



Debt woes nearing record

By Christine Dugas, USA TODAY

With their homes in hock and health insurance premiums soaring, Americans are filing for bankruptcy protection in record numbers.

Personal bankruptcy filings in the third quarter jumped to 391,873, up 12% from a year ago. That puts filings on track to surpass last year's record high of 1.45 million. The surge continues a trend that started in the mid-'90s. But the nature of the debt woes has changed.

"The amount of borrowing has been rising faster than incomes," says Stuart Feldstein, president of SMR Research. In addition to credit card debt and steep medical bills, many consumers now are bingeing on mortgage debt and home equity loans, putting their homes at risk.

They are buying homes with smaller down payments, financing 90% or more of the loan amount. And old rules limiting the amount a home buyer could borrow have largely gone by the wayside.

"Lenders are flush with cash," says Keith Gumbinger, at mortgage tracker HSH Associates. "The debt-to-income ratios used to be cast in iron, but now they're just guidelines."

Low interest rates also have spurred homeowners to consolidate credit card debt and other bills onto home equity loans and lines of credit. That often provides only a temporary reprieve.

By LYCOS



"They have so darn much debt that even at low rates, it's hard to pay," Feldstein says.

Mortgage delinquencies are on the rise, and the number of homes going into foreclosure is at the highest rate in 30 years, according to the Mortgage Bankers Association of America.

Compounding the problem: Stock investments have lost ground. Savings rates are barely keeping pace with inflation. Many workers have been downsized out of jobs and into lower-paying ones.

Medical debt also weighs on consumers, playing a role in about half of all filings. Last year, the number of Americans with no health insurance increased by 1.4 million, to 41.2 million, according to the Census Bureau.

Faced with rising bankruptcies, creditors have pressed Congress to tighten the law. They say many debtors load up on credit card debt and use bankruptcy to escape bills. That legislation has yet to be enacted. "Another national record in personal bankruptcy filings at the end of this year could help fuel renewed calls for changes," says Samuel Gerdano at the American Bankruptcy Institute.
