business credit and not consumer credit. For these reasons, the Federal Reserve statisticians who are the scorekeepers in this area have dropped the separate classification of noninstallment credit from the monthly figures on consumer credit outstanding. Today the statisticians have included estimates of remaining charge account consumer credit within revolving installment credit, even though they know this is not strictly correct.

Service credit consists of amounts owed by consumers to service providers such as doctors, dentists, lawyers, plumbers, and other service professionals who do not demand immediate payment on the spot. Again, like charge accounts, service credit has become less common as professionals today typically prefer to accept credit cards for payments to minimize the accounting and record keeping necessary for maintaining their own billing operations. This fact probably improves the estimates of total consumer credit outstanding, since no one

9. Before World War II and during the immediate postwar years, charge accounts were much more important than today. Including them in table 1.2 would raise the proportion of credit users in the earlier years.

10. Until early 2005, another well-known charge card brand was Diners Club, in recent years owned by Citigroup. Diners Club cards were the original multiparty charge cards, but in 2005, Citigroup began to merge its Diners Club brand with its MasterCards. In 2008, Citigroup agreed to sell its Diners Club brand name outside North America to Discover Financial Services, issuer of the Discover Card. In 2010, the Bank of Montreal acquired the rights to the Diners Club brand name in North America.

contends that service credit outstanding was ever estimated very accurately in the aggregate anyway.

Single-payment loans are made directly to individuals by banks, insurance companies, stock brokerage firms, and other institutions to finance a variety of lumpy expenditures, including medical expenses, education, and payment of taxes. Often, such loans are made to individuals with financial assets such as stocks, other securities, or cash-value life insurance policies that can be pledged as collateral for the loan. Yet the conceptual issue arises of whether "loans" with collateral of this sort are really not just economic liquidations of underlying asset positions rather than credit use. For the most part, the answer from the statisticians has been yes, in that credit balances from these sources have not been included in the official statistics on consumer credit. Today most individuals do not employ credit of the latter sort for consumer purposes anyway, although some upscale consumers do have single-payment loans based on stock portfolios through "cash management accounts" and accounts with similar names with their stock brokerage companies.

A few high-rate credit products, including pawn loans, tax refund anticipation loans, and payday loans, are also single-payment loans. These loans are quite small, have short terms to maturity, and are often called fringe products because they are used by consumers who have limited access to mainstream credit products. For Federal Reserve statistical purposes, they are counted within the finance company segment of installment credit lenders. (Chapter 8 discusses these and other fringe credit products in more detail.)

Overall, noninstallment credit has declined in relative importance, as the shares of charge accounts and service credit have diminished relatively and single-payment loans are generally not counted as consumer credit. As consumer credit use has become more widespread, installment credit, especially in the form of revolving lines of credit and credit cards, has taken over many of the former uses of noninstallment credit. As indicated, the main exception to the historical-only nature of most noninstallment consumer credit is the amount of consumer credit due on charge accounts at some merchants and on American Express Green Cards. For all practical purposes, noninstallment consumer credit has disappeared statistically, if not conceptually, since outstanding consumer balances even on these specialized cards are now counted as part of revolving installment credit.

Closed-End Installment Credit

Installment consumer credit is consumer credit repayable in a series of payments, known as installments, usually monthly. There are two basic kinds of installment credit: nonrevolving, or "closed-end," installment credit and revolving, or "open-end," installment credit. Of the two, nonrevolving installment credit still represents the larger segment by volume outstanding, although it grew more slowly in recent decades than revolving/open-end installment credit, until the financial crisis 2008–2009 (first panel of table 1.3).

Nonrevolving installment credit is a very common consumer credit arrangement in which a specified amount of credit is advanced for a certain length of time

Table 1.3 Consumer Credit Outstanding, End of Selected Years, 1945–2012, in Billions of Current Dollars

	1945	1955	1965	1975	1985	1995	2005	2010	2012
By type of credit									
Nonrevolving	7	43	97	192	479	703	1,464	1,695	1,928
Revolving				15	132	465	857	847	850
Total	7	43	97	207	611	1,168	2,321	2,542	2,778
By type of institution									
Depository institutions	3	19	49	116	355	542	816	1,186	1,218
Finance companies	1	12	24	33	112	152	517	705	678
Credit unions	*	1	6	26	74	132	229	226	243
Nonfinancial business	3	11	18	33	63	85	60	53	53
Pools of securitized assets						213	610	63	58
Federal government					7	44	90	309	528
Total	7	43	98	207	611	1,168	2,321	2,542	2,778

* Greater than zero but less than 0.5 billion.
Components may not add exactly to totals because of rounding.

SOURCE: Federal Reserve Statistical Release G19, "Consumer Credit," Historical Data. Figures shown are for December, not seasonally adjusted.

and is repayable in a prearranged number of payments. Three-, four-, and five-year auto loans are common examples of closed-end installment credit. On a standard closed-end contract, a certain amount of credit is advanced (automobile purchase price and fees minus trade-in and down payment, for example), a finance charge is calculated, and the sum of the two is divided equally by the specified number of payments. The consumer's obligation is to make this number of payments, normally each month in the same amount. This kind of consumer credit has become known as closed-end installment credit because the contract is of a "closed" form once it starts running. There generally are no changes in the contractual amounts, costs, or payment sizes after the outset until final payoff (or maybe refinancing with a new closed-end contract). Typical automobile credit offers the most familiar example, but there are many others, including home remodeling contracts, furniture loans, boat loans, student loans, and cash loan arrangements for a variety of purposes. Mostly, a credit contract associated with a single credit advance for a single large purchase or purpose is a closed-end contract, although there are occasional exceptions.

