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Spectre of the Subprime Borrower - beyond a credit score perspective

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Abstract

The subprime borrower has achieved a celebrity status as of late. In this evolving tale of financial woe, the subprime borrower has delivered a fatal blow to the global financial markets. Two distinct personalities have emerged from this unfolding saga: the incredulous and financially illiterate subprime borrower pit against the greedy and often predatory lender. In retrospect lending to this group of low-income/ high-risk individuals is now considered indicative of the foot-loose tendencies of financial actors and complacent nature of the financial regulatory environment. Yet, the availability of credit to subprime borrowers was, not to long ago, heralded as a major achievement of newly liberalized financial markets. Risk calculation and balance sheet management techniques showed that markets, without the interference government, were able to democratize access to finance. Up until the summer of 2007, little attention had been paid to the subprime borrower and their experience of the 'roaring 90s' and past seven years of financialized expansion. The term 'subprime' refers to credit status that encompasses a wide range of socio-economic grouping. Using existing qualitative accounts of the causes of rising consumer debt, coupled with the limited quantitative data available on subprime borrowers, this article moves away from the linear (and coherent) account of credit as a transaction between borrower and lender. The attempt is to engage with the lived experience of these groups of the past seven years to understand the role that consumer credit plays in their everyday life. By drawing together the outcomes presented in existing literatures on labour market reform, rising education costs and declining state subsidies these trends are contextualized as factors contributing to the broader consumer credit boom. In particular, how these groups have lived on the frontier of receding state subsidies and advancing credit products.

Spectre of the Subprime Borrower - beyond a credit score perspective

The subprime borrower has achieved a celebrity status as of late. In the unfolding tale of financial woe, the subprime borrower has delivered a fatal blow to the global financial markets. Prior to the subprime mortgage crisis the American economy experienced over seven years of protracted financial market growth and, before that, the 'roaring 90s' was considered the 'Goldilocks' economy based on its sustained macroeconomic expansion and low inflation rates (Krippner, 2005; Stiglitz, 2004). Cheap and accessible credit for greater segments of the population was seen as contribution to the democratization of finance allowing households to partake in the financial market boom. Now it seems that subprime lending strained the existing structural instabilities of financial markets and lax government practices which were previously obscured by skyrocketing profitability. As such, the narrative of the subprime crisis has been constructed around two distinct personalities: the credulous and financially illiterate subprime borrower and the greedy and predatory subprime lender.

It may be true that rising default rates on subprime mortgage instigated the global credit crunch, but this certainly did not cause the current crisis and economic slowdown. Therefore, no attempt is made here to account of the immediate events which precipitated the subprime mortgage crisis. Instead, the aim is to offer a longer term view of the financial instability prevalent in the segments of household sector that make up the subprime borrowers. The past decade financialized expansion in the American economy juxtaposed rising productivity and profitability with declining real wage levels and state subsidies for most American households (Brenner, 2002; Glyn, 2007). The rapid ascent of asset prices, particularly stocks and property, was considered the primary mechanism of including the household sector in the great boom. Now it seems ever-rising stock markets and property prices simply masked broad structural instabilities and household borrowing merely stoked an asset-price bubble.

The term 'subprime' is generally applied to individuals with a FICO score below 600, which results from a myriad of employment, income and credit history characteristics. Typically a poor credit history, higher debt levels, late payments, low incomes and spotty employment history can generate this low credit-rating. These risk characteristics reveal some important descriptive attributes of who the subprime borrowers are in American society. Critical scholars evaluating subprime lending practices have tended to emphasize the inequality and discipline realized in the practices of risk based pricing (Burton, 2004; A. Leyshon & Thrift, 1999; Marron, 2007). These new calculative technologies can be used for constituting different subject forms (P. Langley, 2007) as well as recreating spatial boundaries of inclusion or exclusion from mainstream financial products (A. Leyshon & Thrift, 1995). Looking beyond risk characteristics shows that subprime borrowers encompass a wide range of socio-economic grouping within American society. Here we isolate Low-Income households, Under 35s, and Senior Citizens (aged 65 and over) as distinct socio-political groups likely to populate the subprime risk category. These groupings provide a means through which we can consider how subprime households experienced the 'roaring 90s' and financialization.

What becomes apparent is that neoliberalism is the subtext for many of the factors that give these socio-economic groups their risk characteristics: job loss, declining wage growth, dwindling state income support and pension payments, escalating tuition fees, rising health care costs, and mounting living costs. Since the 1990s, the groups that now make up a large component of subprime borrowers experienced a gradual receding government support and virtual abdication of social responsibility by the business community. These processes have translated into a broader politics of financial abandonment where low-income high-risk groups are increasingly using debt to meet increasing living costs and temporary financial shortfalls.

To illustrate these processes this article looks specifically at unsecured (or non-mortgage) debt trends among subprime groups. Admittedly, unsecured debt levels are much smaller than mortgage debt and significantly less important in macroeconomic terms. Unsecured debt is only one part of a much larger picture, but a very interesting part. Evidence from the Survey of Consumer Finances (SCF) from 1989 to 2004 provides some descriptive exhibits of the rising unsecured debt trend, growing repayment burden and stagnating income growth among the subprime groups. The SCF uses categories which roughly approximate the subprime socio-political groups: those earning less $20,000 (Low-Income), Under 35s, and those aged 65 and 75 over (Senior Citizens). Of course these categories provide no formal statistical proof linking financial abandonment of state and business with rising indebtedness. In fact, no effort is made to put forward a causal account of why household borrowed. Rather, the aim is to consider the relevant processes of transformation impacting subprime groups. Since SCF data is only available until 2004, we cannot evaluate the period immediately prior to the subprime mortgage crisis but we can see that subprime groups have been struggling with indebtedness long before it became problematic for financial markets. On the one hand, this demonstrates the degree to which large parts of the household sector were never fully included in fruits of financialized expansion. On the other, it reveals the precarious situation subprime households are in, suggesting that the present crisis is not merely a case of irrational exuberance but the product of prolonged financial distress.

In this context, the politics of financial abandonment involves the persistent re-structuring of government social provisions for financial security and the gradual relinquishing of the business communities social responsibilities. The cumulative effects of labour market and welfare reform in the name of fiscal consolidation have deepened financial inequality. Moreover, the rising costs of health care, education and lack of social support created conditions where unsecured debt is being used as ‘plastic safety net’ (Tamara Draut, 2006). These problems are only compounded by the parallel trend within the business community of shedding jobs while pushing hard against wage growth and reducing legacy and non-wage labour costs (namely pensions and health care benefits). More often than not firms justify these activities as necessary to improve earnings and meeting the demands of capital markets. For many households these processes converge when higher living costs or temporary emergencies make unsecured debt a necessity rather than an option. Evaluating subprime groups beyond their risk characteristics and analyzing their unsecured debt levels provides clearer picture of the landscape of financialization where Low-Income groups, Under 35s and Senior Citizens occupy a unique position at the frontier of receding state support and income growth while facing an ever-advancing financial services industry.

