

## FOREWORD

DEBT. The word alone causes people's blood pressure to rise. It's a hard-sounding word, phonetically in sync with its impact on people's lives. The presence of over five hundred Debtors Anonymous chapters across the country indicates that, for many people, being in debt signifies a disease they can't seem to control. The personal finance industry—and it is now surely an industry—generates thousands of books, television programs, and radio shows, all aimed at helping people reclaim their lives from debt peonage and get on the path to financial salvation. Viewers of late-night television are bombarded with commercials promising quick and easy ways to get out of debt. Debt collection is one of the fastest growing occupations in the United States today.

Helping people get out of debt has become big business. The private sector, from radio and television networks to publishing houses, has grasped the enormity of the nation's personal debt crisis, creating an abundance of products that promise to help people reclaim control over their financial lives. Most of these follow the predictable pedagogy of "spend less, save more," the parallel of the "just say no" advice that did nothing to win the war on drugs. But people embrace this approach because it taps into the values of self-reliance and self-empowerment. People like to feel

in control of their lives—to feel that, ultimately, they are responsible for whether their fiscal ledger is red or black.

The rapid growth in the amount of debt the average American has been accumulating—from credit cards, mortgages, payday loans, student loans, and various other sources—hasn't been treated as an economic issue worthy of national attention by our media or our elected officials. No matter that in one generation the average mortgage payment for the typical middle-class family has nearly doubled, or that credit card debt grew from an average of \$518 per household in 1980 to \$7,519 in 2003.<sup>1</sup> Or that each year roughly 15 million families take out payday loans, which typically charge an annual percentage rate (APR) of 400 percent, costing them about \$3.4 billion in fees and interest.<sup>2</sup> As far as most journalists and politicians are concerned, rising debt is a personal problem best dealt with through belt tightening and financial education. Meanwhile, the real story about why more and more households are caught in the debt vise remains untold, even as record numbers of families fall into financial collapse.

But the real story is starting to leak out. This story acknowledges the economic bind most households now find themselves in, with rising costs for everything from housing to health care and incomes that haven't kept up or have even declined. The real story also acknowledges the lending industry's role in this mess. Set free by two decades of deregulation, today's creditors have cooked up products that are so complicated, deceptive, and trap-laden that even the most sophisticated borrowers can't tell a good loan from a bad one. This is the story that *Up to Our Eyeballs* dares to tell, tracking both the economic and the political forces that are

responsible for our debt crisis. It is a story that has finally begun to penetrate the nation's consciousness.

In 2007, as homeowners began defaulting on their subprime loans and billions of dollars of mortgage-backed securities began going bad, suddenly the lack of vigorous oversight and responsible lending standards became a national concern. The fact that millions of families were losing their most personal possession—their homes—was treated as a lesser story. While Wall Street's penchant for these high-risk mortgage-backed securities had helped fuel the rapid growth and aggressive marketing of subprime adjustable-rate mortgages, the very same investors became much less enamored when the duplicitous tactics used to peddle the mortgages to desperate homeowners resulted in hundreds of thousands of loans that couldn't be repaid. That, more than the duping of American homeowners, finally captured the attention of the media and the politicians.

The other meltdown that captured the nation's attention occurred in the student loan industry. An investigation initiated by the New York State attorney general's office, uncovered all the elements of a good scandal in this seemingly sleepy business. It turns out that the nation's biggest student lenders—which receive sizable subsidies from the federal government to participate in the federal student loan program—were providing kickbacks and other incentives to college financial aid administrators in order to buy their way onto preferred provider lists, assuring them of a high proportion of student loans on those campuses.

The unraveling of the subprime mortgage market and the growing scandal involving student loan companies have helped il-

illuminate the debt problem as something a bit more complicated than the loosening of moral constraints around spending. There are larger economic and political forces at work, forces that include lax or negligent oversight and accountability of lenders in an era of deregulation, as well as a growing demand for credit as households face untenable choices in a new economic order that has them grappling with greater risk and less security.

