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Decreasing Debt: Here's the Secret

By Ellen Chang

NEW YORK (MainStreet) — Consumers reduced their debt consistently in 2013 as employment and consumer confidence continued to bounce back.

The average debt decreased by 4% over the course of 2013 to \$176,635.20 from \$183,968.62 at the end of 2012 by consumers who used Manila, a free digital mailbox service that allows consumers to manage their bills and other personal accounts.

"We see this as a strong indicator that our economy is improving," said Jim Schinella, CEO of New York-based Manila. "The steady decrease in unemployment over the past year suggests more jobs, which could lead to increased savings as well as spending among consumers."

Many consumers focused on paying down their student loan debt. As of January 1, 2014, Manila users were carrying an average of \$14,411.07 in student loans. This is 3.3% higher than Manila's October 1, 2013 report, but 6.75% lower than the national average of \$15,455 at the close of 2013.

"While Manila users show some increase in student loan debt for the fourth quarter, it is not comparable to the growth that occurred nationwide," he said. "This is possibly due to Manila's users already having a higher concentration of post-secondary education, combined with our single dashboard view that keeps spending capacity more tangible and present on people's minds."

Mortgage debt declined overall in 2013 with the national average dropping nearly 5% from \$166,345.20 as of January 1, 2013 to \$148,960.99 as of January 1, 2014.

Americans ended 2013 carrying 9% more auto loan debt than they did at the close of 2012. This is in line with rising auto sales nationwide. AutoNation, the country's largest automotive retailer, reported an 11% increase in new vehicle unit sales in 2013.

Consumers were likely to have more disposable income overall as the national jobless rate declined more than a full percent over the course of 2013 from 7.9% in January to 6.7% in December.

However, the average auto loan balance dropped by 10% in the fourth quarter of 2013, after rising in every other quarter of the year. This is in line with slower auto sales during winter months and possibly also points to consumer desire to end the year with less debt, Schinella said.

While this data shows a positive trend, it remains to be seen whether this behavior adjustment is a temporary change or long term adjustment, said Gail Cunningham, vice president of public relations for the National Foundation for Credit Counseling, a free financial counseling group.

"Consumers have learned a hard lesson," she said. "Carrying unmanageable amounts of debt does not equal responsible money management, resulting in them paying down debt to a reasonable level. Some holiday spending reports suggest that consumers felt it safe to put their toes into the financial waters again. It remains to be seen if they are able to pay off holiday spending."

Consumers are in better shape financially, but banks and other lending institutions are not approving as many loans, said Mike Chadwick, CEO of Chadwick Financial Advisors, a financial firm based in Unionville, Conn.

"We are probably beyond the monster recession and the economy is O.K.," he said. "Consumers need to stick to the fundamentals. Live below your means. Pay yourself first. Life is about making a series of great decisions over a long period time that will put people in a good financial situation."

While our economy is based largely on consumer spending, more people need to save for retirement, said Larry Rosenthal, a retirement coach for ING.

"As we continue to march forward, average hourly earnings will rise and people will spend more money," he said. "If people chose to spend, it helps the economy, but it hurts them. We tend to live in throwaway society. That is just not healthy."

Consumers spent most of their disposable income on new automobiles and refrigerators in 2013 but did not buy many discretionary items, Rosenthal said.

"Last year consumers spent a lot of money on bigger one-time purchases since there were inflation pressures at the gas pump and grocery store," he said. "If we have another good year in the market, we will see the wealth effect and people will buy more items. It is very important that we start to save money as a nation."

One way to save additional money is to temporarily suspend some discretionary spending from your lifestyle needs such as going out to eat, Rosenthal said.

"Don't mortgage everything," he said. "It needs to be paramount in people's mind that they need to save for retirement. People need to make sure they are saving money and getting compound returns."

— Written by Ellen Chang for MainStreet

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