Operationally, there are two kinds of closed-end installment credit. The first is direct credit, where the consumer is the customer of the financial institution. In a common example, a consumer might apply for and obtain an auto loan or a home improvement loan at his or her local bank or credit union. In this case, the consumer would negotiate the credit terms directly with the loan officer in person or electronically and either sign the contract at the office of the lending institution or authorize it electronically. Other examples include small cash installment loans at banks, finance companies, and credit unions.

In contrast, in an indirect credit arrangement, the consumer is the customer of a seller of retail merchandise or services such as an automobile dealer, a furniture store, or a home improvement contractor. The consumer in this case negotiates the credit terms with the seller of the goods or service, who typically presents to the customer the terms offered by its own financial institution (or institutions). When the consumer signs the contract, it is sold by the retail dealer, store, or contractor to the financial institution. Thus, the merchant receives immediate payment from the bank or finance company, and the consumer repays the financial institution over time (with finance charges). This sort of arrangement is known as indirect credit, because the customer never contracts or negotiates the terms with the financing institution directly; arrangements are made through the seller of goods or services. This method of finance is also known as installment financing or sales finance, in contrast to installment lending, because it involves the financing of sales of specific goods or services rather than loan of money.[11]

For many years, the largest indirect lenders were the financing arms or affiliates of the automobile manufacturers, notably the General Motors Acceptance Corporation (GMAC, today Ally Financial), Ford Motor Credit Company, and Chrysler Financial Corporation (Chrysler Financial Services, during 1998–2007 part of Daimler Chrysler Services Group and today part of TD Bank). More recently, other auto financing firms such as Toyota Motor Credit Corporation have added to the list, and the financial crisis of 2008–2009 has caused Ally to become a market partner rather than an owned affiliate of General Motors. But

11. Historically, under the laws of most states, sales finance arrangements legally were not loans but were "retail installment sales" and often were regulated differently from loans of money. The regulatory differences arose because direct and indirect consumer credit developed separately in the United States, and consequently, they had different histories and backgrounds that gave rise to different sorts of regulation. See Rogers (1974) and Calder (1999) for historical discussion of the institutions and Curran (1965) for development of the law.

Because of this legal difference, it is not strictly correct to refer to an installment sale contract as a loan. Rather, such an arrangement is an installment sale of goods on a time contract rather than a loan, which in most jurisdictions in the United States has referred legally to loan of money, at least historically. Consequently, installment *loans* are part of installment *credit*, but not all installment credit is a loan. Because this historical legal distinction is not important to most observers of consumer credit, including even most legal practitioners who are not specialists in this area, the common approach of using the terms *consumer credit* and *consumer loan* or *installment credit* and *installment loan* interchangeably is adopted for the purposes of this book, except where this distinction is important, such as in discussion of usury laws that sometimes have affected the two areas differently (see chapter 11).

the basic role of these companies has not changed. They still stand ready to buy acceptable retail sales contracts from dealers in their affiliated factories' auto lines. (They also are ready to finance the dealers' inventory shipped from the factory, a form of direct business lending known as floor planning.) In addition to the automakers' financing affiliates or partners, there also are many other nonrelated indirect financing sources that buy the credit contracts originated by automobile, furniture, appliance, and home improvement dealers. They include many smaller finance companies and also the "dealer departments" of many small and large banking institutions.

Volume breakdowns are not available for direct versus indirect closed-end consumer credit, but it seems that in recent years, indirect credit has grown relative to direct lending, in large measure because of the increasingly aggressive competitive stance of the automobile finance companies in the era of 0.0 percent financing and other factory-supported credit plans in recent decades. As the automobile companies' financing subsidiaries and affiliates became more vigorous competitors in all ranges of the customer risk scale since the 1980s, they changed the makeup of the indirect market for automobile and truck financing. Finding more attractive rates and terms than previously available in the indirect market, less risky consumers, who in the past often had sought the better terms historically available in the direct market, now found it easier to engage in one-stop shopping and obtain automobiles and financing without ever leaving the dealer's back office. There are still many direct lenders, however, including the direct loan departments of most banks and many finance companies. Credit unions usually are mostly direct lenders.

Other than the convenience of one- versus two-stop shopping, today there is little practical difference from the consumer's viewpoint in the mechanics or costs of obligations taken on in direct versus indirect form for the closed-end installment purchase of big-ticket items such as cars and trucks. In the past, financing rates and charges (pricing), along with other terms on direct auto credit, often were more favorable to the consumer than on indirect auto credit, but this has changed as consumer credit markets have become more competitive overall. Formerly, direct customers tended more to be those with previous favorable credit experience and reputations or with favorable current financial prospects, such as higher income or assets. Through experience, they became familiar customers to their banks or credit unions. They made attractive direct customers for the financial institutions, which often would compete to supply them with a range of financial products, including direct loans.