The economic and social conditions that once allowed most individuals in this country to live largely debt-free (except for a mortgage and a car payment) no longer hold. Americans' economic security has declined and our public structures have decayed. Today individuals are as likely to go into credit card debt for an abscessed tooth as for a flat-screen television. Young people today are taking on huge levels of debt in order to finance their college education, something that was unheard-of a generation ago. And as incomes for all but the wealthiest have fallen or remained flat, a new type of loan—the payday loan—has been created for those times when there's too much month left at the end of the paycheck.

At the same time that Americans' paychecks were growing weaker, either in absolute terms or relative to their expenses, the financial industry was undergoing rapid changes as well. Deregulation and technological change opened up new markets for credit, fueling a rapid expansion of lending. Credit cards, which were once the province of those with middle and higher incomes, now were available to lower-income individuals. A bevy of new mortgage products helped families stretch to buy homes in overheated markets, even without any money down. But along with those real innovations that benefited many came the rise of referee-free

lending. Rules that once protected consumers were relaxed, or replaced with rules that benefited lenders to the detriment of consumers. As lending underwent a technological revolution, enforcement grew antiquated and oversight grew increasingly lax. The stoic, stable lending industry of my parents' generation morphed into a hyperaggressive, no-holds-barred marketing machine designed to generate profits by obscuring the real costs of using its products and building in booby traps like balloon payments, prepayment penalties, and universal default to keep those in the grip of debt from ever breaking free.

Without deregulation, the balance sheet of most households would likely look very different today. And in all likelihood, so would their lives. Access to credit of all forms provided households with a much-needed relief valve to deal with the fundamental economic shifts that often significantly challenged their ability to make ends meet. Debt also became the way to deal with a decaying public safety net that no longer caught those who lost their jobs or their health insurance. And debt has also been the answer to skyrocketing tuition prices as federal financial aid has grown anemic and state support of higher education has all but made it a private responsibility rather than a public one.

So, why aren't Americans outraged?

Individuals who've been duped, deceived, or just plain ripped off will speak with passion about a rigged system that needs to be fixed, but their outrage remains isolated: millions of individual complaints and abuses haven't added up to a public outcry. Instead, it's dampened, if not entirely stamped out, by the notion that getting into debt, and stumbling under its weight, is a *personal* problem. It's something for financial guru Suze Orman or

the wildly popular personal finance radio host Dave Ramsey to help us straighten out, not something we as a society should grapple with. On top of the very personal way we think about debt, there's another not so minor obstacle: many of our nation's leaders have a real stake in maintaining the status quo. Standing up to the interests of the lending industry would mean looking a gift horse in the mouth. There are at best a dozen members of Congress who are willing to upset the banking lobby, but the majority—on both sides of the aisle—have chosen to keep their seats and their perks and let the American people fend for themselves. Whether because of the influence of money or the belief that indebted individuals deserve what they get, our elected officials have chosen to stand by silently as students get taken for a ride, seniors get duped into refinance deals that cost them their homes, and low-income neighborhoods get walloped by payday lenders and unscrupulous “buy here, pay here” car lots.

*Up to Our Eyeballs* should be a wake-up call for our nation's leaders that the status quo is neither economically sustainable nor morally defensible. The book was written by three colleagues who work on issues of economic opportunity and security. Demos, a nonpartisan public policy research and advocacy organization, has studied the issue of rising debt for several years, publishing nearly a dozen reports on the subject. It's a problem from which few have been immune. But over the years, as more and more households find themselves borrowing to make ends meet and then further squeezed by deceptive and abusive lending terms, there has been little progress. In 2007 Congress held numerous hearings on a range of lending issues, and committee members used tough language to describe the behavior of the lenders

brought in to testify before them, threatening them with the stick of legislation if they didn't clean up their act. But despite the tough veneer of the hearings, it's still business as usual.

We hope that this book, along with the ongoing efforts of our colleagues who stand up for the rights of consumers, will help spark a national debate that will address the growing problem of families who are losing their homes because of predatory lending, young people who are overwhelmed by student debt, households who are relying on credit cards to keep the lights on and food in the fridge, and the common thread that weaves their stories together: economic vulnerability and the deregulated lending industry designed to exploit it.

—Tamara Draut