Smart Borrower Survey
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Final Report

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Purpose & Methodology

- The purpose of this research is to better understand consumer borrowing knowledge, perceptions, and behavior, among adults who use the Internet.
  - The results will be used by Lending Tree to develop resources to help consumers understand how to be a smart borrower and manage debt successfully.
- The survey was conducted on-line using Survey Sampling's panel of online consumers.
- The survey was conducted by MarketWise, Inc. in March 2007.
- A total of 1,499 respondents participated.
- Sampling error for the total sample of 1,499 respondents is plus or minus 2.5 percentage points, at the 95% confidence level. Sampling error will be larger for segments with smaller sample sizes. At the 95% confidence level . . .

n=50 is ± 13.9 percentage points
n=100 is ± 9.8 percentage points
n=150 is ± 8.0 percentage points
n=200 is ± 6.9 percentage points
n=250 is ± 6.2 percentage points
n=300 is ± 5.7 percentage points
n=350 is ± 5.2 percentage points
n=400 is ± 4.9 percentage points
n=500 is ± 4.4 percentage points

Definition of Life Stage Segments and Credit Card Debt Segments

- The data are reported by the following segments:
  - Total Sample
  - Life Stage Segments
    - Young singles (Single or divorced, ages 19-34, no children)
    - Young married (Married, ages 19-34, no children)
    - Young families (Married, single, divorced, ages 19-34, with children any age at home or children under age 18 living away from home)
    - Mature singles (Single or divorced, ages 35-64, no children)
    - Mature married (Married, ages 35-64, no children)
    - Mature families (Married, single, divorced, ages 35-64, with children any age living at home or children under age 18 living away from home)
    - Empty nesters (Married, single, divorced, ages 45-64, with all children grown and living away from home)
      - If the respondent is age 45-64 and <u>all</u> children are grown (i.e., age 18 or older) and are <u>not</u> living at home, then the respondent is in this segment.
    - Seniors (Ages 65 or older)
  - Level of credit card debt
    - Credit card debt of less than or equal to $3,000
    - Credit card debt of $3,000 or more
- The data are also segmented by Demographics. See Demographic Data Tabulation Report.

- The following summary describes the results for total sample and notes key findings among the life stage segments and between credit card debt segments.

Summary of Results

Summary

Financial Planning

- 45% of on-line consumers have a financial plan. (See q3-4.)
  - Young Families are the least likely to have a plan, while Seniors are the most likely to have one.

Knowledge of Lending Options & Associated Costs

- 48% of on-line consumers indicate that when they borrow money, they are knowledgeable about lending options and associated costs. (See q13.)
  - Young Singles are the least knowledgeable, while Seniors are the most knowledgeable.
- The majority of on-line consumers (55%) believe interest rates and fees are the most important aspects of a loan. The aspect selected the next most frequently (22%) is the monthly payment. (See q5.)
  - In all segments, except Young Families, interest rate and fees are chosen as most important more often than any other loan aspect. Among Young Families, the monthly payment is just as important as the interest rate and fees.

Summary

Knowledge of Lending Options & Associated Costs

- 35% of on-line consumers have had some surprises associated with their credit cards including unexpected: teaser rates (14%), over limit charges (12%), annual fees (11%), finance charges (9%) and fees for ATM (9%). (See q18.)
  - Almost half of Young Singles have been surprised by at least one of the items listed above, compared to only a quarter of both Mature Married Couples and Seniors.
  - Those with credit card debt greater than $3,000 have had more surprises, than those with less credit card debt.

Summary

Types of Debt

- 85% of on-line consumers have debt outstanding. (See q6.) The most common forms of debt are credit cards (63%), mortgages (52%), and automobile loans (37%). (See q6.)
  - Young Singles is the only segment that is more likely to have credit card debt in excess of $3,000, than to have mortgage debt. Mature Singles and Seniors are the most likely to have no outstanding debt.
  - Consumers with credit card debt of more than $3000 are more likely to pay a mortgage and have an automobile loan, compared to consumers with less credit card debt.
- 39% of on-line consumers have outstanding credit card debt of more than $3,000, and another 24% have $3,000 or less outstanding. (See q6.)
  - 45% of on-line consumers with more than $3,000 in credit card debt have an outstanding debt of $10,000 or more. (See q20.)

