Justice Talking
Radio Transcript

Going Into Debt: Does the Law Protect Consumers or Corporations?—Air Date: 10/30/06

Skyrocketing medical bills, housing prices and college tuition, along with stagnant incomes, are causing more Americans to go into debt. And they are staying in debt longer. On this edition of Justice Talking, we'll look at how credit cards became big business, the legality of lending practices, and restrictions on student loans. We'll also examine the increasing popularity of payday loans and get some tips about how to get out of debt.

MARGOT ADLER: From NPR, this is Justice Talking. I'm Margot Adler. Coming up: debt in America. It's growing. More Americans are in debt than ever before. It can bring shame and anxiety, not to mention high interest rates and low credit scores. We'll look at why so many Americans are deep in debt. And we'll hear how the fine print in your credit card agreements may seem unethical but is really legal. We'll hear one woman's story about how she climbed out of $20,000 of credit card debt. And we'll talk with a South Carolina debt collector who loves his job even though he's not loved by those he calls.

UNIDENTIFIED MALE: Margot, I've been called every name in the book. They've called my mom names. They've said things that didn't make sense. And when they're done doing that you just say okay, now, did you want to discuss your debt now? I love my job.

MARGOT ADLER: And we'll learn some tips about how to begin to climb out of debt. This and more, after the news.

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MARGOT ADLER: This is Justice Talking. I'm Margot Adler. Many people have accepted that debt is just a part of American life. But should it be? There's credit card debt, student loan debt, car loans, mortgages. And a lot of people have just resigned themselves to living with huge loans and paying with plastic. College grads are leaving school with an average of $20,000 in loans before even entering the work force. And some people have found alternative ways to manage their money. One author calls this "the fringe economy," when people go to check-cashing centers instead of banks, getting high-interest payday loan cash advances and living on the financial edge. But what does that really mean for us as individuals and for the American economy? We'll find out and get some tips about how to get out of debt. And for the millions of Americans who use credit cards, we'll learn how far the law allows credit card companies to go when it comes to laying on late fees and raising interest rates sometimes without you even knowing it.

First, I talked with Melinda, a New Jersey woman who worked three jobs but was drowning in $20,000 of credit card debt. She said that five years of miscellaneous expenses had added up and had become so overwhelming that she sought professional help from a credit counseling service. She used credit cards to help pay for her daughter's college costs. But it was more than that, she said.

MELINDA: It wasn't just credit card debt. The cash that I had was going out because for example even though I was putting her books on the credit card I still had to pay a mortgage, a car payment, insurance, the cable, the heat, the hot water. So I would juggle. If the gas and electric bill was $60, for example, I would pay $30 and then put the other $30 in something else. So it's like a tap-dancing routine. It was very stressful and overwhelming.

MARGOT ADLER: I asked Melinda how debt affected her.

MELINDA: It had a very negative impact. I was always stressed, rushed, frayed at the edges, didn't sleep, didn't eat well. I mean it got to the point where it affected my health. I ended up sick like a week in the hospital because I wasn't eating properly and because I was so stressed. And I had to figure out that this cannot--I can't continue to do this. I need help. And I didn't go to my family because I come from a working-class, middle-class family and work kind of defined who I was.

MARGOT ADLER: So you were sort of ashamed to tell them?

MELINDA: Absolutely, absolutely. Here I am in a suit at work, working around attorneys and professional people all day long. And I'm drowning. There's no way I would tell anyone. Even my daughter didn't know what was going on until after, until I went to consumer credit counseling service and I did talk with her.

MARGOT ADLER: Melinda said she avoided the calls from the credit card companies but that it just got to be too much.

MELINDA: Well, I knew that I was in debt. And I knew that I didn't want to be in debt. Believe it or not I went to the phone book, just the Yellow Pages. And I started looking through there but I was a little afraid because I had also heard that some of these places are like scam places. They tell you they're going to take care of your debt but you end up in a worse situation. Of course the first initial call was the crucial moment. I'm embarrassed about my situation. And you always want to think I'm just calling because I want information. You don't want information. You want help. But you're just too proud to say it. So I call and the woman on the phone was very pleasant. And I said exactly that: I'm just calling for information. And I asked her about Consumer Credit Counseling, the agency. She told me about it. She asked me did I want to schedule an appointment with one of the counselors. And I did. And I'm just glad I did.

MARGOT ADLER: Melinda says that people who are in her situation should know they're not alone.

MELINDA: You hear this and this might be kind of corny or cliché but you're not the only one. You're not the only one in this situation because in my journey through this whole experience I found people from all walks of life. Wealthy people, middle-class people, poor people, all different colors, all different social classes, that are in the same situation. They're all quietly sitting there next to you on the train or at work in the lunchroom not saying a single thing because embarrassment--somehow being perceived as not having control over their life because their finances are in a mess. They're not saying anything.

MARGOT ADLER: That was Melinda, a New Jersey woman who has paid off her credit card debt thanks to a credit counseling agency.

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MARGOT ADLER: Personal debt is a fairly new phenomenon in America. To learn more about how this happened I talked with Robert Manning, the author of "Credit Card Nation." He is also research professor and director of the Center for Consumer Financial Services at The Rochester Institute of Technology. Thanks for joining me.