At that time, indirect auto customers were more likely to include those with weaker credit histories or those with less credit experience who could benefit from the intervention of the dealer in finding a credit source. In some cases, the dealer might even enter into some sort of risk-sharing arrangement with the financial institution, sometimes even including a partial guarantee of the consumer's credit through a recourse (contract buyback) agreement between the goods seller and the financial institution if payment troubles arose. A riskier pool of customers and the possible presence of complicated risk-sharing arrangements meant that the indirect credit often was more costly both for the financing institution and for the customer. Higher risk and higher cost are no longer generally true for indirect credit, at least in the large and competitive market for financing of new automobiles and trucks.

In addition to indirect financing and direct lending for purchase of specific consumer products and services, thousands of banks, credit unions, and finance companies also make direct, closed-end cash loans to creditworthy customers for a wide range of other consumer purposes. Such direct loan uses encompass consolidation of other debts and refinancing of credit card bills, payment of income and property taxes, and even loans to purchase luxuries including art and antiques. Direct cash loans range from very small loans made to less fortunate individuals down on their luck and facing an emergency, such as an illness or an unexpected car repair, to much larger loans to pay for country club memberships without liquidating any of the family stock portfolio. The modern consumer credit system covers a vast multitude of possibilities.

Much of both direct and indirect closed-end installment credit has been generated through a signed credit contract in exchange for a check or an electronic inflow into a deposit account made payable either to a consumer or to a seller or dealer. For example, a bank making a direct auto loan to a consumer typically would give a check to the consumer payable to the dealer or upon sale of a car would advance the funds directly to the dealer in electronic form. Consumers may also institute direct closed-end cash loans with banks, credit unions, or finance companies and receive checks or electronic transfers payable directly to the consumer. In some small direct loans, such as a "payday loan" or a pawn loan, the consumer might even receive cash across the counter.

In an indirect financing arrangement, a consumer would still sign a credit contract, but it would be with the merchant, dealer, home improvement contractor, or other provider of goods and services. The dealer or merchant would then sell this contract to the financer (for example, Ford or Toyota Motor Credit) and receive electronic payment for the contract. The consumer would then make the payments to the financial institution that purchased the contract.

Over the past four decades, the sum of indirect and direct closed-end installment credit has tended to lose ground relative to open-end credit, which grew more rapidly until the financial crisis. This came about as consumers apparently have transferred much of the financing of medium-ticket consumer items such as furniture, appliances, some home repairs, travel, medical expenses, and some taxes and insurance payments to open-end credit cards (this trend is visible in table 1.2 and in figure 2.4 in the next chapter). In earlier times, consumers might have arranged direct, closed-end installment loans or purchase of durable goods using indirect sales credit for many of these transactions. The convenience of prearranged open-end credit lines on credit cards has become attractive to many consumers. When consumers needed additional credit to make purchases a generation or so ago, they would have had to visit their bank, credit union, or finance company for a closed-end loan, or they would have had to negotiate with the credit department of their durable goods retailers. Many consumers find credit cards much more attractive for routine purchases.

Open-End Installment Credit

In the case of revolving or open-end installment credit, both the credit amount used and the size of the monthly payments are at the option of the consumer, as long as the amount does not exceed the credit line or limit and the consumer makes at least some required minimum monthly payment. This sort of credit has become pervasive in recent decades because of its flexibility. Consumers can arrange credit in advance and use it at the pace and in the manner they please. They do not have to negotiate a new contract with a creditor every time they buy a new appliance or hobby item that they would prefer to pay for over a few months or longer. Consumers appear to prefer revolving credit for its convenience, and creditors have been more willing and able to provide it as the needed computer systems, communications hardware, and risk management technology have become more available and affordable over time (chapter 7).

The primary access devices in open-end credit arrangements are the credit card and special checks sometimes referred to as loan checks or, by the issuers, as convenience checks. Credit cards are, of course, pieces of plastic with a strip of magnetic tape or an embedded computer chip that, upon presentation of the plastic (or just the numbers, say, by telephone or over the Internet), activate the consumer's existing line of credit with the credit source. Historically, credit cards were used to generate small amounts of credit and served as substitutes for cash or for small cash loans. More recently, lines of credit attached to credit cards have grown larger in the competitive credit card marketplace, and credit cards have replaced much of closed-end installment credit for medium-ticket consumer purchases. Both the sellers of goods and services (stores and dealers) and financial institutions (banks and credit unions) compete with one another today in issuing credit cards to consumers.

Some banks and other financial institutions also offer open-end credit plans that the consumer activates by writing a check rather than by using a plastic card. In the past, many institutions offered separate accounts with a special book of checks that a consumer could use to access an open-end credit line. Some institutions also permitted overdrafts on normal checking accounts through the regular checks for the account. The overdraft would access a prearranged credit line repayable at the consumer's preferred pace. Both of these kinds of accounts still exist today, but they are less common than in earlier decades. A newer method is distribution of special loan or convenience checks, as already mentioned, that consumers can use as supplements to their plastic cards in accessing their credit card accounts. Credit card issuers frequently distribute such checks by mailing them to consumers in good credit standing as promotions encouraging account holders to put new or larger balances on their card accounts.

