Caught in a Loop: More Americans Are Unwittingly Ending Up on a Hamster Wheel of Credit Card Debt

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Americans Swipe for Rewards and Convenience,
But 40% Find Credit Card Debt is Taking a Toll on Their Mental Health

SAN FRANCISCO, Nov. 19, 2024 /PRNewswire/ -- Most Americans are drawn to credit cards for convenience, credit building, or rewards with every intention to pay their balance in full every month. However, life happens and nearly half of cardholders end up carrying a balance, today paying historically high interest rates on a loan they have trouble understanding and that they never intended to take.

That's according to new research from **LendingClub Corporation** (NYSE: LC), the parent company of LendingClub Bank, America's leading digital marketplace bank, which finds that unintentional credit card debt is throttling Americans' finances, putting them on a hamster wheel of debt that is leading to financial instability and harming their mental well-being.

Trapped on a Hamster Wheel of Credit Card Debt
Many consumers view credit cards as a convenience, credit builder, or source of rewards – not a loan. As a result, they don't always shop around for the lowest interest rates, track rate changes, or check the fine print. In fact, almost half of consumers are completely unaware of the rate they're paying on their credit card.

Almost a quarter (23.9%) of consumers say they use credit cards as an alternative to cash, with 8.5% saying credit cards are a more secure alternative to debit cards. Over 20% cite credit building as the main reason they use a credit card, and another 18.7% say it's the ability to earn rewards or cash back that's most appealing.

However, over the past year, credit card usage has surged, with nearly half of Americans (47.3%) accumulating some amount of revolving credit card debt. Four in 10 Americans are concerned about missing a payment over the next six months, hindering their ability to achieve their financial goals. The primary driver? Inflation, with the majority of respondents attributing their increased spend to the rising cost of living, and 42.3% citing food and groceries as their largest category of increased credit card spending.

While most Americans (65.9%) believe they could manage their finances without a credit card, 60.3% use their credit cards at least once a week either as a convenience in an increasingly cashless society or as a way to bridge cashflow gaps. That dependence on credit cards as a financial tool can lead to serious consequences for financial health if cardholders can't pay their balance in full each month. More than a quarter of Americans (26.5%) report a whopping 20-40% of their paycheck is dedicated to paying down their credit card debt – a debt burden that is hard to break free from.

Coping with that burden is also stressful. Nearly 75% of Americans think about their debt frequently – ranging from several times a month to multiple times a day. Four in 10 Americans report feeling anxious, overwhelmed, frustrated, ashamed, angry, scared, embarrassed, and even hopeless about their debt.

"No one intends to carry credit card debt, and that's part of the problem," said Mark Elliot, Chief Customer Officer at LendingClub. "Cards are great for convenience, to build credit, or to earn rewards, but if you use them as a loan, you need to know how to pay down that high-interest loan as quickly as possible. If you can't, your debt can grow exponentially and you can find yourself on a hamster wheel of credit card debt. Once you're on that wheel, it can be really hard to get off, and that's why credit cards are so lucrative for issuers."

Getting Off the Hamster Wheel Can Be Tricky
Managing credit card debt can be challenging, with multiple balances, different and fluctuating interest rates, varying minimum payments, and due dates spread throughout the month across numerous cards. Despite their best intentions, Americans have difficulty keeping it all straight. Over 40% of Americans manage their credit card payments on a weekly or even daily basis. While other types of loans are set to autopay, 68.4% of Americans manually pay their credit cards each month to control how much to pay, to whom, and when. Of those who do use autopay with their credit cards, 81.1% pay less than the total amount due, and nearly 40% adjust their payments based on cash flow.

Even though they spend a lot of time actively managing their credit card debt, Americans are largely flying blind. Nearly a quarter (22%) indicate they lack effective tools for monitoring and managing credit card debt, while close to 30% (28.7%) turn to family, friends, peers, or social media influencers for advice. Over half (50.6%) of respondents resort to Do-It-Yourself (DIY) solutions like self-guided repayment strategies (debt snowball and debt avalanche, for example) or use spreadsheets or other manual methods to track balances and payments. And 16.8% have explored transferring balances to a card with a lower rate, although almost 40% (39.5%) don't know that such transfers come with a 3-5% fee.

While some of these strategies can be helpful, they can take months to implement – incurring high interest charges along the way – or they simply transfer debt to another issuer for a fee. Refinancing or consolidating debt through a personal loan — a potentially powerful tool for lowering interest rates and boosting credit scores – remains underutilized, likely reflecting a lack of awareness of its benefits. Only 10.4% of respondents choose to consolidate their outstanding debt into an unsecured loan at a lower fixed rate, with a single monthly payment and a path to paying off the debt.

"As the holiday season approaches and spending ramps up, it's important to monitor your credit card debt and have a plan to pay it off," continued Elliot. "First, take some time to note your credit card balances, current interest rates (you might be surprised), minimum payments, and due dates to know what you're getting into before you swipe. Next, have a plan in place ahead of time to pay off your balances as quickly as possible. One option is to consolidate balances into an unsecured personal loan, benefiting from a lower fixed interest rate, single monthly payments, and a path to paying off the debt entirely. That strategy has been successful for our members, with 87% surveyed saying they feel more confident managing their debt after working with us. The holidays are a time for celebration, but the last thing anyone needs is a financial burden that lingers long after. Having a good understanding of your credit cards and a plan for quickly paying them off can help you enter the new year in a stronger financial position."

LendingClub members frequently consolidate variable high-interest rate credit card debt into a fixed lower-rate loan, providing a clear path to paying off that debt with realized savings. In fact, 83% surveyed say that the financial products they use with LendingClub help them keep more of what they earn. For more information on personal loans as a debt management tool, visit: https://www.lendingclub.com/personal-loan/credit-card-consolidation-loan.

Survey Methodology
Propeller Insights conducted a national online survey of 1,013 consumers from May 13 to May 21 to gauge the trends and Americans' opinions on personal finance. Respondents opted into an online database, and from there, were surveyed based on demographics. To further confirm qualifications, respondents were asked to verify their information in the survey, self-identifying qualifications, with the maximum margin of sampling error being +/- 3 percentage points and a 95% confidence level.

About LendingClub
LendingClub Corporation (NYSE: LC) is the parent company of LendingClub Bank, National Association, Member FDIC. LendingClub Bank is the leading digital marketplace bank in the U.S., where members can access a broad range of financial products and services designed to help them pay less when borrowing and earn more when saving. Based on hundreds of billions of cells of data and over $90 billion in loans, our advanced credit decisioning and machine-learning models are used across the customer lifecycle to expand seamless access to credit for our members, while generating compelling risk-adjusted returns for our loan investors. Since 2007, more than 5 million members have joined the Club to help reach their financial goals. For more information about LendingClub, visit https://www.lendingclub.com.

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