ROBERT MANNING: A pleasure to be with you.

MARGOT ADLER: America's consumer debt totals 2.2 trillion. How did we get here?

ROBERT MANNING: You know, what's amazing is when we look at the pace of consumer debt in America doubling over the last ten years--and keep in mind the statistics that you cited, about 2.2 trillion dollars in consumer debt, doesn't include the nearly eight trillion dollars in household debt, which includes hundreds of billions of dollars of refinanced consumer debt over the last five, six years--and even more extraordinary is if we look at the historical patterns, which is that as recently as the mid-1990s, Americans were saving about an average of seven-and-a-half to eight percent. Today it's negative, the lowest level since 1933, during the Great Depression.

MARGOT ADLER: Why are so many Americans falling into debt?

ROBERT MANNING: Well, there are many different approaches in terms of understanding why people are in debt. One, of course, is looking at the tremendous changes with globalization, the rising cost of living. But on the other hand what we've seen is the deregulation of financial services since the early 1980s, where banks now are making loans with very low underwriting criteria, and reselling your debt, credit card, auto, home mortgage, on what's called the secondary market, which means that even an insurance company in Tokyo could be buying your credit card debt today. Which means that banks no longer have the accountability they had in the past in terms of making sure that people who could take out loans could actually repay them.

MARGOT ADLER: Well, let's step back for a minute. How has consumer credit evolved throughout American history?

ROBERT MANNING: Well, you know if we look historically at Americans, particularly the core values of our Puritan attitudes towards credit and debt, Benjamin Franklin's "a penny saved is a penny earned," this reflected the real difficulties of struggle in American society where the society was based on scarcity and making sure that you had enough to satisfy your needs to make it through the next business cycle or the next harvest season. Traditionally credit for agricultural America, which was what America was 200 years ago, was largely to help farmers make it through the difficult winter and spring harvest seasons. As we became more of an urban industrial society Americans became more and more dependent on formal sources of credit, but still were largely using their family networks, their ethnic and religious groups, in terms of paternal associations that would offer loans during difficult periods of time. And then of course there is the major purchase in American society, and that of course is a house. And remember we've gone from people largely self-financing houses and paying them off in five or ten years a century ago to now as much as 40 to 50-year mortgages where Americans are actually assuming that long-term cost to purchase a home.

MARGOT ADLER: Let's look at credit cards. How much credit card debt do most Americans have?

ROBERT MANNING: This is a major point of contention because I would argue that the federal government has a political agenda not to accurately capture the degree of indebtedness of Americans today.

MARGOT ADLER: So they say what, and you say what?

ROBERT MANNING: They would say that the average American household has somewhere between $4,000-5,000 in credit card debt. I would argue that for the 60 percent of Americans who have credit card debt today it's closer to $13,000.

MARGOT ADLER: Now when did we start seeing credit cards? I remember the first credit card I saw. I was in college and it was the Bank of America. Basically I was at the University of California and they were offering credit cards. And I remember when I got my first credit card that I was fascinated because my father, who was a fairly well-off psychiatrist, did not have one.

ROBERT MANNING: Isn't that amazing? What we're seeing in terms of the consolidation of the credit card industry--in the early to mid 1960s, Bank of America was the largest issuer in what became the precursor to the Visa card because of the large economy of scale in California. What the industry realized in the early 1980s when we saw the massive lay-off of blue-collar workers in Rust Belt America in the 1981-82 recession is that people desperately needed credit. They would do whatever it took to make their minimum payments to retain it. And as they found that this was the most profitable service that they could offer in the 1980s they started looking for new untapped markets. And that market which had the most potential debt capacity with the least amount of outstanding debt was young students. And what they realized is that many students would, if they got into debt, use their student loans, their family savings for college, work part-time jobs, and even use one credit card to pay another to make sure that they could service the minimum payments on their credit cards until they graduated. It's at that point that the credit card industry in the mid 1980s began to aggressively market young college students.

MARGOT ADLER: How do you think the credit card has changed American life?

ROBERT MANNING: I think the credit card is one of the most extraordinary revolutions in the post-World War II period. What we're seeing now in the mass marketing of instant gratification, and for young people the "just do it" consumption-ism, where they view their credit cards as yuppie food stamps. I think it has changed people's sense of looking at the long term. They no longer have to save for that proverbial rainy day. They are no longer concerned if they have enough resources to enhance their standard of living. They know that consumer credit is there to help them when they want it as well as when they need it. What they don't realize of course is when they're in over their head and that friendly, smiley face becomes a real dark cloud over them as the debt collectors start haunting them and they go down that slippery slope towards bankruptcy.

MARGOT ADLER: And as for America's credit addiction? Is it going to get worse? Better?

ROBERT MANNING: Well, the big problem with America's credit addiction is that now that we have a negative savings rate it's no longer a national problem. It becomes an international and global problem, which means that our voracious appetite for consuming with credit means that we're going to become increasingly dependent on other parts of the world that have high savings rates. So that one of the ironies of our consumer and consumption society today is that capitalist America is so dependent upon communist China to borrow money and fuel our standard of living.