INSTITUTIONAL SOURCES OF CONSUMER CREDIT

Another way to classify consumer credit is by the type of institution offering the credit. Thousands of entities have extended consumer credit over the years, but it is possible to classify them into a limited number of institutional categories, although sometimes with some ambiguities. The Federal Reserve Board compiles volume information on consumer credit outstanding according to method of repayment administration (nonrevolving versus revolving credit) and also by institutional source based on type of corporate charter. Some complications naturally arise as markets and operations evolve over the years, and some institutions in one charter category begin to look and act more like those in another category.

Depository Institutions (Especially Commercial Banks)

Consumer credit before World War II was largely the province of retail stores and nonbanking lending companies generally referred to as finance companies. Since the war, the institutional landscape has changed dramatically, as the amount of consumer credit outstanding has risen. Statistics show that in the intervening period, depository institutions have passed the others to become the major source of consumer credit by volume outstanding (second panel of table 1.3). Before statistical revisions the Federal Reserve undertook in 2012, commercial banks and savings depository institutions were reported separately. By that time, however, the share of the savings depositories had declined sufficiently that they were combined that year with the commercial banks that held the lion's share of consumer credit at institutions with depository charters.

In the United States, depository institutions, hereinafter called banks, are companies that obtain necessary banking charters either from the federal government (national banks, regulated by the Office of the Comptroller of the Currency, a branch of the Treasury Department) or from state governments (state banks, regulated by the Federal Reserve System, the Federal Deposit Insurance Corporation, and state government banking departments). These charters allow the institutions to undertake a banking business, which means primarily that they can engage in providing deposit accounts and simultaneously supplying a variety of loans, including business loans. Most banks provide an extensive list of financial services. They offer various kinds of deposit accounts for consumers, businesses, and governments, and they make the deposited funds available as various kinds of loans to individuals, incorporated and unincorporated businesses, governments, and governmental agencies.

Before the development of credit cards, consumer credit lending by the depositories largely consisted of the two kinds of closed-end credit already described: direct closed-end loans, where the consumer approaches the bank directly for the loan, and indirect loans, where the consumer is actually the customer of a store or a dealer in consumer goods or services that subsequently sells the credit account to the bank. Today the largest portion of consumer credit from the banking system is extended through open-end credit card accounts. The cards serve as plastic identifying devices that signify existence of a prearranged amount of open-end credit. As indicated, the consumer can then draw on this credit at will at his or her choice of sellers. In effect, credit cards are a technological innovation whereby direct loans are made by the card issuer but at the point of sale of a third party where the customer uses the card.

The banking institutions that issue credit cards have also changed, to the point where some of the largest providers of credit card credit no longer look like traditional deposit-taking banks. Instead, many of the consumer credit behemoths in the banking industry today are the "monoline" credit card banks that engage largely or completely in credit card credit. The monoline institutions, such as FIA Card Services, are part of large financial conglomerates that include other, full-service commercial banks. The monoline banks that are part of financial conglomerates do not themselves have branch systems or, for the most part, offer much of an array of traditional banking product lines beyond credit cards, even though they are affiliated with institutions that provide other services. Some early monoline card banks, such as Capital One, actually began as freestanding, independent institutions. These independent monolines also grew rapidly in recent decades, but by year end 2006, most of the independents had agreed to merge with other banking companies.[12]

All of the monoline credit card banks are chartered commercial banks, but they operate much like traditional finance companies in that they raise most of their funds in large chunks by issuing securities of various kinds in global financial markets rather than by the traditional banking method of acquiring deposit funds. In statistical compilations, consumer credit at the monoline institutions is counted as depository credit rather than finance company credit because of the nature of their corporate charters, even though in operating terms they are not much like the traditional banking institutions with which they are included.

For most banking organizations other than the monoline credit card banks, consumer credit is only a fraction of the lending portfolio, which also consists of business loans, home mortgage lending, and loans to governments and their agencies, including purchases of federal and state and local government bonds. Most commercial banks typically are active in diverse areas of consumer credit issuance, including direct and indirect closed-end credit associated with automobile and other purchases, other closed-end loans, revolving check credit, and, for some, credit cards.

But consolidation through mergers and portfolio acquisitions, in addition to organic growth, has meant that banking organizations with large portfolios of

12. Before the wave of mergers that eliminated most of the independent monoline institutions, some of the independents had begun to expand their product offerings to auto and mortgage lending as a means of diversifying their asset base, becoming a bit less "monoline" in the process. In early 2005, Capital One agreed to acquire a relatively large full-service commercial bank based in New Orleans and with a branch system concentrated in Louisiana and Texas (Hibernia National Bank) as a way of diversifying its activities; the following year, it acquired North Fork Bancorporation of New York for the same reason. In the middle of 2005, the other remaining large independent monolines went the other way and agreed to be acquired by the parent holding companies of full-service banking companies: MBNA America Bank by Bank of America, Providian Financial by Washington Mutual Bank of Seattle (itself later acquired by J. P. Morgan Chase during the 2008 financial crisis), and Metris Companies by HSBC Financial, the American subsidiary of HSBC Holdings (formerly Hong Kong Shanghai Banking Company) of London.