Spectre of the subprime borrower

Creation of category of ‘subprime’ is one product of decades of development in credit-scoring practices. The term subprime is assigned to individuals with various credit and life-cycle characteristics interpreted in relation to a standard (or prime) benchmark (Jacobson & Roszbach, 2003; Treacy & Carey, 2000). For many years credit scoring involved analyzing basic employment and credit histories to determine whether to ‘accept’ or ‘reject’ a potential customer based on their probability of default.[1] The standardization of FICO[2] model, developed by the Fair Isaac Company, produced standard risk scorecards based on the entire US national population. Technological barriers to entry and the profitability of selling third-party credit profiles to retail lenders consolidated practices of credit scoring into a handful of Credit Bureaus. As telecommunication technologies advanced the surveillance capacities of credit bureaus increased as did the demands for new techniques to analyzing the volumes of transactional data. A lucrative market developed for those able to develop more sophisticated statistical models for interpreting the commercial value of this new data (A. Leyshon & Thrift, 1999). The development of complex algorithms transformed credit scoring from simple accept/reject criteria into more refined risk profiles. The new practices surrounding

risk-based pricing enabled retail lenders to calibrate loan amounts and interest rates charged to individuals based on their risk characteristics. It was believed that risk-based pricing allowed lenders to extended new credit products to groups previously excluded by their low credit score because the risk was adequately priced. In practice, how risk-profiles are used by lenders is fraught with idiosyncrasies; as Burton et al (2004) assert, the term subprime "means different things to different lenders but it is often defined by what it is not, rather than by what it is" (9). These processes forged the subprime risk profile which both facilitated greater access to financial services to previously excluded groups and gave rise to worsening financial inequality for subprime borrowers.

Before the subprime mortgage crisis, risk profiling was widely considered a key innovation in rational calculative process that transformed volumes of data on individuals into a usable credit score (Myers & Forgy, 1963). The long history of risk-based pricing shows that, in and of itself, had some contribution to make in allowing for financial access. Risk-based pricing was legislated into banking regulation through the Equal Credit Opportunities Act 1974 (Regulation B) which outlaw discrimination in credit sanctioning based on the characteristics of gender, marital status, race, national origin, religion or income source. Legislative action ensured creditors used risk-based pricing in order to prevent discrimination lawsuits (Marron, 2007, p.111). In some respects these processes can be as superior to 'judgment based' systems because they anonymous and use objective data sources (Burton, 2004). Nevertheless risk-based pricing, as an objective scientific method which avoids personal discrimination, has done little to make credit more affordable to historically disenfranchised social groups. African-Americans, Latinos, and single-mothers may have gained access to new credit products but they pay much higher interest rates and are subject to more stringent criteria. It now appears that these statistical techniques merely reproduce pre-existing social stratification and perpetuated them further under the guise of objective scientific reasoning. While access to credit may have increased for subprime borrowers, their participation in financial services benefited the lenders to a much greater extent.

Different critical frameworks are used to challenge the objective scientific claims of risk-based pricing as a general purpose technology used to rationalize financial services. There is a clear emphasis on the outcomes of risk-based pricing as it manifests in new forms of discipline or creates conditions of access to mainstream financial services. Post-Foucauldian frameworks emphasize how the discourses of risk create newly financialized subjects (de Goede, 2004). Extending the discourses of freedom and security bound up in neoliberal 'governmentality' this framework sees the calculations of credit scoring as assembling new 'investor subjects' (P. Langley, 2007). "In the high-risk society, workers, businesses, and countries must start thinking like investors in the financial markets, where the only way to consistently achieve success is to accept risk" (Martin, 2002, p.34). The practices of risk-based pricing both constitutes and act upon the subprime subject, re-shaping the form in which consumer credit relations take place (Marron, 2007). Credit scoring and risk profiling form emerging technologies of power imposing new process of self-discipline for financialized subjects. Consumer credit practices reveal how "prudence and thrift are displaced by new moral and calculative self-disciplines of responsibly and entrepreneurially meeting, managing and manipulating ever-increasing outstanding obligations" (Paul Langley, 2008, p.135). The emphasis on the formation of subject positions through new calculative technologies suggests the different ways in which everyday life is incorporated into financialization.

This article seeks a constructive engagement with Post-Foucauldian frameworks analyzing subprime borrowers as financialized subjects. Looking past the risk-characteristic used to assemble subprime subject positions we see the socio-economic groups that make up a large portion of the subprime borrowers by virtue of their employment history, income, and existing debt levels. The necessary level of abstraction required to evaluate the process which constitute the subprime subject positions does not adequately consider who these individuals

are within American society. Flexible employment status, low-incomes and high debt levels exemplify both the young and working poor in America. Senior Citizens with low fixed-income who are no longer part of full-time labour force have seen their fragile financial state compounded by rising unsecured debt levels. These socio-economic groups form a particular type of subprime borrower. New discursive practices of self-discipline and risk may both constitute and act upon these groups as they engage in consumer borrowing. However, the aim here is to consider how prolonged political and economic transformations affected these groups long before subprime lending reached its zenith.

Another critical framework evaluating the social impacts of credit scoring and risk-based pricing addresses these practices as part of larger trend of spatial reorganization of financial services industries in the US and the UK (A. Leyshon & Thrift, 1999). The geographies of financial exclusion considers how these trends translated into the virtual abandonment of low-income and other marginalized communities by mainstream financial institutions. Technologies of credit scoring create the boundaries for inclusion or exclusion to an emergent form of financial citizenship (A. Leyshon & Thrift, 1996). Using evidence of branch closures in the US and UK as well as the forced migration to automotive payment systems demonstrates how rural and poor urban communities are increasingly left without direct accesses to financial services (Andrew Leyshon, French, & Signoretta, 2008). For subprime borrowers these boundaries create a double-bind between high priced credit products from mainstream financial sources or using non-mainstream facilities offered by pawnbrokers and door-to-door credit providers which charge even higher interest rates (Burton, 2004; A. Leyshon, Burton, D., Knights, D., Aleroff, C., and Signoretta, P., 2004). This framework sees financial abandonment as the wholesale retreat of financial infrastructure from specific communities potentially leading to financial starvation (A. Leyshon & Thrift, 1995, p.336). As the events leading the subprime mortgage market suggests, trends of financial access for poor and marginalized communities ebb and flow in tandem with the larger expansion-contraction of financial markets generally. Therefore, in the 1980s and 90s the spatial reorganization of financial infrastructure was premised on a ‘flight to quality’ (A. Leyshon & Thrift, 1996). In the 2000s expansion into subprime markets through direct mail-outs and internet offers did not stem the tide of bank branch closures in disadvantaged communities.

