Credit and Debt Portfolio by Household Type

This study uses the 1992 Survey of Consumer Finances to construct five basic household types, with a total of seven family type classifications, and uses these structures to examine consumer credit and debt portfolios.

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Household type has been found to be a significant determinant of many types of consumption expenditure, resource planning styles and managerial behavior. However, little is still known regarding credit and debt behavior by different household types. It is the purpose of this study to construct seven household types from the household listing variables in the 1992 SCF and to examine credit and debt portfolio for each type. Findings from this descriptive analysis will provide insight for future research regarding family indebtedness behavior. Substantial differences in credit and debt portfolio among the household types may suggest that the inclusion of household type is warranted, and could provide valuable information, in future analyses regarding family financial behavior using the Survey of Consumer Finances.

Data

Data used in this study were selected from the 1992 Survey of Consumer Finances cross-section data set. The total 3,906 households were used in the empirical analysis. Data were weighted and information from all five implications in the 1992 SCF were used to obtain statistical estimates.

Variables

Construction of family type

Twelve of the household listing variables available in the SCF which describe the relationship to the respondent were used to construct the family types. No restriction on gender was enforced. Households were classified into five basic types: Nuclear, Single-Parent, Couple-Only, Single Person, and Other. The family type variables were constructed by further separating households into one of seven categories of family composition. Nuclear families consist of the respondent, the spouse (or partner) and all children (own and foster). Single-parent families include the respondent and all children living in the household (own and foster). The couple-only family is comprised of the respondent and spouse (or partner). Single person households were divided into two categories: respondents who were employed and respondents who were not employed. The decision to divide this household type based on employment status was due to the assumption that resource management decisions facing these two groups were likely to be markedly different since a substantial number of the non-employed persons in this classification were voluntarily not employed. “Other” households capture all combinations of living arrangements which do not satisfy the criteria established for the four family types outlined above. These other, or “non-traditional”, households were also separated into two classes based on household size: an “other” category which had 4 or more persons and an “other” category with 2 or 3 household members. This larger group formed in an attempt to begin to capture multiple generations and/or extended family living in the same household.

Credit and Debt Variables

This paper used the same credit and debt variables as defined in the Bozworth & Huston (1997) study preceding this current study. Please refer to this study for specific operationalization of terms.

Results and Discussion

The sample was categorized into the five family types, with 15% nuclear families, 9% single parent families, 14% couple-only households, 26% single person households (12% employed, 14% not working). The remaining 36% of all households did not fall into the classifications listed above. 22% of these other households had 2 or 3 members and 15% had 4 or more members. This “other” family type with
4 or more members had the highest proportion of Hispanic headed household and the second highest proportion of Black headed households. The highest proportion of Black headed households was found in the single parent family type.

**Total Debt Composition**

Total debt is comprised of three main debt areas: consumer debt, mortgage debt, and other debt. Household debt (that is consumer debt plus mortgage debt) comprises the majority of total debt for all households regardless of family type. Nuclear families have the highest absolute dollar amount of total debt (just over $78,000 on average), while single person non-working households have the lowest level of total debt (just over $6,300).

With regards to consumer debt only, while nuclear families have the highest dollar amount of consumer debt (approximately $7,400 on average), they have the lowest proportion (9%) of consumer debt in their total debt portfolio compared to all other family types. This is primarily due to the fact that mortgage debt comprises a relatively large portion of their total debt (almost 70%). Conversely, while single person non-working households have the lowest absolute level of consumer debt out of total debt ($1,200 on average), they have the highest proportion of consumer debt (19%) across all family types. Again, this is, in part, a function of mortgage debt being relatively low for this particular family type. Couple only households have the highest proportion and level of other debt of all the family types, with the total debt portfolio comprised, on average, of 12% consumer debt, 44% mortgage debt and the remaining 44% in other debt which represents a mean level of approximately $17,400.

**Credit Composition**

Potential, or total, credit is comprised of two elements: qualified credit and non-qualified credit. There is a similar pattern of credit composition for all households, non-qualified credit represents the overwhelming majority of the potential credit portfolio regardless of family type. Nuclear families and couple only families have the highest absolute amounts of potential credit compared to all other family types.

Single person working households have the highest proportion of qualified credit (21% of potential) while single parent and single person not working households have the lowest proportion of qualified credit at 8% and 9%, respectively.

**Debt and Credit Levels**

If single parent families were to transform their qualified level into debt they would increase their current debt level by 11%, on average. This is the lowest “gap” (i.e., difference between qualified level and total debt) among the family types. While single person not working households, like single parent households, have a low proportion of their potential credit held in qualified credit when this is translated into levels this gap is proportionally much different. In fact, these single person not working households have the largest proportional gap, and were they to transform their qualified level into debt this would represent an average increase of current debt levels by 58%. If these same households were to tap out their entire potential credit level they could hypothetically increase their current debt load by 640%. For the remaining family types, should they exhaust their potential level, on average, nuclear families could double their existing debt level, single parent families could increase existing total debt by almost 2 1/2 times, couple only households by 231% and single working households by 135%. In terms of the “other” households, those with 4 or more members could increase mean debt levels by an average of 111% and those with 2 or 3 members by 171%. And, these levels do not consider the addition of credit cards or other currently un-accessed types of credit which households may qualify for outside of what was identified in the credit variables in this study.

In conclusion, these potential debt levels become an important area of study, especially given that such a variety of credit avenues are currently being aggressively marketed to consumers. These debt and credit levels only portray one aspect of the story. Household income and assets need to be examined to get a tempered view of debt and credit in relation to the household’s ability to pay off debt both now and in the future.

**References**


**Endnotes**

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