credit card credit are now also the largest banking organizations active in the entire consumer credit field, including consumer credit not generated by credit cards. A list of the largest banking institution providers of consumer credit is highly consistent with the list of largest institutional issuers of credit card credit. In fact, the eleven largest bank providers of consumer credit calculated from reports to regulatory agencies are also the eleven largest card credit issuers, with somewhat different orders. Both lists include some very well-known companies, including Citibank, NA, Bank of America, NA, Wells Fargo Bank, NA, Capital One Bank USA, Discover Bank, and American Express Centurion Bank. (*NA* in a bank's name stands for "National Association," a common way in which federally chartered banks include the required word *national* in their names.) Even though there are thousands of other banking organizations in the consumer credit business, the ranking of the largest banks in the consumer credit industry certainly shows how important the bank credit card business has become within consumer credit.

Finance Companies

Finance companies have long been next in importance to the depository institutions (mostly commercial banks) in providing consumer credit, and, like banks, they also are involved in a variety of areas of consumer finance. The term *finance company* can, of course, be applied to any financial institution, but for purposes of classifying consumer credit issuers, the Federal Reserve applies the term to financial firms that do not qualify in any other institutional corporate charter class, such as bank or credit union.

There are some very large financial institutions in the finance company grouping, including the affiliates and partners of the automobile manufacturers already mentioned. Other very large finance companies include the General Electric Capital Corporation, Citifinancial Corporation, and CIT Financial Corporation, among others.

Some of these finance companies illustrate another aspect of the definitional ambiguities mentioned above. Namely, some of them, such as Citifinancial, are subsidiaries of parent companies whose main subsidiary is a banking company that directs the overall corporate strategy. Citifinancial, for example, is a subsidiary of Citigroup, the large bank holding company that owns huge banks such as Citibank NA and Citibank (South Dakota) NA. Nonetheless, consumer credit of the nonbank subsidiary is still counted as finance company credit, according to the corporate charter of the subsidiary rather than the main business line of the entire company or the operating method of the bulk of the organization. As mentioned, funding of the large finance companies is much like the monoline credit card banks whose credit is counted as bank credit. Both raise most of the funds they invest in consumer credit through large securities issues of various kinds in Wall Street and in other key financial markets worldwide.

There are also hundreds of smaller finance companies operating in one or more segments of the consumer credit marketplace. Some specialize in small, unsecured, direct consumer loans; others specialize in indirect financing through a network of automobile, appliance, furniture, mobile home, or other dealers; others specialize in mortgage credit. Some also issue credit cards or engage in all of these activities. One thing for sure is that there is great diversity in size, products, and individualized operating methods in the finance company industry.

At this point, it seems reasonable to mention briefly two additional kinds of nonbank lending companies: mortgage banks and mortgage brokers. They are not generally considered within the traditional definition of finance company consumer lenders, even though they are nonbank lenders that make loans to consumers. Mortgage *banks* are not actually chartered banking institutions as discussed above but rather companies that make mortgage loans using their own or borrowed funds but that typically do not become the actual lenders by holding the loans in their own asset portfolios. Instead, they sell the loans they make to other investors, the largest purchasers being the huge "government sponsored entities" (GSEs) in the mortgage area, Fannie Mae and Freddie Mac.

Mortgage *brokers* are not financial institutions at all but rather are matchmakers that bring together mortgage borrowers and mortgage lenders. Mortgage brokers typically deal with several mortgage lenders and shop from among these lenders to find a mortgage for a borrower. The broker takes the application, performs a financial and credit investigation, produces documents, and closes the loan. The broker may also conduct financial counseling with the borrower, if necessary. The actual lender in a broker-originated transaction underwrites (evaluates the risk), funds (supplies the money), and may service the loan (taking the payments and doing the accounting, even if the loan is sold to another entity such as one of the GSEs).

In bringing potential loan accounts to mortgage banks and other lenders, a division of labor takes place. The mortgage banks and brokers specialize in the mechanics and process of lending and have the necessary personnel and office locations to do so as needed. This allows those who provide the funds to focus on funds sources and the economics of investing in mortgage loans without needing the lending and processing personnel themselves. As with any division of labor, this arrangement can promote lending efficiency in the best of circumstances, but it also raises many issues about management and control of lending risk. In the worst of circumstances, when the risk control needs are not fully understood or controls are mismanaged, there can be substantial risk of losses. Both of these problems were part of the causes of the financial crisis in 2008–2009.[13]

There are two reasons for not calling these nonbanking companies finance companies in describing providers of consumer credit. First, they are active primarily in the mortgage area of lending to consumers, outside the definition of consumer credit adopted by the Federal Reserve and used here. Second, they do not, for the most part, actually hold in their own portfolios the loans they make or process. When mortgage banks sell the loans, the purchaser is the ultimate lender

13. For further discussion of the functions of mortgage brokers and related agency issues, see Kleiner and Todd (2009).

that provides the funds and owns the loan, not the mortgage bank. Brokers do not even make the loans themselves, let alone hold them as the source of funds.