On the one hand this article extends the scope for evaluating abandonment beyond mainstream finance. The politics of financial abandonment incorporates the effects of receding political commitments to support financially insecure groups alongside these groups experience of protracted economic restructuring. On the other hand, this analysis limits the scope of engagement by only focusing on those groups with access to mainstream financial services. Acknowledging the even more precarious situation of those groups excluded from access to mainstream credit sources may seem inadequate, but the limits of space preclude any systematic analysis of excluded social groups as well. Admittedly, evaluating subprime groups as Low-Income, Under 35 and Senior Citizen households is perhaps too much of a generalization itself. Issues such as gender and race are clear factors in determining financial inequality as well as subprime status. Many activist groups see credit scoring and risk-based pricing which created the subprime as a *post hoc* rationalization for lending these to financially disenfranchised groups. It cannot be denied that poor African-American communities and single-mothers were victims of predatory practices by subprime lenders. The configuration of economic inequality in America no doubt confirms that low-income families are highly differentiated, where a single-mother and/or African-American household would be significantly more socially disadvantaged than a two person white household. Again, the limits of space prevent a more nuanced evaluation of social stratification within subprime groups. Rather the aim is to use Low-Income as an umbrella category encompassing many differentiated socio-economic sub-groups with their own unique experiences of financialization.

Also, there are obvious inter-generational dynamics at work within this analysis. Just as the above frameworks challenged the objective scientific rationalization of subprime lending as enabling greater access to finance, so too does this analysis attempt to reconsider the economic rational which justifies intensifying financial insecurity among the young and old. Policy makers and economists dismissed rising debt levels among the Under-35s and Over-65s as a predicable outcome of life-cycle characteristic of household finances. Life-cycle models presume that the balance between income, assets, savings and debt changes across an adult's lifetime. Therefore, the very young will have low income, limited savings and assets, and will borrow relatively more. As individuals have longer employment histories income, savings and assets are assumed to increase. Upon retirement, individuals are assumed to go into another phase of dis-savings as assets and savings vehicles are depleted to replace employment income. These principles justify offering young people with limited employment, income and no credit history—making them subprime borrowers by definition—credit products as a profitable and low-risk endeavour. The same is true for Senior Citizens whose fixed income and lack of full-time employment makes them eligible for credit but on different terms than standard borrowers. Economic models may provide a plausible rational for rising debt among the young and old, but these assumption also actively obscure any further examination into these groups financial situation. What becomes obvious is the degree to which the politics of abandonment have been particularly acute for the Under-35s and Over-65s. Looking specifically at unsecured debt levels shows that these demographic groups have been relying on debt to fund basic living costs as well as major expenses (i.e. education and/or health care costs).

Considering the subprime experience—the long view

In the grip of financial crisis it becomes easy to make the conceptual leap of interpreting the instigating event, in this case rising subprime mortgage default rates, as the underlying cause of systemic collapse. Whether this conceptual leap is for simplicity or convenience sake is unclear. Nevertheless, this perspective depicts the causes of the subprime mortgage crisis as an acute period of insolvency. As such the short time when the subprime mortgage market reached its peak, from roughly 2004 to mid-2007, is where the financial services industry recklessly overextended itself while subprime borrowers incredulously took on more debt than they could afford. Looking at data from Survey of Consumer Finances (SCF) from 1989-2004 illustrates the longer term trend of rising non-mortgage debt levels among subprime groups. This evidence challenges the growing consensus that indebtedness of subprime borrowers only became acute immediately prior to collapse of subprime mortgage market. Taking a longer term view reveals that up until 2004 deepening inequality and rising debt levels was already a chronic problem among the financially vulnerable segments of society that make up the subprime risk category.

Admittedly, the peak in subprime mortgage lending coincides with broader trends of low nominal interest rates and excess liquidity which is now seen as facilitating the financial actors efforts to take on more risk in order to realize profits (for a more detailed analysis see: Crotty, 2008). Therefore, it is more reasonable to suppose that the current financial crisis is the product of the convergence of chronic financial distress among subprime groups with the acute period of expansion into subprime mortgage lending by the financial services industry. By taking a longer term perspective this article evaluates how three subprime groups (low-income, under-35s and senior citizens) became integrated into broader process of financialization in the American economy. Here financialization refers to the significant transformation in patterns of accumulation in the American economy (Krippner, 2005) as well as "the process and particular effects of the growing power of financial values and technologies on corporations, individuals and households" (French, Leyshon, & Wainwright, 2008, p.4). Whether the emphasis is on processes of accumulation, institutional

configurations, or structural change financialization signifies the degree to which finance is a significant factor shaping contemporary economic, political, social and cultural life.

How subprime groups integrated into the intensifying processes of American financialization is through their experiences of nearly twenty years of substantial political and economic transformation. Increasing inequality has meant income growth has stagnated for those at the bottom-end of distribution while those at the top-end have reaped benefits of financialized growth. The gradual receding of social support for economically vulnerable by the government is mirrored by the endless restructuring by the business community of costs and responsibilities to employees. These processes of abandonment have left these subprime groups to fend for themselves.

Over the past two decades corporate America, and the larger business community, has been effective released from any social responsibility to its employees. Global competitiveness and profitability came before obligations to support the workforce. One of the effects experienced by subprime groups would be growing employment flexibility. For the U35s this is manifested in the growing difficult experienced in getting and keeping a job, while low-income workers have borne the brunt of labour costs shedding through outsourcing and/or lay-offs. Moreover, a major trend in American business is to significantly reduce non-wage benefits, or not provide them altogether for non-management workers. Health care and pension plans have been routinely restructured to reduce the firm costs, even as profits rose in tandem with broader equity market trends. For Senior Citizens, this trend manifested itself through efforts to restrict ‘legacy costs’ by reducing pension fund payouts.

At the same time subprime groups experienced a parallel reconfiguration of government’s social and economic obligations to its citizens. As prerogatives of fiscal restraint came to dominate Federal and State-level political agendas subprime groups were arguably some of the most adversely affected. Capping funding for health care and higher education dramatically increased the costs of these services. The cost of health care for all American families has increased dramatically in recent years, and has hits subprime groups particularly hard as state subsidies for MediCare and MedicAid have stalled. For Under 35s declining subsidies has meant that Federal and State education bursaries have not kept pace with the escalating costs of education and are harder to qualify for (Dēmos, 2007c). Senior citizens have experienced dwindling of government transfer programs, particularly social security, alongside wholesale reforms in company-sponsored health care and pension plans (Cutler & Waine, 2001). State subsidies for prescriptions drugs and Medicaid have failed to cover the escalating medical expenses of an aging population. The Federal government’s continued efforts to stifle the cost of social security have now left many Senior Citizens living below the poverty line.