Summary

How Borrowed Funds are Used

- On-line consumers with a home equity loan or line of credit typically use the funds for home improvement (52%), debt consolidation (27%) or piggyback mortgage (13%). (See q7.)
- Consumers with more than $3,000 in credit card debt primarily use the funds to cover day to day expenses (41%), to make home improvements (21%), to pay healthcare expenses (17%), to consolidate debt (16%), and to pay for luxury items (14%). (See q8.)
  - By life stage segment, the funds are most likely to be used as follows:
    - Young singles -- day to day expenses
    - Young married couples -- day to day expenses and/or luxury items
    - Young families -- day to day expenses and/or home improvements
    - Mature singles -- day to day expenses
    - Mature married couples -- home improvements
    - Empty nesters – day to day expenses
    - Seniors -- day to day expenses and/or healthcare

Summary

Overall Debt

- Almost half (47%) of the on-line consumers spend about ½ or more of their gross income on their total debt expense. (See q9.)
  - Young Families have the highest debt to income ratio, while Seniors have the lowest.
  - On-line consumers with credit card debt over $3,000 have a higher debt to income ratio, than those with lower credit card debt.
- Almost half (48%) of the on-line consumers are uncomfortable with the total amount of debt they have outstanding. (See q10.)
  - Young Families are the most uncomfortable with their outstanding debt, while Seniors are the most comfortable.
  - On-line consumers with credit card debt over $3,000 are much more uncomfortable with their total debt, than those with lower credit card debt.

Summary

Overall Debt

- Across all segments, the primary strategy for managing overall debt is to pay as much as possible (more than the minimum) each month (77%). (See q11.)
  - Young Singles and Young Families are the most likely to make minimum payments as a management strategy for overall debt.
  - On-line consumers with credit card debt of $3,000 or less are more likely than those with greater credit card debt, to manage overall debt by paying more than the minimum each month. Those with credit card debt of more than $3,000 are more likely than those with lower credit card debt, to manage overall debt by rolling credit cards into a lower interest rate card.

Summary

Managing Credit Card Debt

- The primary approach to managing credit card debt is to pay as much as possible each month, but more than the minimum (46%), or pay the entire card balance each month (31%). Another 15% are managing by not using credit cards at all. Only 7% indicate their approach is to pay the minimum each month. (See q14.)
  - Among the life stage segments, Young Families are the least likely to pay off their entire credit card debt each month, while Seniors are the most likely.
  - On-line consumers with credit card debt of $3,000 or less are much more likely than those with greater credit card debt, to try to manage the debt by paying off the entire card each month.

Summary

Managing Credit Card Debt

- Although the primary approach to managing credit card debt is pay more than the minimum each month, this is not always possible. More than half of the on-line consumers (52%) have made a late payment or missed a payment on some type of debt, and 27% have gone over their credit card limit. (See q12.)
  - Young Families are the most likely to have made a late payment or to have gone over their credit limit, while Mature Married Couples and Seniors are the least likely.

Summary

Managing Credit Card Debt

- Other strategies for managing credit card debt include switching credit cards to get a lower interest rate (47%), using a home equity loan or line of credit (11%), or downsizing home/lifestyle (11%). (See q15.)
  - Among the life stage segments, Young Singles are the most likely to have downsized home/lifestyle to reduce the need for credit cards.
  - Consumers with credit card debt of more than $3,000 are much more likely, than those with lower debt, to have . . .
    - Switched cards for a lower interest rate
    - Used a home equity loan or line of credit
    - Downsized their home and/or lifestyle

Summary

Managing Credit Card Debt

- For some on-line consumers, keeping debt manageable is problematic. 17% of consumers say they have consolidated their credit card debt and then accrued more unmanageable debt. (See q16.)
  - This happens much more frequently among consumers with credit card debt of more than $3,000, than among those with lower credit card debt.
  - Families, both Young and Mature, are the most likely to have consolidated credit card debt and then to have accrued unmanageable debt again.

Summary

Reasons for Choosing a Credit Card

- On-line consumers indicate the primary reasons for choosing a particular credit card (see q17) are: no annual fee (60%), interest rate and terms (46%), no finance charge when pay in full (38%), free rewards (34%), and notice in mail of being pre-approved (26%). (See q17.)
  - All life stage segments indicate they want a card with no annual fee and a reasonable interest rate/terms. Mature Singles, Mature Married Couples, and Seniors also do not want to pay finance charges if they pay in full each month. Young Families is the most likely segment to choose a card because they received a notice in the mail that they were pre-approved. Young Singles, Young Married Couples and Mature Married Couples are the most likely segments to choose a card because of free rewards.
  - On-line consumers with credit card debt of $3,000 or more are more concerned with interest rates/terms than consumers with less credit card debt.

