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Credit Card Bills Before the Mortgage – A Surefire Way to Lose You

Part of the recent subprime turmoil may actually have more to do with consumer attitudes than with a lack of consumer education, a new study has found. According to statistics compiled by the credit reporting bureau Experian, subprime or those with Experian credit scores of 620 or below, seem to put more value on keeping available lines of credit than on keeping their homes.

The study found that these subprime borrowers are more likely to be delinquent by 30 days or more on their mortgage loans than they are to be late on their credit card payments. Obviously this pattern of behavior bucks the traditional trend of keeping current on mortgage payments before worrying about other debts.

Here are some of the facts and figures: Over the past four years, mortgage delinquency among subprime homeowners has jumped up 13.2 percent. Over the past two years, the percentage of subprime borrowers with outstanding mortgage balances grew by 8.8 percent, whereas the overall total of those with outstanding balances rose by only 3.3 percent.

During the same period, subprime borrowers have been more consistent in bringing their credit card balances current. Between 2003 and 2006, the percentage of those who were behind by 30 days or more on their credit debts fell from 32 percent to 24 percent. Also of note is that during the past four years, the credit card companies have increased their lending to subprime consumers by 137 percent, while mortgage lenders have increased their loans with subprime borrowers by 58 percent.

So, what shifts in consumer paradigms can explain this new trend of letting the mortgage fall behind while paying off the credit card? Some speculate that subprime buyers are less concerned about losing their homes because they didn’t invest much in the first place. Many got in with little or no down payment during the past few years. For those whose homes are now worth less than their mortgage balances, foreclosure may be a way out of their contract. Others theorize that so many subprime consumers use credit cards for their daily living expenses that having available credit is more essential than holding on to the house. Still others believe subprime borrowers are slipping behind on mortgage payments because they know it will take several months before any action occurs, whereas credit cards have limits and very high interest rates.

Whatever the reason, if you are facing the dilemma of choosing between your credit card bill and your mortgage payment this month, it is time to make some serious decisions about your priorities. If you are a subprime borrower, having available credit may be important, but a foreclosure on your credit record will only further erode your credit score making it even more difficult to find suitable housing in the future. If you want to hold on to your home, it may be time to consider a refinance loan that could make your monthly payments lower or give you some extra cash to pay off your bills. If you are already facing foreclosure, now may be the time to sell to avoid further damage to your credit. The key is to act now and be proactive instead of simply waiting for your creditors to come collecting!