

## American Household Debt Falls For First Time Since 1952

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For the first time in more than 50 years, U.S. household debt fell, according to the Federal Reserve's Dec. 11, 2008, flow of funds report. The report provides statistics for the third quarter of 2008 regarding the flow of debt and credit for different debt forms, including household debt, nonfinancial business debt, state and local government debt, and domestic nonfinancial debt.

According to report, household debt fell .8 percent at a seasonally adjusted annual rate in the third quarter to \$13.91 trillion. The decrease constitutes approximately \$30 billion dollars. The decrease in household debt shows consumer spending choices have clearly been affected by the struggling economy.

The shift in consumer spending may affect the credit and collection industry's ability to effectively service the U.S. economy. To put the Federal Reserve's report into perspective, remember the credit and collection industry returned approximately \$40 billion to the U.S. economy in 2007, according to an independent survey by PricewaterhouseCoopers. Consumer spending habits can significantly affect credit grantors and debt collectors.

The mortgage lending crisis has had a particularly significant effect on household debt numbers. According to a recent CNNMoney.com article, "Debt mainly fell because more than a million Americans have lost their homes to foreclosure since the housing crisis hit in August 2007. When a home is foreclosed upon, the debt is transferred away from the homeowner to the bank. As a result, home mortgage debt sank a whopping 2.4 percent in the quarter."

Nevertheless, businesses offering goods and services to consumers will also likely suffer due to the shift in consumer spending decisions.

"Consumers are going through a major change in their spending and savings habits," former Federal Reserve Governor Lyle Gramley told CNNMoney.com. "Throughout the housing bubble, consumers had a savings rate of zero, relying on the rising price of their homes. Now they're saving money for the future instead of spending it."