Pools of Securitized Assets

But sale of loans made also commonly takes place in the consumer lending that is the focus here, and Federal Reserve statistics on consumer credit take this fact into account when providing figures on volumes of consumer credit. These loan sales give rise to another category of lenders in the official consumer credit statistics, the category of the "pools of securitized assets." The mechanics of securitization are discussed in more detail in chapter 5, but it is appropriate to outline the basic concept here, since securitization and the resulting asset pools have been important for supplying the underlying funds for consumer lending.

For undertaking securitization, banks, finance companies, and other lenders form legally separate asset holding corporations, usually referred to as special purpose entities (SPEs) or sometimes as conduits, to own portfolios of pooled consumer credit contracts. The SPEs legally own the underlying consumer credit assets after the originating institution sells the assets to them. The originating bank or finance company retains servicing responsibilities (receiving monthly payments and handling accounting), and sometimes much of the risk, under a contractual arrangement with the SPE.

The SPEs then fund the pools of accounts they purchase from loan originators by issuing their own securities, collateralized by the pools of underlying consumer credit assets, in worldwide financial markets. The process is known as securitization, and the resulting securities issued to acquire the funding are known as asset backed securities, or ABS. Prior to March 2010, lenders routinely removed from their balances sheets the assets that were sold and securitized in this manner. This process was the genesis of the category of consumer lender categorized in the official Federal Reserve statistics on consumer credit as pools of securitized assets. Following commercial banks, the securitized pools became for a time the second largest source of consumer credit in the official statistics (second panel of table 1.3).

In response to losses on mortgage-backed securitizations during the financial crisis, in June 2009, the Financial Accounting Standards Board (FASB) issued the Statement of Financial Accounting Standard No. 167 (SFAS 167), Amendments to FASB Interpretation No. 46(R). SFAS 167 revised the criteria for determining whether securitized assets are removed from lenders' balance sheets. This revision caused by far most securitized consumer credit to be reconsolidated onto lenders' balance sheets in 2010.[14] Since much of the consumer credit owed to these pools was originally generated by automobile finance companies and monoline credit

14. The revisions replaced a calculation reflecting the probability that a securitizing entity would absorb most of a security's losses with consideration of the possibility that the entity would absorb a significant loss. For discussion, see Dodwell (2010).

card banks in the first place, adding it back into the official consumer credit statistics beginning in 2010 increased the share of these entities and presents a better picture of their importance. The consumer credit statistics for 2010 and 2012 in table 1.3 reflect this change.

It is also worth mentioning again that during 2008–2009, some SPEs holding mortgage credit assets with "subprime" credit risk characteristics and originated primarily by mortgage banks and mortgage brokers produced large losses to some entities sponsoring the SPEs. Although full discussion of the causes of the subprime mortgage fiasco in these years is beyond the scope of the discussion here, problems of the SPEs were an important component of the subprime mortgage financial upheaval during those years.[15] The massive losses on mortgage-related assets did not extend to consumer credit SPEs making up the consumer credit "asset pools," although availability of more funding through securitization became highly constrained in the second half of 2008 when securitization markets froze up.

Credit Unions

After banks and finance companies, credit unions are next in importance among private sources originating consumer credit. Credit unions are consumer cooperative institutions chartered to accept the savings of and make loans only to members. From small beginnings early in the twentieth century, growth of credit unions (often referred to as the credit union movement by participants) has tended to be controversial at every step among owners and managers of the other institutions.

By act of Congress, membership of every credit union must have some commonality of interest, a "common bond," in order for the individual institution to be a real consumer cooperative.[16] As consumer self-help organizations, credit unions are exempt from federal income taxes, a never-ending irritation to their profit-oriented (and, when profitable, taxpaying) competitors. The irritation seemed manageable as long as credit unions were small cooperatives, but in the latter part of the twentieth century, some of them, such as Navy Federal Credit Union, Pentagon Federal Credit Union, and United Airlines Employees Federal Credit Union, have become large, sophisticated financial institutions. As some individuals and institutions in the credit union movement began to push the limits of the required common bond to include all citizens of an area or all employees of a *group* of employers, competitors cried foul, and the common-bond issue

15. For discussion by newspaper reporters of some of the events, companies, and personalities surrounding the subprime mortgage episode, see Muolo and Padilla (2008).

16. Over the years, Congress has slowly expanded the common-bond concept until today it is a fairly complicated collection of rules dealing with single-common-bond credit unions, multiple-common-bond credit unions, and community credit unions (see section 1759 of the Federal Credit Union Act, 12 *USC*, chapter 14).

degenerated into recriminations and lawsuits, mostly between banking trade associations and credit union groups and regulators. Many credit unions contend that switching to a community-based approach has been necessary as factories close or move and jobs of members change but they still want to belong to their credit unions.

Credit unions are active in all areas of consumer credit, but direct, closed-end loans are the most important. Many credit unions are not large enough to be able to afford the sophisticated computer systems needed for administering large-scale revolving credit operations such as credit card portfolios by themselves, but some large credit unions issue their own credit cards with the MasterCard and Visa brand names, and others have entered into agent relationships with other institutions to issue credit cards with these brands. In general, credit unions have been able competitors in the areas where they are active, aided undoubtedly by their tax exemption and in some cases by reduced personnel and office space costs as a result of subsidies by cooperating common-bond employers.