MARGOT ADLER: Robert Manning is the author of "Credit Card Nation: The Consequences of America's Addiction to Credit." He's also a research professor and director of the Center for Consumer Financial Services at The Rochester Institute of Technology. Thanks so much for being on Justice Talking.

ROBERT MANNING: It's my pleasure to be with you.

MARGOT ADLER: Robert Manning says he thinks millions of Americans could lose their homes in the next few years because they have interest-only mortgages where the principal never gets paid off. To find out why he thinks this will happen, go to our website, justicetalking.org.

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MARGOT ADLER: Are Americans addicted to plastic? Coming up, we'll hear how the fine print in your credit card agreement could be costing you big bucks. And we'll have a debate on whether this should be illegal. Stay with us.

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MARGOT ADLER: This is Justice Talking. I'm Margot Adler. We live in a world where you can pay for a newspaper with a Visa card or use your MasterCard to pay for college tuition. More Americans are carrying higher amounts of credit card debt for longer amounts of time. And though you think you may know the terms of your credit card agreement you could be mistaken. To find out how this happens and why these practices are legal I talked with Linda Sherry. She is the director of national priorities for Consumer Action, a consumer education and advocacy group. Also with me is Fritz Elmendorf. He manages communications and media relations for the Consumer Bankers Association, a retail banking trade group. Welcome to both of you.

FRITZ ELMENDORF: Thank you.

LINDA SHERRY: Thank you.

MARGOT ADLER: Linda, the Government Accountability Office, the investigative arm of Congress, recently released a report on the credit card industry. It found that late fees have skyrocketed. Consumers are often being charged as many as three different interest rates for different transactions. And important information is buried in tiny type. No one would stand for this in any other type of transaction. Why with credit cards?

LINDA SHERRY: The way the credit card industry developed, it really--all of the contracts that the companies have with consumers are very one-sided contracts. So once people get involved, only the credit card company has the right to change and the consumer just has the right to walk away. So that's why they haven't actually disclosed many of these fees.

MARGOT ADLER: Fritz, I would gather you have a very different view. What do you think of the report by the GAO and do you think there are problems?

FRITZ ELMENDORF: Well the report does point to issues with disclosure. There is lots of disclosure. I think the problem is there may be too much disclosure, but it's all mandated by federal law, banking regulation. And in fact, banking regulators today are looking for ways to simplify the disclosures and we support that. We think, you know, it's very important for consumers to understand the basic terms of the card. And in fact, they generally do. We have to give consumers credit for being, you know, intelligent people.

MARGOT ADLER: Now one thing I've noticed is that credit card companies often increase the annual percentage rates and charge late fees without customers knowing about it. And in recent years due dates have changed. There's less time to pay after receiving a bill. If your payment doesn't arrive at exactly the hour on the day it's due, you can be charged late fees, exorbitant late fees. And another thing I've noticed is that credit cards companies are changing the annual percentage rate if your credit score goes down or if you're late paying other bills. Fritz, these practices seem unethical. Are they?

FRITZ ELMENDORF: No, they're not. They're certainly not unethical. And it's actually rather clear for consumers. They can find out easily what the interest rate they're being charged is. They look at the statement and they see when it's due. And they understand if they don't make their payment on time there is a penalty for that.

MARGOT ADLER: Well credit card companies, as Fritz said, do tell you their policies even if it's just in fine print. Aren't consumers to blame and not credit card companies?

FRITZ ELMENDORF: Consumers have to take responsibility...

LINDA SHERRY: No, I really don't believe that consumers are to blame. And as a matter of fact they don't tell you about all kinds of things in the disclosures. For instance, they don't tell you about what your credit limit is going to be on the solicitation disclosures. They don't tell you, often don't mention the penalty interest rates, the method of calculating the minimum monthly balance. They don't tell you about payment related fees. For instance, you might get hit with $14.95 if you pay on the phone. They don't tell you about the impact of two-cycle billing, which is a very anti-consumer practice in the industry. And they certainly don't usually tell you about universal default rate hikes.

MARGOT ADLER: Linda, tell me about the two Supreme Court cases, Marquette vs. First Omaha in the 1970s and Smiley vs. Citibank in the late 90s. What effect have these two decisions had on credit card debt and finance charges?

LINDA SHERRY: In general these two court decisions have had a really detrimental effect on consumers in the credit card marketplace, because they've allowed banks that are national banks and are overseen by the Office of the Comptroller of the Currency in Washington D.C--the federal, a federal banking regulator--it has allowed these banks to basically charge their interest rates from the state in which they're incorporated to any cardholder no matter where they live, regardless of any state laws that might protect that cardholder. So since these court decisions we've seen that late fees have risen extraordinarily. They've gone from somewhere around the $10 mark when I first started working at Consumer Action in 1994 to now the $40 mark.
And this is just one sign of how out of control the industry is.

MARGOT ADLER: What about that, Fritz, about this whole issue of finance charges going up because of Supreme Court decisions, banks basically moving to other states and thereby charging different rates. Hasn't this had a deleterious effect on consumers?