The American government’s attempts to redefine its obligations to its citizens under the rubric of fiscal conservatism spawned many of the key risk characteristics of ‘subprime’ among particular vulnerable segments of society. Fiscal reform measures translated into declining state subsidies and government transfers for low-income and non-standard employment groups. This has mean an overall decline in unemployment benefits for those out of work, while more flexible labour markets have led to growing employment insecurity for those in work (Allen & Henry, 1997; Lazonick & O'Sullivan, 2000). Labour market deregulation lifted allowed greater flexibility in employment contracts. In some parts of America “right to work” legislation virtually ban Union organization in many low-skilled sectors. Active Labour Market policies ushered in successive rounds of welfare reform by replacing government transfers for a variety of social programs with programs with employment training and workfare programs (Oliphant, 2000; Zeigler, 2004). In addition to direct policy interventions, the American government’s ideological and political support for corporate restructuring and financialized expansion effectively left subprime groups to cope with the effects of broad-based economic transformation alone.

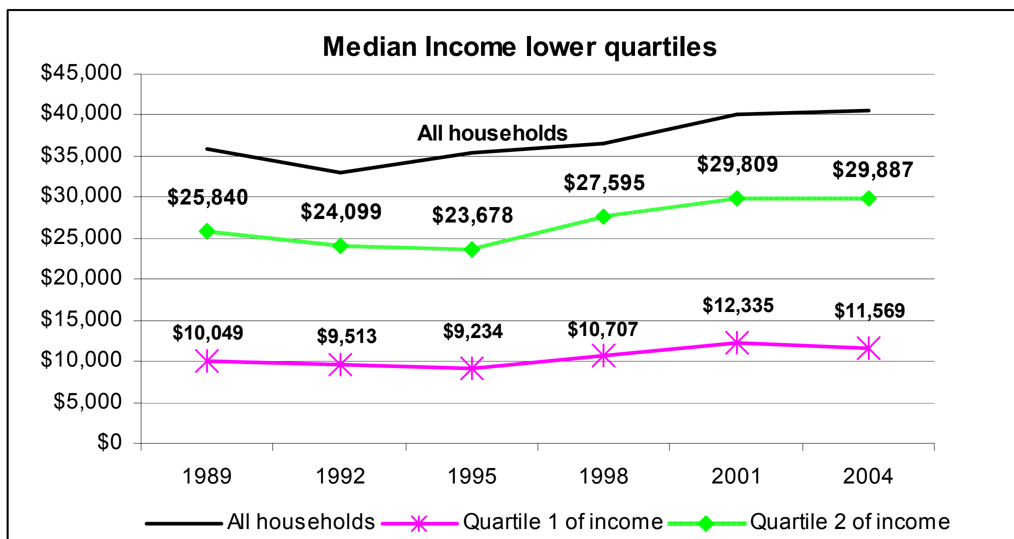
Having considered these general processes we now turn to a closer analysis of individual socio-economic groups that make up a significant part of the subprime categorization. Evaluating these groups experience of financialization reveals that declining income growth and dwindling state support occurred as new retail banking techniques led lenders to target those with existing high debt levels for profitable expansion. SCF data illustrates the extent of indebtedness among subprime groups up until 2004, even before cheap credit for subprime had reached its peak. It appears that subprime groups adapted by using debt to finance basic living costs and other major expenditures. These observations contradict the general belief that lending to subprime groups was partly exacerbated by broad-based financial illiteracy and profligacy of borrowers.

The politics of financial abandonment: three case studies

Low-income groups were arguably one of the most adversely affected by the past twenty years of political economic transitions. The decline in low-skilled and high paid manufacturing jobs through successive rounds of outsourcing to low-wage countries first to Mexico, then South East Asian and now China essentially eliminated economic and job security among the lower-income segments of American society. This broad based de-industrialization meant high paid manufacturing jobs were replaced with low-skilled and low-paid service work in offices and retail sales outlets. This economic process intensified as political support for curbing union power through right-to-work legislation and revisions to labour laws significantly decreased the number of workers able to collectively bargain for higher wages (Glyn, 2006, ch. 5). Moreover, governments' ideological consensus to control wage pressures to prevent inflation translated into most workers not realizing real wage gains even when US productivity rates recovered from the late-1990s onward.

In addition to consequences of economic transition, low-income groups experienced a re-defining of the role of state in supporting the household sector. In terms of labour markets, the federal government virtually froze the minimum-wage rate, while state governments engaged in successive rounds of liberalization (often competing against one another to attract investment). The adoption of active labour market policies brought about wholesale welfare reforms affecting low-skill workers who were normally in and out of work. Today many workers are ineligible for benefits, especially low-wage workers and "nonstandard" workers such as temporary or part-time employees. Unemployment benefits typically only replace about one-third of an average worker's earnings (Garcia, 2006, p.14). The combined effects of flexible labour markets and waning state support for the unemployed has translated into a re-emergence of the working poor in America. These factors translate into the very risk characteristics that define the subprime borrower (Cox & Jappelli, 1993; Holmes, Isham, & Wasilewski, 2005).

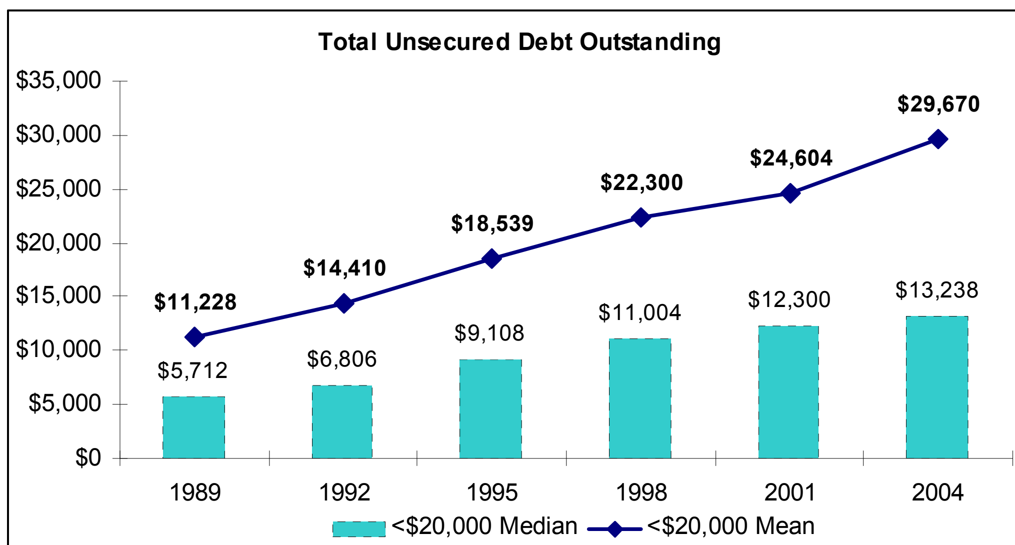
Table One: SCF Median Income for all families (in 2001 dollars)