Other Institutions

Until mid-2012, the official consumer credit statistics also separately broke out "savings institutions," but, as discussed above, savings institutions are now combined with commercial banks in the "depository institutions" category. Savings institutions include savings and loan associations and federal and state chartered savings banks. Before the 1980s, these institutions were largely restricted to mortgage credit, and consumer credit was only a minor product at a minority of institutions. More recently, legislative changes in the 1970s and 1980s have permitted savings and loan associations and savings banks to become more active in granting consumer credit, but overall financial difficulties of these industries in the 1980s caused them to decline in overall importance in financial markets generally, including consumer credit. This is the reasoning behind including them with commercial banks after the 2012 statistical revisions.

The remaining consumer creditors listed in the official statistics are nonfinancial institutions, the federal government, and nonprofit, state, and educational institutions. "Nonfinancial business" refers to consumer creditors such as retail stores and automobile dealerships that are not primarily financial institutions by assets or operations. In the nineteenth and early twentieth centuries, retail establishments were the most important consumer creditors, but today their place has largely been taken by the financial institutions. Nonetheless, some department and specialty stores are still important consumer creditors, in terms of number of consumer credit accounts and credit cards on their books. In the past decade or so, some of these companies have acquired or opened their own special-purpose monoline banking subsidiaries to issue the cards for the parent retail companies, and others have sold their credit portfolios to financial institutions and disbanded their in-house credit operations. The relative, and now absolute, decline in importance of retail store credit sources is clearly visible in table 1.3.

Finally, for years, commercial banks and other financial institutions have made loans to students and their families for payment of expenses associated with higher education, sometimes with loan guarantees by the federal government under the (now discontinued) Federal Family Education Loan Program (FFEL). Because these loans were made by private lending institutions, the amounts of credit outstanding normally was included in the routine estimates of consumer credit outstanding at these institutions compiled and released monthly by the Federal Reserve Board.

In 1993, the federal government, through a new program called the Federal Direct Student Loan Program (FDSLP), also began to make student loans directly. At the time, these loans were not routinely included in estimates of consumer credit outstanding, because they were made by the federal government and not by private lending institutions, although they were essentially equivalent to the loans made by private institutions. Likewise, loans held by the federal government's sponsored enterprise chartered to purchase outstanding student loans (Sallie Mae) also were not included in consumer credit for the same reason.

But growth of these federal loans eventually led the Federal Reserve in October 2003 to begin to publish a new estimate of consumer credit from these federal sources and to include it in the monthly estimates of total consumer credit outstanding (see Dynan, Johnson, and Pence 2003). When the Federal Reserve Board began to release the figures for student credit outstanding from the federal sources separately, it also provided retroactive estimates of amounts outstanding in earlier years, so as to maintain continuity in the statistical series over time without an upward jump in the initial month of the new estimates. The Board also provided for a retroactive phase-in of Sallie Mae's student loan credit into the finance company category reflecting privatization of the former GSE (see Dynan, Johnson, and Pence 2003, 420). The Sallie Mae statistical phase in was accomplished by August 2004.

The volume of federal direct student loans increased sharply beginning in 2007, as credit market disruptions from the financial crisis reduced the ability of many private lenders to originate guaranteed student loans. The crisis stimulated Congress to enact a temporary program (Ensuring Continued Access to Student Loans, or ECASLA) that authorized the Department of Education to purchase guaranteed student loans originated by private lenders under the FFEL program. Subsequently, Congress passed legislation in 2010 eliminating the FFEL program that provided federal guarantees for new student loans originated by private lenders after July 1, 2010. Following that date, new student loans dramatically increased the amount of consumer credit generated and held by the federal government (for historical discussion of the federal programs, see New America Foundation 2011).

In August 2013, the Federal Reserve added a statistical category for student loans still held by nonprofit, state, and educational institutions. Like many of the private student loans discussed above, student loans originated in this sector were guaranteed under the FFEL program. New data from the Department of Education in 2013 enabled the Federal Reserve scorekeepers to add the nonprofit, state, and educational institutions sector to consumer credit back to 2006.

CONSUMER CREDIT AND PUBLIC POLICY

Despite the obvious importance of consumer credit for both consumers and the growth of certain industries, increases in consumers' indebtedness over time continue to raise policy issues for each generation of government officials, including some issues that actually are as old as recorded human history.[17] Among the foremost is the basic one: whether widespread credit use is a good thing or not and, consequently, whether further credit use by consumers should be encouraged or discouraged. In American policy circles, the answer has been a resounding "both encouraged and discouraged." There are government programs and policies in place both to encourage more credit availability (for example, the federal Equal Credit Opportunity Act, the Community Reinvestment Act, and the student loan programs) and simultaneously to discourage or bring under greater control the spread of credit products (for example, Truth in Lending and its many amendments to show its true costs). An opposing set of goals for policy actually should not be too surprising, given both the diversity of financial conditions and needs among consumers and the great disparities in their individual understanding of how the credit system works. This gives rise to the fundamental policy question of whether credit should be available to everyone, including lower-income and younger credit users (chapter 8).

