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# Scary picture emerges in debt study

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Interest–only mortgages. Car payments stretched over seven years. Zero percent credit card teaser rates.

Current retirees never had those options when they were entering adulthood and the labor force. Neither did baby boomers. But they all are there for today's college students and twentysomethings.

And that's too bad, said Rochester Institute of Technology finance professor Robert Manning.

Manning, author of the book Credit Card Nation, recently completed a study commissioned by LendingTree.com of six different life cycle groups and their financial practices.

His focus groups were: mature families and young singles in the Washington, D.C., area, where housing costs are extremely high; college students and young families in the Rochester area, where housing costs are relatively modest; and empty nesters and seniors in Florida, to get a better understanding of how debt and the use of credit were changing among baby boomers.

The results, he said, were eye–opening.

"Now I have a better understanding of why there is no saving for retirement and no saving for the kids to go to college and why there is no inheritance on the horizon and why senior citizens now are aging into debt and not sure how to use credit most cost–effectively because they really are afraid of the new financial services environment," he said.

His conclusions aren't exactly tinged with optimism.

"If we get people to start understanding that credit is a form of power instead of credit is simply a way of satisfying their wants rather than their needs, then we can start getting people fiscally responsible," he said. "But we are talking about a huge, huge mindset change.

"Quite frankly, the scariest thing about this study was, I see the future of retirement, and it's not going to be a pretty picture."

One problem shown by the study is consumers over–borrowing with the banking world's blessing, Manning said.

"You begin to see how people's logic of what's a good debt and what's a bad debt changes," he said. "(It shows) how the banking industry now, instead of loaning people what they can afford to repay, is loaning

people what they can afford to pay per month."

That flies in the face of the old rule of thumb that people shouldn't be paying more than 20 percent to 25 percent of their income toward consumer debt, Manning said.

"Ten years ago, if you bought a car, you might have gotten it (over) three or four years. But now, you are looking at monthly payments instead – and it's not affordable if it's six or seven years."

The role of housing has also taken new shapes as generations have passed through the workforce.

Manning says today's retirees regarded their homes as the essential, inviolable ingredient to a family's well–being and stability. It represented not only shelter, but a family's sacred asset.

By contrast, today's younger generations regard housing as a tradable commodity that they are increasingly willing to bargain for newly popular debt instruments like home equity loans.

"With older people, housing was not an investment, it was a need," Manning said. "And you wouldn't dare leverage it for something else."

But today's college students and young professionals are moving around more and more as they climb the career ladder and gravitate toward metropolitan areas. For younger generations, attachment to housing is an impractical mindset, Manning found.

"Young people are more willing to move at will," he says. "That means they don't have a commitment to their community and thus don't have a commitment to their home. They view their home as just a shelter.

"People have been persuaded that the house is not only a need, it's also good debt," Manning says.

But this is a dangerous trend, particularly for the younger generation, which needs to save as much as it can.

"If people are spending too much money for housing, they aren't going to be able to afford any money for investment," Manning says. "And this is a generation that has to invest sooner than ever. You have a problem in this market where there is no employer loyalty, so they are constantly negotiating for new jobs."

The free–wheeling baby boomer generation is also deep in debt. "This generation is in a lot of debt," Manning said. "And I was astounded that less than 10 percent met formally with a financial advisor. There were so many people, especially in the highly appreciating housing markets, whose investment strategy is to sell their home."

Overall, society needs a sea change in its view of savings and debt, Manning says.

"People can't rely on Social Security and they can't rely on a flat market to take care of them," he says. "They've got to be proactive and gain control of their finances as soon as possible."

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Highlights

Here are they key findings across all life stages from Robert Manning's study:

*Living with increasingly higher levels of debt has become an accepted and normal state of affairs – considered an inevitable and likely permanent feature of everyday life.

*Many people attribute their willingness to go into debt – or to take on additional levels of debt – directly to a dramatic increase in spending on children and grandchildren.

*Attitudes toward home ownership have changed significantly from simply providing necessary shelter to satisfying both a need and a tangible, secure (and near perfect) investment.

*Despite expressed needs and desires for practical financial planning services, people feel ill–equipped to create and follow a basic financial plan, especially as they transition between life stages.

PHOTO CAPTION

Robert Manning RIT prof sees the need for "a huge, huge mindset change."