Data from the SCF demonstrates the extent of real income stagnation among lower income quartiles. For those in the bottom 25 percent of the distribution real income grew by a mere $1,520 (or 15%) over the fifteen years from 1989-2005. Similarly, median real household income (second quartile) grew by 15.5% or $4,047 over same period. Looking at low-income households' experience of the past seven years of financialization reveals that family income has remained virtually stagnant compared to GDP growth, productivity, as well as corporate and financial services profit rates. Alongside stagnant income growth, low-income households are the most vulnerable to temporary income losses and most likely to lack savings or wealth to draw on during unemployment.

To isolate the extent of unsecured debt levels on low-income groups we use the Bulletin income category of those earning less than $20,000 a year in pre-tax income. Compared with table one this represents those families firmly within the bottom half of income distribution. What makes these households so attractive to lenders is their greater likelihood of revolving outstanding payments and staying in repayment longer, while their high-risk characteristics justify the higher rate of interest charged on credit products. Low-income households are also more likely to incur late-payment fees and penalties. All kinds of investors, especially within the financial services industry, enthusiastically embraced subprime lending by investing in the various product spinoffs. Marketing high-cost credit products to these groups is often portrayed as improving financial access (Punch, 2004a; Ryman-Tubb, 1999). Policy makers endorsed marketing to subprime borrowers as a means of financial inclusion (Collard & Kempson, 2005; Kempson, 1999). Lack of access to other forms of credit and fixed incomes makes low-income households a captured market. While initially extending credit to subprime groups was couched in the language of financial inclusion, we now know that the profitability of low-income consumers largely drove financial services expansion to subprime lending.

Table Two: SCF Low-income household unsecured debt outstanding 1989-2004



Data from the Survey of Consumer Finance demonstrates the escalating levels unsecured consumer debt among low-income households', well before the subprime mortgage boom. The SCF classifies consumer debt by credit facility such as: credit card, installment, line of credit, and education loan. Figures in table two combine the outstanding balances reported on credit cards, installment loans and vehicle loans to create a sum total amount unsecured debt outstanding. This reveals that households with debt holdings and pre-tax earning of less than $20,000 debt levels grew astronomically from 1989-2004 with a doubling of median, or mid-point, debt level and almost tripling of mean debt levels. Skewed growth of the mean relative to the median is indicative of change at the top of the distribution. Therefore, those household at the upper end of debt holdings distribution had debt levels increase more rapidly than those in the lower part of the distribution. While graphically the median seems less spectacular, the $13,238 unsecured debt outstanding in 2004 is over half of the upper level of $20,000 in yearly pre-tax income. Since our interest is the experience subprime borrowers, who are much more likely by definition have higher debt levels, the mean level is even more illustrative of extent of indebtedness among low-income households. In this case we see an increase of over 250% over the fifteen years from 1989-2004. These figures reveal that indebtedness among low-income households was acute even prior to subprime lending craze from 2004-2007.

Often unforeseen events such as job loss, medical expenses or car breakdowns lead households to borrow in order pay for temporary expenses or loss of income. A survey conducted by the New York think-tank Demos revealed that 70% of low income households used consumer credit as a 'plastic safety net' to pay for one-off misfortunes like repairs, accidents, or job loss (see: Garcia, 2006; Wheary & Draut, 2005).[3] One third of households reported using credit cards to cover basic living expenses on average four out of the last 12 months (Wheary & Draut, 2005, p.11). Other economic factors contributed to the reliance on debt to fund regular expenses or to cover temporary income short falls. Also, unemployment insurance benefits less generous and more difficult to qualify for, compounding the effect of job loss among low income families. Moreover, health insurance is no longer a standard employee benefit, especially among low-skilled service workers, while public subsidies have steadily eroded (DeNavas-Walt, Proctor, & Mills, 2003). According to the Demos survey: seventy-five percent of households *lacking* medical coverage carried debt on a credit card, compared to 55 percent of families that had medical coverage (Zeldin & Rukavina, 2007).

Therefore, low-income families are using consumer credit as a way to cope with drops in income or unexpected expenses, in order to cope with the lack of government safety net. In this case we see that the politics of financial abandonment translate into unsecured debt being used to provide a short-term solution to meet immediate or pressing living expenses. As a consequence of chronic debt levels among low-income households prior to 2004 we can see that these groups were already financially fragile even before the boom in subprime mortgage lending (Bird, Hagstrom, & Wild, 1999). The cost of servicing this stock of debts only furthers low-income households' financial insecurity. In 2004, families with pre-tax earning of $20,000 had average monthly repayment amount of $320 dollars which is 19% of take home pay and 39% for those earning closer to $10,000 (see statistical appendix).[4] Even before subprime mortgages and other credit products were being enthusiastically marketed to low-income families clearly had a significant debt burden. To redress financial inequality and continued debt dependence among low-income households there must be a new consensus that recognizes that consumer debt is no substitute for adequate wages, affordable health care and insurance, and income support from the state.

The school of hard knocks—rising debt among the under 35s

The extensive economic transformations in the US economy over the past two decades have a unique manifestation in relation to young adults, classified as Under 35 in the SCF. The transition to service industries, euphemistically called the knowledge economy, has made getting a higher level of education the single most important factor in determining potential life time earnings.[5] Despite the US government's need for a highly educated workforce to sustain growth in the knowledge economy industries, fiscal consolidation prerogatives have meant a prolonged erosion of state funding for post-secondary education. The result has been a steady increase in the cost of education: the average inflation-adjusted cost of higher education has increased 165 percent between 1970 and 2005 (Garcia, 2006). In particular, tuition fees for public universities have tripled since 1980, up from $1,758 in 1980 to $5,132 in 2004 (Dēmos, 2007a)(2). As the need for a degree has risen, young people are required to pay more for an education in order to secure any prospect of having an above average income.

For students' from low-income households access to higher education has become even more expensive as funding for government bursaries has stalled. Postwar public policy measures, such as the 1965 GI Bill and the Higher Education Act, guaranteed an affordable university education for all that qualified. But, fiscal restraint has meant funding for these programs has not kept pace with the escalating costs of education. For example, in the 1970s the maximum Pell Grant award (main bursary program for students from low-income households) covered 70% of education costs, in 2006 the same award only covered about one-third, and it is harder to qualify for the maximum amount (Dēmos, 2007a, p.2). Now the costs of education are even more expensive for those that can least afford it.