FRITZ ELMENDORF: Well, banks want to have--they're in a national marketplace, and they want to have one set of terms rather than having different terms in every state that they operate in. But what's really happened over the last number of years is that the availability of credit cards has expanded. More people now are eligible for cards. It used to be that really only the best credit risks could get a card and everybody else was turned down. Now because banks can assess the risks through credit scores and things like that they can offer cards and the convenience of cards and utility of cards to a much wider group of people. But some of those people do represent a larger risk. And banks compensate themselves for that by charging a higher interest rate to people for instance that have in the past been late paying on cards. Or perhaps have charged their cards up to the limits and perhaps could potentially be on the verge of defaulting.

MARGOT ADLER: There's a lot of controversy over how much of credit card debt is for necessary purchases like medicines and food and how much is for frivolous consumer items. I'd like you both to weigh in on this issue. Why don't you start Fritz?

FRITZ ELMENDORF: Well, consumers first of all have to use credit responsibly. And it really, it starts at home. Nobody can impose responsibility on consumers. Banks have made credit cards available to a much wider portion of society. That does mean we have some people that don't handle credit well. They don't budget. They can't handle their own spending habits. But we don't really want to punish everybody because of a small minority that doesn't handle credit well.

MARGOT ADLER: Linda?

LINDA SHERRY: Well, for one thing I agree with Fritz totally that people must use credit responsibly. But unfortunately the intersection of a consumerist society where we always have to keep up with the Joneses and have every new fashionable thing and the easy availability of plastic money where people really don't even think it's real money. It's a disaster.

MARGOT ADLER: Fritz, let's talk about some of the changes that have happened in credit cards and in credit card billing over the last 10, 15 years. What changes do you see?

FRITZ ELMENDORF: Well, credit cards are available for smaller purchases these days including at grocery stores. So you've got a lot more transactions. They are of course in the hands of a lot more people these days because of the ability to measure the risk of those people and to price accordingly. And also rates have come down. They used to all be fixed around 18 percent and now they have followed the general interest rate trends downwards. So people actually are getting better deals on average on credit cards. Those have been the main trends in the business.

MARGOT ADLER: One of the things that I've noticed, though, is that when I get a bill for a credit card which used to give me a month to pay, very often it now gives me something like 10 or 11 days. And why has that changed?

FRITZ ELMENDORF: Well there have been squeezes on the profitability of cards, you know, because rates have come down on cards. The industry has sought to maintain its stable level of profitability. That means in some cases you know they've cut back on features such as interest-free grace period.

MARGOT ADLER: I thought the profits in the industry had increased and increased. Am I wrong?

FRITZ ELMENDORF: No. According to the recent Federal Reserve study, profits over the last 15 years have been quite stable.

MARGOT ADLER: Linda, did you want to talk about of any of these issues?

LINDA SHERRY: I think that it's really not focusing on something: it's the growth of the fee income in the credit card industry. And I think that the credit card companies have made huge amounts of profit off of the fees such as the late fee that we mentioned that has jumped from $10, you know in a decade gone from $10 to $40 and probably heading upwards as we speak. This kind of income is a temptation to companies to not act in the consumer's best interest because think about it. If you're making $40 every time a person's payment gets there one day late and that's the fault of the U.S. Postal Service, for instance, not even the consumer, that's a big temptation to charge that $40 every time. So, you know, while companies certainly might waive that one time for a good cardholder with a good record, what we're seeing they're making lots and lots of money off these fees. Take the over-limit fee, for instance. The over-limit fee is a travesty because for one thing the companies allow you to go over limit. When you present your card and you're at your credit limit, does it get rejected? No. You're allowed to put that charge through. And then you get charged every month until you're able to bring that credit limit back down under where it is supposed to be.

MARGOT ADLER: What about the fees that businesses are charged for credit cards. Have those gone up, Fritz?

FRITZ ELMENDORF: No, they've come down. In fact that's why grocery stores now accept credit cards. They're very competitive but generally they've been coming down some.

MARGOT ADLER: I'd like to ask both of you, what does the economy gain from consumer debt and what does it lose? I'll start with you Linda.

LINDA SHERRY: Well, I hate to, you know, think it sort of greases the wheels that keep the economy going because I don't like to think of people being in a dangerous position in their household finances. But certainly we have seen it does kind of grease the wheels of the economy and keep it going.

MARGOT ADLER: Fritz?

FRITZ ELMENDORF: Yes, if we restricted debt, for instance, it very well could cause a recession. It does fuel the economy and really it leaves it to the individual to handle their own borrowing in a responsible manner. And to really always borrow for a good use. A mortgage, or, you know, an automobile earn a certain amount of credit card debt.

MARGOT ADLER: Thank you both for joining me today.

LINDA SHERRY: You're welcome.

FRITZ ELMENDORF: Thank you.

MARGOT ADLER: Fritz Elmendorf manages communications and media relations for the Consumer Bankers Association, a retail banking trade group. Linda Sherry is the director of national priorities for Consumer Action, a consumer education and advocacy group.

