Credit Cards Before Home Loans - A Disturbing New Trend

First appearing in the beginning of 2008, a disturbing trend has developed in which consumers are deciding to pay off their credit card bills before they pay their mortgage. This trend is gaining traction, and steam, in recent months as well. Conventional wisdom has generally dictated that the hierarchy of paying off debts is to pay the secured obligations first, which generally speaking tend to be mortgages.

A recent study by Sean Reardon, a consultant for TransUnion, has shown that the opposite is now true for a growing number of homeowners. The study reported findings between the period of the second quarter of 2008 and the third quarter of 2009. This study was conducted on consumers who had at least one mortgage and one credit card during a thirty day period during the aforementioned timeframe.

Experts had noticed this trend developing earlier than this, however, as early as 2006, but they had almost universally agreed that the trend would subside once the worst of the economic crisis had passed. However, it appears that this development is actually gaining momentum and becoming increasingly popular. The numbers are rather disturbing. In the first quarter of 2008, the percentage of homeowners who were behind on their mortgages but current on their credit cards was 4.3%. In the third quarter of 2009, that number rose to 6.6%.

When looking at the numbers from a scoring standpoint, the numbers are even more alarming. The lowest scoring segment of homeowners found that during the last quarter of 2007, the number of people who were current with their credit card payments but behind on their mortgages was 19.1%. This number jumped to 29% in the third quarter of 2009.

So what is driving this new trend for consumers to want to pay off their credit cards before their mortgages? There are several factors that may be contributing to it. One of the most prevalent is the implosion of the mortgage industry during the past twenty-four months. As adjustable rate mortgages have reset, consumers who could no longer keep up with their mortgages have turned their attention away from their mortgages and focused on paying down their credit cards.

Other contributing factors include a weak job market and depressed home values throughout the nation. This has fundamentally redefined how consumers manage their finances and what they deem the priorities of their bills. When we look at states that have endured a greater housing bubble implosion, the numbers are even more significant, and more telling. In California, for example, the percentage of consumers who were current on their credit card payments yet behind on their mortgage rose 3.5 percent to a total of 10.2 percent during the aforementioned time period. In Florida those numbers rose 5.1 percent to 12.4 percent total.

Consumers are shifting their focus of importance on where their money goes toward paying off their debts, but there are other factors that certainly need to be taken into consideration. The question of whether this trend will continue into the future of if it will correct itself when the labor market and the housing market both stabilize will have to be seen. Also, the fact that banks have not completed foreclosures on homes that have become delinquent may also contribute to this increase in numbers. For example, would a homeowner who finds himself, or herself, no longer able to afford their mortgage after an adjustable rate or loss of employment continue to fall behind on their mortgage, knowing they will most likely slip into default, or instead use the finances they have to pay down credit card debt to free up what may be important credit in the future.

The recession has caused enormous strain on multiple facets of the global economy, yet if this trend of homeowners paying credit cards before mortgages continues, the industry may find itself in for a longer recovery period than anticipated.

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About the Author

David Reinholtz is a professional Mortgage expert in Real Estate Industry.David is also a sales and marketing expert and trains professionals in every career field. David has personally trained tens of thousands of loan officers, mortgage brokers, real estate agents and individuals through The Close More University Seminar Series, LoanOfficerSchool.com Classes, Correspondence and On Line Learning, and countless private engagements and training events throughout the country. David is the Founder and CEO of LoanOfficerSchool.com, an approved education provider for The Conference of State Bank Supervisors and The National Mortgage Licensing Systems' (NMLS) required pre-licensing education and continuing education.