The introduction of the unsubsidized federal student loan program in 1992 effectively allowed credit to replace receding state funding for higher education. At the time unsubsidized student loans were justified because a degree was seen as an investment in the future. Since students were the primary beneficiaries of the higher incomes from education they should be responsible for more of the costs (Baum & O'Malley, 2002). As the costs of education increased students relied on debt to acquire the degrees needed to secure higher lifetime earnings. These pressures made extensive borrowing to finance higher education a necessity for many young people. The 2002 National Student Loan Survey revealed that over 70% of students agreed that student loans were very or extremely important in allowing them access to education after high school, while 72% said student loans were very or extremely important in allowing them to pursue graduate studies (Baum & O'Malley, 2002).[6] Dependence on credit to fund a university education can be seen by Under 35s which shows a near doubling of outstanding education debt amounts from 1989-2004 (see statistical appendix). Student loan debt reached its peak in 1998 with mean outstanding balances at $16,336 as those who

relied wholly on unsubsidized loans became a larger portion of Under 35 population sample. With most students graduating from university at 24 years old, there is obviously a longer-term impact on overall financial security. If young people are carrying student loan debts well into their working life, this undermines the assumptions about the costs and benefits of getting a university degree.

The problems of student indebtedness goes further than education loans, as many students also rely on consumer credit products to fund their daily living expenses. Their unstable employment and low-pay status makes them subprime borrowers subject to lower credit limits, higher interest rates but also more profitable because they tend to hold revolving balances longer (Kara, Kaynak, & Kucukemiroglu, 1994; Levesque Ware, 2002). Credit card companies, in particular have focused on marketing to college students under the guise of "relationship marketing" to promote brand loyalty (Kim, 2006; Twitchell, 2004). Industry reports claim it is students' household resources, specifically parental income and access to student loans, which make them suitable risks against default (Mincer, 2005; Palmer, Pinto, & Parente, 2001). Credit card use among students extends beyond basic consumer purchases, the 2002 National Student Loan survey showed that 27% of students report using credit cards for part of their cost of undergraduate education, for example tuition or books (Baum & O'Malley, 2002). Students' extensive use of credit cards has become so prolific it is euphemistically refereed to as 'yuppie food stamps'(Doost, 1997; Richter Quinn, 2001). Between 1989 and 2004, credit card debt outstanding among students has doubled. Carrying such high debt levels while at school adds additional financial pressures after graduation when student loan repayment begins.

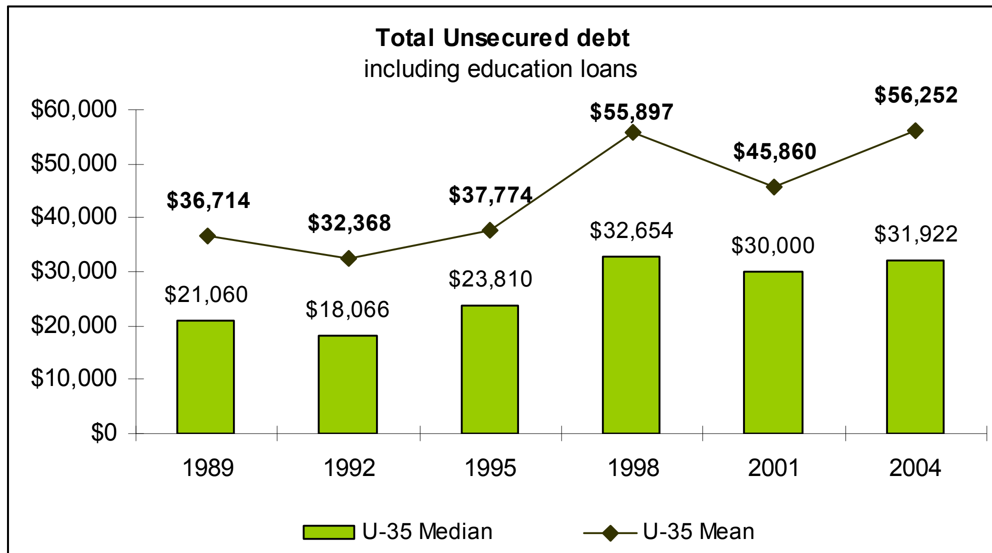
Table Three: SCF--Credit Card Debt Students 1989-2004

	Average Credit Card Debt (2004 dollars by job status)						
	1989	1992	1995	1998	2001	2004	Change 1989-2004
Student	$1,206	$1,419	$2,875	$3,646	$3,793	$2,637	**118.7%**

Source: Demos (2006) Statistical Appendix*: Borrowing to Make Ends Meet*

Indebtedness has become to define an entire generation of young adults in America. The problem often begins with student loan debt and only escalates with extensive credit card and other unsecured loans. A large portion of young adults now use unsecured consumer debt to finance their daily lives. SCF data for unsecured debt, including education loans, among Under 35s shows that the average outstanding balance increased by 150% from 1989 to 2004—totalling $56,251 in 2004. Even the more conservative median measures shows a $10,000 increase over the same fifteen years. Such high amounts of non-mortgage debt for the under-35s challenges the life-cycle assumptions used by policy makers. It is clear that younger households are not borrowing to acquire assets which will provide future financial security.

Table Four: SCF Total Unsecured Debt Outstanding (including education loans) 1989-2004



On the contrary, some evidence shows that Under-35s now rely on credit to cover basic living expenses, particularly during first years of employment. For many young adults the credit is becoming essential: forty-five percent of those under age 34 reported using credit cards in the last year to pay for basic living expenses, such as rent, mortgage payments, groceries and utilities (Dēmos, 2007b, p.3). Low starting salaries—which grow at an ever-slower rate—are often not enough to pay student loan bills, housing costs or health care costs. Moreover, the cost of servicing outstanding debts reached $831 dollars in 2004 for debt repayments, which is a significant financial burden on monthly income (statistical appendix).[7] There are important long run implication for young adults as they attempt to buy a house, build an assets portfolio, or support their new families (Tamara Draut, 2006).