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MARGOT ADLER: We've just heard how it can take years to get rid of credit card debt. To get some tips on managing your debt I spoke with Liz Pulliam Weston, the author of "Deal with Your Debt: The Right Way to Manage Your Debt and Pay Off What You Owe." She writes the "Money Talk" column, which appears in newspapers around the country. Welcome Liz.

LIZ PULLIAM WESTON: Thank you Margot. It's good to be here.

MARGOT ADLER: What are some of the myths people have about debt?

LIZ PULLIAM WESTON: The idea that credit card debt is normal is a huge myth that's out there. It is not normal and a lot of people think hey I'm doing better than the average when actually they're doing worse than average. Any credit card debt is a bad idea. Another myth though that can be equally damaging is the idea that you shouldn't have any debt at all. And most people, you know, are going to need a mortgage to buy a home. And they're going to need a student loan to get an education. They might need a business loan to grow their business. That debt isn't necessarily bad and you shouldn't necessarily be in a hurry to pay it off. You probably have better things to do with your money. Instead of paying off a low rate mortgage, for example, probably should be shoveling more money into your 401K. Those are the kinds of decisions that people need to be making. And they need to be looking at their larger financial picture rather than just decide all debt is bad and I've got to get rid of it right now.

MARGOT ADLER: What about credit card debt? Should you, you know, put something in a 401K first, or should you pay down that credit card debt?

LIZ PULLIAM WESTON: This is a really difficult question, Margot, because a lot of people just want to get out of that debt when they finally get sick and tired enough of being in debt and being indebted to the credit card companies. They want to get it paid off as quickly as possible.

The problem is you won't get a better tax break than the 401K. Most companies add to that break by giving you free money. So if you're putting in a buck, say, they will match that with 50 cents of their own money. That's a 50 percent free return. You can't get that anywhere in the market. That's why I tell people you need to continue contributing to your retirement even if you're in debt repayment mode. It can be a little painful because it's going to take you longer to pay off that debt. But really you don't want to leave free money on the table. And you don't want to stop contributing to your own retirement for long periods of time. That's really damaging to your overall financial future. Every thousand bucks that you don't put into your retirement now is going to costs you at least $10,000 down the road.

MARGOT ADLER: Is it bad to carry a balance on your credit card from month to month?

LIZ PULLIAM WESTON: Generally it's an awful idea to carry a balance on your credit card from month to month. You really should get in the habit of paying those debts off in full every month. If that was the single thing that we would teach children about finance so that when they got out of high school they know that, you know, I will never carry a credit card balance. We've done a huge favor to them.

MARGOT ADLER: You say that shifting your credit card balances from one credit card to a lower interest credit card is not always a good idea. And that it could hurt your credit score. Why?

LIZ PULLIAM WESTON: A lot of people play this game where they're bouncing their balances from low rate card to low rate card and they really think they're beating the system. Well, there's a problem with that. Every time you open a new credit account you're dinging your credit score. And that's the three-digit number that lenders use to gauge your credit worthiness.

MARGOT ADLER: Wait a minute. Are you serious? You mean, if I had, let's say, twenty credit cards, that affects my credit score even though every single one of them is paid in full?

LIZ PULLIAM WESTON: If your payment history is good, if you've always paid on time, if you're not maxing out those cards, then generally your credit score is probably going to be pretty high. But the fact you have so many cards means that the reason that you're going to get, while your score isn't higher, is because you have too much available credit. Now you can't fix that problem by closing those cards. You've already done the damage. And if you close the cards you can actually make things worse. Now if you go out and get another card that's going to ding your score even more. So you don't want to apply for credit that you really don't need. And then finally a lot of people are in the habit of closing the old account when they open the new one. As I mentioned that can hurt your score as well. So there's a lot of ways that this balance transfer boogie can hurt your credit score. You want to be aware of that if you're doing it.

MARGOT ADLER: What other tips do you have for people who want to get out of debt and stay out for good?

LIZ PULLIAM WESTON: If you are going to borrow money for something, like a car, the shorter the payback period, the better. A lot of people are focused only on the monthly payment.

That is so dangerous because you will wind up spending your whole life in debt and paying a lot more for things than you really need to. So if you're going to do something whether it's buy a car, do a renovation project at your house, whatever, and you feel like you need to borrow money to do it, first of all see if you can pay cash. See if you can save up the money. If you can't do that then try to keep the loans to no more than three or four years. Those habits alone will keep you from getting too far into debt.

MARGOT ADLER: Liz thanks so much for coming on Justice Talking.

LIZ PULLIAM WESTON: Margot, any time. Thank you for asking me.

MARGOT ADLER: Coming up, we'll talk with a debt collector who says he's not necessarily loved by his clients, but he says that doesn't matter because he loves his job.

UNIDENTIFIED MALE: You know what? It's my niche. You know, people that find their niche and they're happy and they get paid well, I guess that just makes everything fall into one basket. It's a happy thing. You know what I mean?

MARGOT ADLER: The life of a debt collector coming up.

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MARGOT ADLER: This is Justice Talking. I'm Margot Adler. College graduates are taking on thousands of dollars in educations loans. And that debt often becomes a burden. Here's what one college student has to say about it.