Policy concerns sometimes lead to laws and regulation, and it turns out that few areas of the American economy are as closely regulated as consumer credit (chapters 9, 10, and 11). The states have regulated most aspects of consumer credit transactions in one way or another over the years, but probably the most important state regulations have been in the areas of interest rate ceilings and entry into the marketplace. While both of these issues are still important today, they are much less so now than in less competitive, earlier decades.

The federal government entered the field of consumer credit regulation in the 1940s with limitations on credit use instituted for macroeconomic stabilization purposes during World War II. These controls, known as Regulation W, were reinstituted in the late 1940s and during the Korean War, although passage of sufficient time means this episode is largely forgotten today by most observers (for discussion, see Shay 1953). Much better known today is federal consumer protection legislation in the consumer credit area, which began with passage of the Truth in Lending Act (Title I of the Consumer Credit Protection Act of 1968). Since that time, Congress has initiated a variety of other protections in the credit area, including the Fair Credit Reporting Act (1970), the Equal Credit Opportunity Act (1974 and 1976), and the Fair Debt Collection Practices Act (1977).

Congress has also amended each of these acts from time to time as it has perceived that market conditions warranted a legislative update.[18] In some cases,

17. For a very long-term perspective on policy issues in consumer credit, see Rasor (1993), Homer and Sylla (1996), and Gelpi and Julien-Labruyere (2000).

18. Each of the mentioned acts regulates more than just consumer credit as defined here to exclude credit secured by real estate. Truth in Lending, for example, covers residential real estate

individual states have enacted similar laws either before or after the federal initiative, but these federal laws are fundamentally different from the main historical thrust of state regulation. The states have primarily been interested in regulating the price of the lending and the types of creditors that may offer consumer credit (chapter 11), while the main emphasis at the federal level historically has been on the content and quality of the service itself. Especially important at the federal level have been the requirements that creditors treat all consumers fairly on the basis of their personal characteristics (for example, the Equal Credit Opportunity Act; chapter 9) and that they make certain kinds of information readily available to consumers (for example, the Truth in Lending Act; chapter 10).

In 2010, Congress passed legislation establishing for the first time a federal consumer financial protection bureau. Formally called the Bureau of Consumer Financial Protection but somewhat anomalously generally referred to by the initials CFPB, it was established under Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act that year, usually simply called the Dodd-Frank Act. This agency has extensive regulatory powers over consumer credit in many areas previously the province of the states. By 2013, the bureau had engaged mostly in organizing itself and in taking over responsibility for federal rules and rule making previously the responsibilities of other agencies, especially the Federal Reserve System, but it surely will become more active on its own initiative in future years.

Within the totality of the consumer credit system, there also are some related products that are not themselves credit but are either complements or substitutes. One complement is credit insurance and other kinds of debt protection products that repay the indebtedness or cancel or delay payments in case of death or disability of the debtor. Some advocates have contended over the years that this kind of insurance is too expensive for the protection it provides, but since the 1920s, credit insurance has covered millions of consumer credit transactions without a great deal of product change, suggesting that many borrowers find it useful (chapter 12).

lending in addition to consumer credit. All lending, including business lending, falls under the Equal Credit Opportunity Act.

In addition to the consumer protections mentioned, Congress has also enacted consumer protections geared solely to mortgage credit. These statutes include the Real Estate Settlement Procedures Act (1974), typically known as RESPA, and the Home Mortgage Disclosure Act (1975), widely known as HMDA. Sometimes amendments to federal consumer protection statutes become almost as well known as the original acts. Such enactments include an amendment to Truth in Lending concerning credit card billing called the Fair Credit Billing Act (1974) and another Truth in Lending amendment for high-cost mortgage loans called the Home Ownership and Equity Protection Act (1994), typically referred to as HOEPA. Another is an amendment to the Fair Credit Reporting Act in 2003 called the Fair and Accurate Credit Transactions (FACT) Act. The latter is the act that required, among other things, that credit reporting agencies (credit bureaus) provide free copies of credit reports annually to consumers at the consumers' request, which is now so widely advertised.

Another related product is automobile leasing. Consumer auto leasing is an interesting substitute for automobile credit that comes and goes in relative importance in the marketplace depending on the needs and uses of creditors and consumers. Automobile leasing gained in popularity through the 1980s and 1990s before peaking late in the 1990s. After that time, it waned a bit in popularity for about a decade, although it by no means disappeared, especially for higher-priced automobiles. Around the middle of the last decade, auto and truck leasing began to increase again. Regulations concerning required leasing disclosures changed in the late 1990s, making auto leasing less controversial than it sometimes had been before that time.

Finally, there is the question of what happens when something in the consumer credit marketplace goes badly awry for a consumer to the point of the consumer being unable to repay the credit on time or at all. Answering this question highlights the usefulness of looking at the credit counseling and bankruptcy systems (chapter 13). In recent years, counseling in advance of a problem has become a popular approach to trying to prevent consumer overextension and possible default on credit obligations. When all else fails, there remains the possibility of consumer bankruptcy. Although bankruptcy has become very legalistic and sometimes difficult for consumers, millions of consumers in recent years have availed themselves of this approach to debt management problems.