Life after retirement—rising debt and America's Senior Citizens

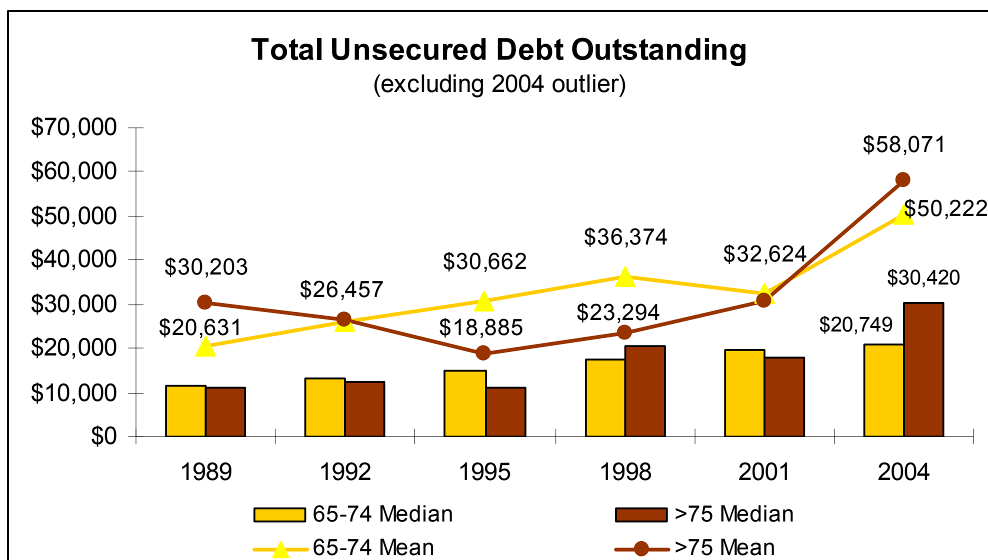
The final case study of subprime borrowers is senior citizens, those aged 65 and older, who have had a similar experience of financial abandonment. Reforms to social security have had the biggest negative impact on financial security. Eighty-four percent of households aged 65 and over receive social security benefits. For these households social security is their largest (40%) source of income (AARP Policy Research Institute, 2006). But, as the single largest expenditure in the US federal budget social security benefits have steadily declined under the rubric of fiscal austerity prerogatives. Faced with an aging population and declining tax base successive US administrations since the 1990s have attempted to 'plug the fiscal gap' by reducing benefit pay-outs. Other sources of income for the over 65s, such as pensions and private savings have not adequately replaced falling social security benefits. The low nominal interest rates with fuelled the credit boom significantly undercut interest income from private savings for senior citizens. For seniors who followed the general trend of transferring traditional savings accounts into investment vehicles, such as 401(k) and mutual funds, returns have been hurt by multiple down turns in stock markets. As passive investors in basic investment schemes those households retiring in the immediate after math of the Asian Crisis in 1997 or Dot com crash in 2001, for instance, would have significantly less in their portfolios as stock-market linked funds are usually the hardest hit. These households are left with a stark choice: delay retirement until market gains made up for recent losses or cash out investments well below expected levels. Low interest rates and spotty returns on private

investment as left senior citizens with lower income growth, turning what should have been comfortable retirements into hand-to-mouth existences (Punch, 2003).

Large segments of retired households have borne the brunt of success rounds of corporate restructuring of "legacy costs", such as company sponsored medical coverage and pension plans. Many corporations have drastically curtailed or eliminated health insurance for their retirees, leaving seniors to shoulder soaring medical expenses at a time when they are encountering more frequent and serious health problems. In 2003, only 38 percent of large employers offered medical coverage to retired employees compared with 66 percent in 1988 (Dēmos, 2007a, p.3). Many businesses have changed pension schemes from Defined-Benefit to new Defined-Contribution in order to reduce legacy costs, making more households dependent on poor performing stock market-linked investments (Cutler & Waine, 2001). To even have pension in America is increasingly rare, in 2000, just under 50 percent of all private sector workers were covered by any sort of pension (Froud, Johal, Haslam, & Williams, 2001). With private sector benefits declining most seniors are even more reliant on state support through income transfers and welfare benefits to sustain basic living costs.

The largest components of senior citizens expenditures are health care, prescription drugs, housing, fuel, and food—which have all had prices rise faster than the Consumer Price Index (Vincentini & Jacques, 2004). Undoubtedly senior citizens are seriously affected by the overall increase in health care costs experienced across America over the past decade. Paying health insurance premiums or uninsured health problems is biggest concern among senior citizens (Employment Benefit Research Institute, 2008). For low-income seniors, dwindling state subsidies for Medicaid means that the uninsured still must contribute a third of their income on health care related expenses (Public Policy Institute, 2003). Most often these expenses are for prescription drugs, which average $860 a year in out-of-pocket expenses for those covered under Medicaid (Zeldin & Rukavina, 2007). The overall effect of rising living costs, stagnating private sources of income and declining state support has been a growing reliance on unsecured debt to bridge the gap between income and the cost of essential goods and services.

Table Five: SCF--Total Unsecure Debt from 1989-2001



Evidence from the SCF shows the pronounced increase in unsecured debt for the over-65s since 1989. Median measures show a near doubling of debt levels for 65-74 year olds (from

$11,562 in 1989 to $20,749 in 2004) and over 250% increase for over 75s (from $11, 287 in 1989 to $30,419 in 2004). With average outstanding balances at $58,000 in 2004 we can clearly see that senior citizens are increasingly relying on debt to finance their lives after retirement. Again, the greater increase in mean debt measures is the result increased debt levels at the upper end of distribution, which excludes a significant outlier reported in 2004 for Over-75s.[8] These figures reflect the growing expenses seniors face for medical care and prescription drugs, along with other essentials such as groceries and home repairs (Tamara Draut & Mcghee, 2004).

Senior citizens have been actively targeted for credit products as their fixed incomes make them more likely to revolve balances and stay in repayment status longer. Consumer credit market research found that Baby Boomers, those born between 1946 and 1964, use credit cards as frequently as younger adults when circumstances and opportunities for consumption in both groups are similar (Mathur & Moschis, 1994). Lenders refer to key "lifestyle changes" which influence the over 65s greater propensity to use debt to finance consumption (Eisman, 1993). Since 1989, Americans in the age group of 65 and over have experienced the greatest increase in the amount of credit card debt carried. When we look at credit card debt by job status, those classified as retired have seen a 192% increase since 1989.