UNIDENTIFIED MALE: About $120,000 is how much I owe. I wonder how one day I'm going to actually pay off my student loan debt. But the money that they're offering now for jobs doesn't compare to what you pay back in student loans with interest, fun stuff like that. I just plan on paying the minimum of what they ask. I can't really do much more. You've got to be able to survive after you graduate school. It worries me a lot. I want to pay it off as quick as I can. That's how I do things but you have to survive. You have to be able to pay your daily bills not just your student loan bills.

MARGOT ADLER: I talked with Tamara Draut, the author of a book called "Strapped: Why America's 20 and 30-Somethings Can't Get Ahead," and I asked her why people in their twenties and thirties are strapped for cash like never before.

TAMARA DRAUT: Well, there are a couple of reasons. We can start by looking at student loan debt, which has risen dramatically for this generation. Today the average college grad is leaving with close to $20,000 in student loan debt. Even those kids who are going to community college are leaving with $8,700 in student loan debt. So there's a lot more debt out there based on trying to get an education, which is the primary way of getting ahead in our society. And then what happens is they enter the real world. And when you look at what is happening to the earnings for college graduates compared to a generation ago they've basically been stuck in place. So they're not keeping up with things like the cost of housing, healthcare costs, and certainly not those student loan debt bills.

MARGOT ADLER: Let's talk about history for a minute. How different is the debt situation today than it was, let's say, 20, 30, 40 years ago?

TAMARA DRAUT: It's dramatically different. And as I call it, I call it a debt for a diploma system. The debt for a diploma system was really born, started in the 80s and really ramped up in the 1990s. Just from 1992, the amount of student loan debt that most kids are graduating with has more than doubled. It's about $20,000 today. And if you go further back, the idea of the primary way of paying for education by taking out loans didn't exist, in fact, for two reasons. One, states invested more in higher education. So tuitions were low. You know, you could work a minimum wage job in the 1970s over the summer and basically pay for all of your college costs. Today you could work a minimum wage job fulltime for a full year and you still wouldn't have enough money to pay for a year of college. So it's a sea change. There are two things that have happened. One, we're at a 25-year low in per pupil spending by the states. And at the federal level we've completely shifted from providing need-based, grant-based aid to providing loan-based aid.

MARGOT ADLER: And why do you think that change happened?

TAMARA DRAUT: The change happened for a couple of reasons. One, the gap between what people with high school degrees were earning in the labor market and what people with college degrees were earning, as that gap widened people started to say things, and you hear this often: well of course students should take out loans to pay for their college education because they're going to earn a million dollars more over their lifetime. This is a private benefit. It should be paid for by the individual not by society. And that's really just an enormous shift in the thinking about the purpose and role of higher education in our society.

MARGOT ADLER: Now you say that two-thirds of all college students take out loans to go to college. And you talk about how much debt. What effect does carrying college debt have on their post college life decisions?

TAMARA DRAUT: Well, it has a lot of non-financial implications. One, psychologically it leads to a feeling of I'm never going to get out of debt no matter what I do. You know there's sort of this storm cloud that hangs over you when you're just starting out. And I think the other more important thing in terms of the importance to society is studies have shown that people who are paying back their student loans say, about one out of four say they've delayed marriage or having children because of having the amount of student loan debt. Young people are changing careers in order to find a more lucrative way of making money so they can pay down that debt. So there's lots of, other than the fact that it leads to many young people getting into more debt because it's such a hefty monthly payment. It has all sorts of emotional and psychological implications.

MARGOT ADLER: Now, some people are only able to pay the interest on college loans after they graduate. And they get further and further in debt. Is this the norm for a lot of people with college loans?

TAMARA DRAUT: Well, you know, I'm not so sure if it's the norm. But I can tell you that it's not uncommon for people to take a forbearance or delay the start of their payments. And what that means is that the interest rate, the interest is going to keep accumulating on that loan. So it's going to keep growing when you're not making payments because perhaps you don't have enough left over in the job you're working in to make that payment. And we do know that most people take about 10 years to pay off their student loans. And if you sort of time that out over the life-cycle what that means is we now have a generation that's going into mortgages, that's getting married, that's starting families, and still walking around with the noose of debt.

MARGOT ADLER: And I gather that college loans can't be erased, for example, if someone declares bankruptcy.

TAMARA DRAUT: No, they can't. The student loan industry made very sure of that. It is the one big exception in terms of the type of debts that you can do away with through bankruptcy.

MARGOT ADLER: Thank you so much for talking with me.

TAMARA DRAUT: Sure, it was my pleasure.

MARGOT ADLER: Tamara Draut is the author of "Strapped: Why America's 20 and 30-Somethings Can't Get Ahead."

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MARGOT ADLER: When debts go unpaid the phone starts ringing, and ringing, and ringing. It's definitely an unpleasant intrusion to have debt collectors calling you at home, at work, and anyplace else they can reach you. To find out what's it like to be on the other end of the phone I spoke with Travis Dupree. He is a frontline collections specialist with Williams and Fudge, Inc., a South Carolina-based collection agency. He is the number one ranked collector at the company and tries to collect on unpaid student loans. Welcome to Justice Talking. How would you describe your clients? Who are they?