Summary

Concern About Credit Card Debt

- 50% of on-line consumers who don't pay their credit cards in full each month are concerned about their credit card debt. (See q19.)
  - Those with credit card debt of more than $3,000 are more concerned than those with lower debt.
  - Young Married Couples are the most concerned about their credit card debt.
- 30% of on-line consumers who do not pay their credit card off each month have credit card debt of $10,000 or more outstanding. (See q20.)

Summary

Borrowing for a Home

- 69% of on-line consumers own their home and 52% currently are paying a mortgage. (See q22.)
  - Young Singles are the least likely to own a home. Mature Married Couples, Empty Nesters, and Seniors are the most likely to own their home outright.
- 84% of on-line consumers have a fixed rate mortgage as their first mortgage or only mortgage, while 14% have an adjustable rate. (See q24+28.)
  - Young Singles, Young Married couples, and Young Families are the most likely to have an ARM.
- 17% of on-line consumers are paying interest rates of 7% or higher on their first mortgage or only mortgage, 14% are paying less than 5%. (See q25+29.)
  - Among life stage segments, a higher percentage of Young Families and Empty Nesters are paying interest rates of 7% or more on their first or only mortgage.

Summary

Borrowing for a Home

- 19% of on-line consumers have more than one mortgage on their home. (See q23.)
  - Young Singles are the most likely to have a second mortgage.
  - On-line consumers with credit card debt of more than $3,000 are more likely to have a second mortgage, than those with less credit card debt.
- The majority of on-line consumers with a second mortgage have a fixed rate (56%), 24% have an adjustable rate, 10% have some other type (presumably a hybrid), and 10% are not sure. (See Q26.)
  - 47% of those with a second mortgage (regardless of type) are paying interest rates of 7% or higher.
- 47% of on-line consumers with a second mortgage are paying interest rates of 7% or more. Only 7% are paying less than 5% on a second mortgage. (See q27.)

Summary

Borrowing for a Home

- The majority (62%) of on-line consumers who do not own a home, but plan to purchase one in the next 12 months say they will consider a fixed rate mortgage, 9% will consider an adjustable rate, but another 35% will consider some other type, presumably a hybrid. (See q30.) (Note: respondents could choose more than one type to consider.)

Borrowing for a Home -- ARMs

- 81% of on-line consumers who are paying a mortgage or are planning on buying a home in the next 12 months say they understand how an ARM works. (See q31.)
  - Young Singles are the least likely to understand how an ARM works.
- On-line consumers are not as informed about their ARM as they first indicated. When asked what they know about their ARM, the majority did not know the interest rate cap, the adjustment schedule, the index their ARM was tied to, or the interest rate ceiling. (See q46.)
- Most on-line consumers (91%) with an ARM are aware that their rate will adjust. (See q41.)

Summary

<u>Borrowing for a Home -- ARMs</u>

- 51% of on-line consumers with an ARM have not yet experienced the adjustment. (See q42.)
- 28% of those whose ARM has not yet adjusted are worried about making their payments after it adjusts. (See q43.)
- 67% of the on-line consumers whose ARM has adjusted indicate the rate increased. 16% can no longer afford their home at the adjusted rate. (See q44.)
- 57% of consumers with an ARM are considering refinancing to a fixed rate. 27% have no plans to change. 15% are considering moving to a more affordable home with a fixed rate and 11% are considering refinancing to another adjustable rate. (See q45.)

Summary

<u>Borrowing for a Home</u>

- 45% of on-line consumers paying a mortgage shopped for a home and then applied for a loan. Another 30% got pre-approved before shopping, and 18% got pre-qualified before shopping. (See q32.)
  - Young Married Couples are the most likely to get pre-approved and then shop for a home.
- A third of the on-line consumers who are paying a mortgage borrowed as much as the lender would allow. Less than a quarter borrowed a lot less than than the lender would allow. (See q33.)
  - Young Married Couples are the most likely to spend as much as the lender will allow.
- When asked how informed they were about how much they could afford to spend on a mortgage, 68% indicated they were well informed. (See q34.)
  - Young Singles are the least informed. Young Married Couples and Seniors are the most informed.
  - Mature Married Couples and Seniors are more likely than other segments to be spending less than 25% of their income on their mortgage.