Table Six: SCF credit card debt among retired from 1989-2004

	Mean Credit Card Debt (2004 dollars by job status)						
	1989	1992	1995	1998	2001	2004	Change 1989-2004
Retired	$1,499	$2,350	$2,273	$3,943	$3,966	$4,370	**191.5%**

Source: Demos (2006) Statistical Appendix*: Borrowing to Make Ends Meet*

The cost of servicing these unsecured debts paints and even worse picture of financial security for the elderly in America. Average monthly repayment rates reported in the SCF show that in 2004, households aged 65-74 paid $707 and the over-75s $618 to service outstanding debts.[9] Relying on fixed-incomes makes this level of debt burden is particularly acute for elderly households. Risk-based pricing techniques mean the over-65s pay higher interest rates because social security checks cannot be garnished for outstanding debt payments. Also, the greater likelihood of borrowers over 65 dying rather than declaring bankruptcy means lenders enact stricter collection procedures on elderly households. Pressures to make repayments on outstanding debts has led many senior citizens to use equity extraction on primary residences as well as viaticles which involves selling of life insurance to third parties for one-off or monthly payments (Vincentini & Jacques, 2004). The consumer credit industry has developed new debt collection strategies that target the emotional vulnerabilities of elderly people, such as persistent phone calls and debt collection notices, as a means of selling additional third-party products like second mortgages and viaticles (Punch, 2004b). These trends seriously undermine the prevailing assumptions of policy makers that the economic logic of the life-cycle explains away growing debt, or dis-savings, as individuals' age. Here we can clearly see the progressing rate of financial insecurity among senior citizens which is a rather damning indictment of the supposed benefits of financialized growth.

Conclusion

This article sought to challenge perceptions of the subprime mortgage lending as an acute period of financial overextension which caused the current crisis. Chronic over-indebtedness among key socio-economic groups that make up a large segment of subprime borrowers was prevalent well before the frenzy in mortgage lending gathered pace. Critical frameworks need

to be cautious in framing the current crisis where the concept of 'subprime'—as a constellation of risk characteristics that produce a particular credit score—is simply reproduced without further acknowledgement of who these groups are in American society. Considering the experiences of Low-income, Under-35s and Over-65s households over the past fifteen years offers an initial step but small in this direction. Descriptive exhibits from the Survey of Consumer Finances illustrates the extent to which unsecured, or non-mortgage, debt levels were escalating to the point of instability well before insolvency among subprime borrowers set of a chain reaction which put the overall solvency of the financial services sector in question. These trends reveal that deepening financial inequality is as much a part of financialization as the advent of new financial actors, rising stock markets and profitability of financial services sector.

Taking a longer term view of the underlying causes of subprime crisis reveals the protracted and insidious processes of financial abandonment of socially and economically marginalized groups. In this case, the effects of protracted economic and political transformations are cumulative rather than causal. The politics of financial abandonment are manifested in a multitude of interrelated ways where both American business and government have absconded from their responsibilities to workers and citizens, not to mention systemic economic stability. In many ways rising asset prices and skyrocketing profitability blinded many to the large cracks already present in the period of financialized expansion. Free market logics framed subprime lending as a step toward greater financial inclusion for groups previously excluded from mainstream financial services. Credit scoring was heralded as proof of the efficiency and expertise of financial markets to adequately price risk. The prevailing ideological assumptions of policy makers dismissed escalating debt levels as proof of the wealth-effect, believing that households were acting as rational calculating agents astutely using debt to acquire new assets. For those groups with limited asset holding, such as under-35s and over-65, life-cycle assumptions blinded policy makers to the systemic threats of driving already financial fragile groups further into debt through extensive mortgage lending. It appears that dislodging over thirty-years of economic rationale and disentangling the intricate links that bind financial markets to everyday social, cultural and economic life is a much larger task than organizing successive bailouts for the financial services industry.

With the ramifications of profligate financial market practices unfolding on a monthly basis we can assume that the end of the current crisis is not yet in sight. Just as markets do not rise in a straight line, so too do they decline at an equally undulating rate. The overall downward trajectory of financial market and economic growth cannot be easily dismissed. At such a time, we must include the precarious financial situation of most American households in our analysis of both the causes of, and solutions to, the current global financial crisis.

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[1] Marron (2007) gives credit to Durand (1941) as the seminal work on applying descrimanant analysis techniques to credit histories to produce risk of default profile and creating statistical scores for accept or reject criteria. See: (Durand, 1941)

[2]FICO model is based on a proportional weighting of the six categories. Payment history (35%) this includes the number of unpaid bills, any bills sent to collection, bankruptcies etc. The more recent the problem, the lower your score. Outstanding Debt (30%) how much of the total credit line is being used on credit cards and other revolving charges? High balances or more precisely, balances that are close to your credit limit can negatively affect your credit score. Length of your credit history (15%) How long have your accounts been open? High loan amounts that you have paid as agreed and have had open a long time work best. Closing old accounts can have a negative affect because it makes your credit history appear shorter. Recent inquiries (10%) Every time you apply for any kind of credit you create an inquiry on your credit report. A lot of inquiries negatively affect your credit score. However, ordering a copy and checking your own credit report or personal credit score counts as a soft inquiry

and does not go against your score. Types of credit in use (10%). How much is still owed on current mortgage loans, credit cards and finance companies compared with the original loan amounts? Also it's important not to open a number of new credit card accounts just to increase your available credit. It will have the opposite affect and lower your score. FICO scoring is based on all the categories of information, not just one or two. Lenders on the other hand will look at a lot of things when they make a credit decision. Your income, how long you have worked at your present job and the kind of credit you are requesting will always be a factor.

[3] The survey asked households whether they had used credit cards in the past year to pay for basic living expenses, such as rent, mortgage payments, groceries, utilities or insurance, because they did not have money in their checking or savings account.

[4] In the Survey of Consumer Finances medians are not ‘‘additive’’; that is, the sum of the medians of two items for a common population is not generally equal to the median of the sum (for example, median assets less median liabilities does not equal median net worth). Therefore, median monthly repayment is not equal to the sum of interest charged on all liabilities (in this case credit card, installment and vehicle loans).

[5] Over the last 30 years, as real wages for workers with only a high school diploma have fallen, the life outcomes for those with college degrees have diverged from those with only high school degrees.In 1974, the typical male high school graduate in the 25 to 34 age group earned $42,697 in inflation-adjusted dollars. In 2004, the median earnings for this group had declined to $30,400. In 1974, a young adult male with a bachelor’s degree or higher earned, on average, $51,223 (in 2004 dollars). In 2004, young male college grads earned $50,700. (Dēmos, 2007a)

[6] Forty-two percent of those who did not go on to graduate school said their student loans had a major influence on their decision not to go to graduate school.

[7] This figure is non-additive. See footnote 4.

[8] In the 2004 Survey of Consumer Finances data an amount of $166,203 is reported under Other Installment loans for the Bulletin Age category Over 75. This increases the total mean sum to $224,274, giving a pronounced skewing of mean measure for 2004. This figure is replicated in the SCF Chartbook (page 713) (see: http://www.federalreserve.gov/PUBS/oss/oss2/2004/scf2004home.html). Nevertheless, this figure has been excluded from the 2004 series because the statistical detailed needed to justify its presence is not necessary to prove the larger point about rising unsecured debt levels among senior citizens.

[9] This amount is non-additive. See footnote 4.

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