DEBT

U.S. Household Debt Hit a Record $16.90 Trillion in 2022

Household debt rose to new levels in 20 years — jumping $394 billion in the fourth quarter of the year alone — driven by credit card balances and auto loans.

(Image credit: Getty)

A February 16 report from the Federal Reserve Bank of New York's Center for Microeconomic Data highlighted that U.S. household debt hit a record $16.90 trillion at the end of 2022, jumping $394 billion in the fourth quarter of the year alone. This increase, which occurred from October to December, is the fastest quarterly household debt increase in the last 20 years, partly due to high inflation, cost of living increases, and the subsequent interest rate hikes from the Fed that continued through 2022 and into 2023.

The report shows that mortgages, credit card balances and auto loans were the big drivers of this increase, with credit card balances 6% higher than the previous (pre-pandemic) high of $927 billion.

Overall, household debt has increased by $2.75 trillion from the end of 2019 just before the COVID-19 pandemic. Household debt includes all liabilities of households, including mortgages, credit cards and student loans.

Debt increases

Credit card debt in particular has hit new highs this year, and delinquency rates are expected to increase further in 2023. In fact, serious credit card delinquencies — usually defined as being more than 30 to 90 days late — are expected to rise from 2.1% to 2.60% in 2023, the highest they've been since 2010. Furthermore, credit card balances jumped $61 billion dollars in the fourth quarter of 2022, bringing the overall credit card debt to a record high of $986 billion. In fact, this is also the highest quarterly increase in credit card debt reported by the bank since 1999.

Not only has credit card debt risen, but so have mortgage balances and auto loans. During 2022, there was an almost $1 trillion increase in mortgage balances, bringing the total debt to $9.2 trillion. Borrowers in their 20s and 30s have been struggling more with credit card debt and auto loans. Additionally, when student loan payments resume later this year, deficits among younger individuals could further increase.

Why has household debt increased?

This increase in household debt can largely be attributed to the Fed's attempts to combat high inflation, the likes of which haven't been seen in almost four decades. In order to do so, the Federal Funds Rate has been raised multiple times, going from near zero to 4.5%-4.75%, and increases are likely to continue into 2023. The increased interest rates — coupled with higher prices for food, energy, and consumer goods, mainly due to the war in Ukraine — have been putting a strain on budgets and have caused more to turn to increase household debt.

What to do if you're in debt

If you do find yourself in debt, here's what you need to know.

Low level credit card debt: As prices rise, you may have had to rely more heavily on your credit card for everyday expenses. And with most credit card APRs in the double digits, it can be easy to rack up a balance if you can't pay it off each month. If you have low/moderate credit card debt, a balance transfer card can be a good option to help you pay down balances. A balance transfer card lets you move debt from a typical credit card to one with a 0% introductory APR for a limited time. While the length of these 0% APR periods varies between cards, some of the best balance transfer cards allow you to avoid interest rates for up to 21 months.

Bad debt: Getting professional help from a credit counselor can be beneficial for those with large amounts of debt. They can offer financial advice on how best to manage your debt, and can even negotiate with your lenders to lower interest rates or waive fees. Visit the National Foundation for Credit Counseling to find a nonprofit credit counseling agency.

Any debt: If you find yourself struggling to pay down debt of any kind, prioritize creating a budget to identify how much you're spending and which areas of your spending can be cut back on. Using a debt repayment method like the avalanche method or snowball method can help you tackle debt. With the avalanche method, you'll tackle debt with the highest interest rates first. On the other hand, with the snowball method you'll pay down debt with the smallest balance first. You may need to consider other smart ways to tackle your debt, like requesting a lower interest rate, consolidating debt or talking to a creditor.

NYSUT NOTE: Don’t let your debt get out of hand. Contact the NYSUT Member Benefits Corporation-endorsed Cambridge Credit Counseling program today for a free, no-obligation debt consultation with one of Cambridge's certified counselors. Available to all NYSUT members, the Cambridge Credit Counseling program can help determine the most appropriate course of action for your specific debt situation to help you get out of debt in a fraction of the time. Visit the website for more information or to connect with a counselor today.