TRAVIS DUPREE: Our clients are colleges and universities from Florida all the way to the state of Washington. And I think we have a few schools in Vancouver, Canada.

MARGOT ADLER: And as far as the borrowers that you're going after, how would you describe them? What kind of people are they?

TRAVIS DUPREE: Believe it or not, some of them are 18 years old, just dropped out of college and going to care less, all the way up to Supreme Court judges.

MARGOT ADLER: Supreme Court judges?

TRAVIS DUPREE: Yes, ma'am.

MARGOT ADLER: Now do you work on commission?

TRAVIS DUPREE: Yes, ma'am, commission only.

MARGOT ADLER: And what kind of commissions do you get?

TRAVIS DUPREE: I collect whatever the fees I get, I get 39 percent of that.

MARGOT ADLER: You get 39 percent of what you collect?

TRAVIS DUPREE: Well, let me give you a short example. If a borrower owes a $1,000 for this school and that school pays 33 1/3 percent, then obviously our company gets $333, then I get 39 percent of that. But I usually collect around $100,000 per month in fees, $70,000 to $100,000. So if you do the math, 39 percent of that.

MARGOT ADLER: Now you're constantly dealing with people I would imagine who are hostile to you. And I would imagine that that would make the job unbearable.

TRAVIS DUPREE: Margot, I've been called every name in the book. They've called my mom names. They've said things that didn't make sense. And you know I've done this, I've been doing this for 15 years. And 14-and-a-half years ago I probably would have taken it all personal and gotten a little frustrated but now you just kind of laugh. And when they're done doing that, you just say okay now did you want to discuss your debt now? It kind of makes them mad, too, you know.

MARGOT ADLER: Uh huh. Do you have an unlisted phone number?

TRAVIS DUPREE: I do.

MARGOT ADLER: Was that purposeful?

TRAVIS DUPREE: I didn't have an unlisted phone number until probably a year and a half ago.

MARGOT ADLER: And what happened? Was there an incident that led to that?

TRAVIS DUPREE: There was. There was an incident. I don't know who it was but somebody called me at two in the morning and made some threats. And the guy that called said do you like your job because you know I can't believe that you're a collector and what have you. So after that I was just like, you know, just go ahead and unpublish my number.

MARGOT ADLER: Now it sounds like you do like your job.

TRAVIS DUPREE: I love my job.

MARGOT ADLER: Why?

TRAVIS DUPREE: You know what? It's my niche. You know, people that find their niche and they're happy and they get paid well, I guess that just makes everything fall into one basket. That's a happy thing. You know what I mean?

MARGOT ADLER: Uh hmm. Now, what happens if a person moves, changes their number, doesn't answer the phone. What tricks do you use to get in touch with those people?

TRAVIS DUPREE: Well, some techniques, first of all in the student loan industry most of the time we have references such as mom and dad, sister, some cousins, and what have you. So if we do lose contact then we call a relative. We legally can call your next-door neighbor. You know obviously we can call the employer and there's other ways.

MARGOT ADLER: That must not be fun for the people who find that out.

TRAVIS DUPREE: A lot of neighbors are like why are you calling me and if you're calling me, why don't you just call him? And I'm like well ma'am because I don't have their phone number. So can you take a Post-it and put it on their front door? And nine times out of 10, believe it or not, they're like, sure I'll do that. And then this is the best part: then the borrower calls back upset because we called their neighbor but now we have caller ID, and I probably shouldn't be giving out our secrets, but now I've got your phone number.

MARGOT ADLER: Do you have any advice for people who have outstanding debt and are dealing with calls from a debt collector?

TRAVIS DUPREE: If you have collectors calling or even before it goes to collection, pick up the phone and call your creditor and tell them your situation. I mean if you don't, if you ignore the phone calls and you're ignoring your creditor, then they're going to assume that you're just refusing to pay anyway and things can get a lot worse.

MARGOT ADLER: Travis Dupree is a debt collector with Williams and Fudge, Inc., a South Carolina-based collection agency. Thank you so much for coming on the show.

TRAVIS DUPREE: Thanks, Margot.

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MARGOT ADLER: For some people who are in debt or want to live under the radar of financial institutions or need fast loans, check-cashing shops are the places to go. They are often located in poor neighborhoods and charge exorbitant fees. Why do people go there?

UNIDENTIFIED FEMALE: Well, I used it because I hadn't opened up a checking account and I needed cash right away. So you know usually if you have a check and you open up a checking account they want to hold the check for five days. Whereas here you pay a fee, you know, it can be substantial but it's not really that much. Obviously based on what the amount of the check is. So it's a convenience thing.

UNIDENTIFIED MALE: Yeah, I use it every time I get my check. So, and you know I can't really get a bank account. A lot of places require you to have a bank account to cash your check. So this is more convenient for me.

UNIDENTIFIED MALE: Um, I use a check-cashing place because my bank account is messed up. And I owe them four hundred and some dollars, so until I pay Citizens Bank off then I can't get a credit card. Then I can open another checking account somewhere else.