Summary

<u>Borrowing for a Home</u>

- 28% of on-line consumers with a mortgage made a down payment of 20% or more on their home, while 18% indicated they did not put anything down. (See q35.)
  - Young Families are the most likely to have purchased a home with no or very little down payment. Seniors are the most likely to have put at least 20% down.
- Only 27% indicate they are paying or paid Private Mortgage Insurance. (See Q36).
- 31% of on-line consumers with a mortgage are paying more than 35% of their gross monthly income toward their mortgage payment. (See q37.)
  - Young Families and Mature Singles spend more of their gross monthly income on their mortgage, than consumers in the other life stage segments.

Summary

Borrowing for a Home

- The majority of consumers (60%) with a mortgage plan to keep their home for 12 years or more. (See q38.)
  - Young Singles and Young Married Couples are the most likely to say they plan to keep their home for less than 4 years.
- 40% of on-line consumers with a mortgage paid the closing costs outright, while 37% rolled them into the mortgage. 15% did not pay closing costs. (See q39.)
  - Young Singles are the most likely to have paid closing costs outright.
  - 42% of on-line consumers who plan to keep their home for less than 4 years, rolled the closing costs into the mortgage or did not pay closing costs. (Based on cross-tabulation of q38 with q39.)

Summary

<u>Borrowing for a Home</u>

- Only 13% of on-line consumers with a mortgage indicate it is difficult to pay their monthly mortgage payment. (See q40.)
  - Young Singles and Young Families have the most difficulty making their mortgage payments.
- 52% of consumers with a mortgage have refinanced to get a better interest rate. (See q47.)
  - Young Singles, Young Married Couples, and Young Families are less likely to have financed than older consumers in the other segments.
- 72% of those who refinanced changed from a fixed rate to a lower fixed interest rate. 13% changed from an adjustable to a fixed rate. 5% changed from a fixed to adjustable and 4% changed from an adjustable to a different adjustable with a better rate. (See q48.)

Summary

<u>Credit Reports/Credit Scores</u>

- 84% have checked their credit report. (See q49b.)
- 56% have checked their credit report in the past 12 months. (See q49a.)
- Only 11% of those who checked their report found it worse than expected. Most, 62%, indicated it was what they expected. 25% said it was better than expected. (See q50.)

Summary

<u>Savings</u>

- 76% of on-line consumers have savings or investments. (See q51.)
  - Young Families are the least likely to have savings or investments.
- The majority (51%) of on-line consumers are funding a retirement plan or are already retired (15%). (See q52.)
  - Young Families are the least likely to be funding a retirement plan.
- 62% of on-line consumers have savings (other than for retirement) that they could use for an emergency. (See q53.)
  - Young Families are the least likely to have emergency savings.
- 40% of on-line consumers believe they have enough savings to cover 3 months of typical living expenses. (See q54.)
  - Young Families are the least likely to have enough savings to cover 3 months of typical living expenses (only 10% have enough savings).
  - Seniors are the most likely to have enough savings.

Summary

Savings

- The primary ways an emergency, such as a layoff or major health issue would be funded (see q56) are by borrowing: from savings (54%), family/friends (29%), credit cards (24%), retirement funds (24%), investments (19%), home equity loan or line of credit (19%), and/or taking a personal loan (16%)
  - All life stage segments, except Young Families, are more likely to use savings than any other funding source.
  - Young Families are more likely to borrow from family/friends than to use savings. Young families are the most likely to take a personal loan.
  - Young Singles, Young Married Couples and Young Families are the most likely to borrow from family/friends.
  - Young Singles and Young Married Couples are the most likely to use credit cards.
  - Mature Families and Seniors are the most likely to use a home equity loan/line of credit.

Summary

<u>Borrowing On-Line</u>

- 27% of on-line consumers have applied for the following types of accounts on-line (see q56):
  - Checking (11%)
  - Savings (10%)
  - Mortgage (10%)
  - Automobile loan (10%)
  - Home equity loan/ line of credit (7%)
  - High yield savings account (5%)
- Seniors are the least likely to have applied for any type of account or loan on-line.
- 39% of on-line consumers are comfortable using the Internet for personal finances. (See q57.)
  - Young Singles, Young Married Couples and Young Families are the most comfortable. Empty Nesters and Seniors are the least comfortable.

Summary

Perceptions of Being Debt Free

- Most on-line consumers, regardless of life stage segment, do perceive themselves as some day being debt free.