IF GOP FORCES A DEFAULT, EVERY FAMILY WILL PAY THE PRICE

Even coming close to a default on our nation's debt will cost middle-class families thousands of dollars

While American families are living paycheck to paycheck, Republicans are toying with defaulting on our nation's debt by opposing every deficit reduction compromise that is offered to them. Should the nation default on its debt, or even come close to default, the consequences would be catastrophic for American families. The cost of owning a home, buying food, filling a gas tank, sending children to college and buying a car will become even more expensive, squeezing already tight family budgets. And the impact will be felt not just immediately, but for generations to come.

Default Would Permanently Raise Interest Rates, Driving Up Costs for American Families

Analysts recently estimated that even a technical default – a brief delay in the payment of interest on Treasury debt – could have significant and long-lasting effects. Based on an analysis of the debt ceiling and government shutdown debate in 1995 and financial crisis in 2008, J.P. Morgan estimated that interest rates on Treasury bonds could rise 75 or even 100 basis points. Between mortgages and credit cards alone, a 75 basis point increase translates into an additional $10 billion in consumer borrowing costs every year.

- **Mortgage Payments Will Increase By Over $1,000 for the Average Family.** The average monthly mortgage payment in the United States is approximately $1,022. A 75 basis point increase in rates would raise this by roughly $85, or $1,020 per year. There are approximately 5 million new mortgage originations each year. These borrowers would be paying a total of $5 billion per year of additional interest. In addition, one study found that an interest rate hike caused by default would immediately add more than $19,000 to the lifetime cost of a 30-year fixed rate mortgage on a median home loan of $172,000 for an existing home. [Based on Analysis by J.P. Morgan; Third Way, May 2011]

- **Credit Card Interest Would Increase By $250 For the Average Family.** Credit card interest payments in the U.S. total approximately $94 billion per year. A 75 basis point increase in rates would increase this by $5 billion to $99 billion. In 2009, nearly half of Americans had credit card debt, with a median balance of $3,300. That means the average family with credit card debt will pay nearly $250 more in interest. [Based on Analysis by J.P. Morgan; Federal Reserve Board]

Default Would Weaken the Dollar, Driving Up Price Families Pay for Utilities, Food and Gas

Analysts estimate that a technical default could cause investors to lose faith in the dollar, causing the dollar to fall between 5 and 10 percent against competing currencies. This could have a direct impact on household expenses such as gas, food and utilities.

- **Families Could Pay An Additional $182 Per Year on Utilities.** According to a 2009 Labor Department survey, American families spend on average $3,645 a year on utilities ($304 a month). A 5 percent decline in the dollar could cost Americans an extra $182 per year on average. [Bureau of Labor Statistics; Based on Analysis by J.P. Morgan]

- **Families Could Pay An Additional $318 Per Year on Food.** According to the same Labor Department survey, Americans spend on average $6,372 a year on food. A 5 percent decline in the dollar could force families to pay an additional $318 a year. [Bureau of Labor Statistics; Based on Analysis by J.P. Morgan]

- **Families Could Pay Roughly $100 More Per Year More on Gas.** According to a recent Labor Department survey, Americans spend on average $1,986 a year on gasoline and motor oil. A 5 percent decline in the dollar could force families to pay an additional $99 a year. [Bureau of Labor Statistics; Based on Analysis by J.P. Morgan]

Default Would Roil the Financial Markets, Causing Huge Losses in Retirement Accounts

Economists agree a technical default would have disastrous consequences for families and their retirement accounts. Gains in 401(k) accounts achieved during 2010 and 2009 could be wiped out.

- **Families Could Lose Thousands of Dollars In Their Retirement Savings.** "The financial services firm Janney Montgomery Scott estimates that default would cause the S&P 500 index to lose 6.3% in value in three months.10 J.P. Morgan estimates the loss to be closer to 9%." "According to the Employee Benefit Research Institute, the typical 401K of an investor in their 50s at the end of 2009 had $139,932 in their portfolio. A 6.3% loss in the S&P 500 would cost this portfolio $8,816." [Third Way Report, May 2001]

- **Families with 401 (k)s Could Lose All Gains Made in 2010 and Most Gains from 2009.** "Reaching the debt ceiling will, in all likelihood, trigger a sharp fall in the stock market, which also will likely reduce employment. The drop in stock prices will have an immediate effect on the economy, but also on families. Families with 401(k)s would likely lose all the gains they have made in 2010 and much of their gains in 2009, moving them further below where they were at the end of 2007 after the stock market fell sharply.6 This is magnified by the fact that the very first of the baby boom generation—the largest generation thus far in U.S. history, and the first generation where a majority (near 60 percent) will retire with 401(k)s rather than pensions—is now retiring." [Testimony by Heather Boushey before Democratic Policy and Steering Committee, 7/7/11]