UNIDENTIFIED MALE: It's five o'clock and the bank is closed. Normally, like if I get enough time I'll go to the bank. But this is more, just convenient.

UNIDENTIFIED FEMALE: Hey, it's convenient. What can I say?

MARGOT ADLER: To find out more about how people are a part of what he calls "the fringe economy" I spoke with Howard Karger. He's the author of "Shortchanged: Life and Debt in the Fringe Economy" and a professor of social policy at the University of Houston. I asked him what the term "fringe economy" means.

HOWARD KARGER: The fringe economy is basically a shadow or a parallel economy to the mainstream economy. It's a place where poor people can--anybody, not just poor people and I'll get into that in a minute--can borrow money, purchase goods and services, very much like what you can do in the mainstream economy except that the interest rates and the charges are in the hundreds of percent. The more visible parts include payday lenders, check cashers, rent-to-own stores. And also the more invisible parts of the fringe economy include home mortgages, sub-prime mortgages, and buy-here-pay-here car lots.

MARGOT ADLER: Now, the fringe economy seems to exist in the shadows but how big is it?

HOWARD KARGER: In my book I talk about the fact that it's a hundred billion dollar a year plus industry. But that's only the more visible parts, the check cashers, the payday lenders. If we add in the buy-here-pay-here lots and the sub-prime mortgages, it's probably at least four or five hundred billion dollars.

MARGOT ADLER: You say that the fringe economy isn't just a bunch of mom-and-pop businesses; that there are large companies involved with relationships to mainstream financial institutions.

HOWARD KARGER: That's correct. It's very much in many ways a monopoly. You've got four or five large companies that control most of the pawnshop industry. And you have about six or seven companies that control most of the payday lenders. These are companies in which whose stock is traded on NASDAQ, companies worth in the millions of dollars, and companies who receive their financing from major institutions like Wells Fargo, Bank of America, Chase, and Citigroup.

MARGOT ADLER: Now how do businesses in the fringe economy, like check cashers and pawnshops, how do they make a profit?

HOWARD KARGER: Let me put it to you simply. If I lent you $200 and you paid me back $40 in interest for 14 days...

MARGOT ADLER: You'd make a lot of money.

HOWARD KARGER: I'd make a lot of money.

MARGOT ADLER: Now, are these practices legal?

HOWARD KARGER: Absolutely, in most places, yeah.

MARGOT ADLER: And are they regulated, these businesses, in any way?

HOWARD KARGER: It really has been ineffectual. They've tried it on state levels to regulate it and some states have been more successful than others. But with the advent of the Internet the idea of statewide commerce is pretty well going by the wayside anyway. Because I can apply for a payday loan online and bypass the state entirely.

MARGOT ADLER: So let's look specifically at payday lenders, one of the fastest growing sectors of the fringe economy.

HOWARD KARGER: And the most avaricious, yeah.

MARGOT ADLER: Really? You say they grew from a few hundred in 1990 to over 25,000 in 2002?

HOWARD KARGER: That's combined with check cashers, yeah. And many of them have both petty lenders and check cashers.

MARGOT ADLER: What are they? And how do they make their money?

HOWARD KARGER: Well, many of them are owned as I mentioned before by large corporations. And they make their money by lending small sums, anywhere from three hundred to now some are advertising a thousand, but I suspect it would be hard to get a thousand out of them. Anyway, from three hundred to five hundred or two hundred even to five hundred. And they charge generally--nationwide it's anywhere from $17 to $20 per hundred borrowed. And that's for 14 days or a two-week period, after which case you have got to pay back the loan plus the interest, or you have to roll it over for another 14 days. So that means on a $200 loan, for 28 days you would be paying $80 in interest for a month on a $200 loan. Most of their money is made by repeat customers, people who have four or five pay loans going at the same time.

MARGOT ADLER: So you warn that the real danger isn't this loan, the single loan, but a spiraling cycle of payday loan debt.

HOWARD KARGER: Exactly, because the fact is that if I haven't got $200 now I'm probably not going to have it in two weeks from now. If I reach my limit in rollovers, in other words, some payday lenders say I'll only rollover the loan four times or three times. Then I go down the block to the next payday lender to borrow that money to pay you back. Do you see the cycle?

MARGOT ADLER: Yeah. So why would a poor person, why would anybody use the services of a check casher, let's say, or a payday lender when fees are so exorbitant?

HOWARD KARGER: The reason that they would go to a payday lender is because they can't borrow money anywhere else. They may, you know their Visa card may be maxed out. Or they may not have a Visa card. There's a number of reasons why, or the issue of convenience. You go down the street and there it is. There's the money waiting for you.

MARGOT ADLER: Howard Karger is the author of "Shortchanged: Life and Debt in the Fringe Economy." He's a professor of social policy at the University of Houston. Thank you so much for talking with me.

HOWARD KARGER: Thank you.

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MARGOT ADLER: Let us know what you think about debt. Give us your thoughts on our website, justicetalking.org. See what other listeners have to say and check out our podcasts of previous shows. Thanks for joining me. I hope you'll tune in next week. I'm Margot Adler.

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