

*A New Debt Index to Track Consumers' Credit Card Debt
Consolidation
Research Executive Summary*



*The Ohio State University's
Consumer Finance Monthly Survey*

Business Problems: Your system for predicting the number of delinquent consumer credit card accounts is not accurate enough in today's fast changing economic environment.

You need timely information to compare your current delinquency rates on consumer credit card accounts to national averages.

Solutions: Using data from the Ohio State University's Consumer Finance Monthly Survey combined with a new specialized debt index outlined in this research, banks and other businesses that extend credit to individuals can more accurately predict and monitor changes in charge-off rates.

Research Details: This research paper designs a new measure for tracking and predicting delinquencies called the Consumer Debt Index (CDI). The CDI is an improvement over other commonly used banking indicators, such as the Debt Service Ratio released by the Federal Reserve, which track just one aspect of consumers' indebtedness. The CDI is a conceptually improved measure because it combines nine separate pieces of information.

In this research paper the new index is tested and bench-marked against national figures using responses from a monthly Ohio State telephone survey. Over a 63-month test period the index showed a significant ability to predict what would happen to consumer delinquency rates over the next three months.

The research also describes a new psychological debt stress index, which is an important sub-component of the CDI. Using this debt stress index either on its own or as a part of the CDI gives creditors the ability to track important behavioral information, which previously has not been monitored by other credit indicators. The debt stress index accurately tracks the psychological pressure felt by consumers caused by their debts. This psychological pressure is important to monitor because as people feel more pressure, they will change their charging habits.

Research Title: *New Debt Index Tracks Effect of Credit Card Debt on Aggregate Consumption and Delinquency*

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