MarketWatch
THE WALL STREET JOURNAL.

Dec. 18, 2013, 11:06 a.m. EST

This is the bill most Americans pay first

Hint: It's not the mortgage, credit cards, or cable

By Catey Hill, MarketWatch

If you want to know Americans' priorities, just look at who's got the keys to their hearts: their cars. Unfortunately, that affection can put them on the road to financial ruin.

Americans tend to pay their car loans before their mortgages or credit cards each month, says Steve Chaouki, group vice president in credit bureau TransUnion's financial services business unit. Consider: Among consumers with auto loans, mortgages and credit cards, the 30-day delinquency rate for auto loans was just 0.88% last year, while the rate for credit cards was 1.82% and the rate for mortgages was 1.91%. While overall, those rates have improved since 2009, when the 30-day delinquency rate for auto loans was 1.34%, credit cards 2.82% and mortgages 3.83% — the priorities are still clear: cars, then credit cards, then mortgages. And, says, Chaouki, autos are likely to again lead the pack for 2013.


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So what's behind the priority we give to our rides? "Some of this is about freedom," says Kimberly Foss, the founder and president of Roseville, Calif.-based financial planning firm Empyrion Wealth Management. "They feel stuck if they don't have a car, so they pay it first." Joel Ohman, a certified financial planner and founder of CarInsuranceComparison.com, says that this may also have to do with media headlines. "People hear about others who have been late on their mortgage and still kept the house, so they think they can do it too."

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Or, it may simply be that Americans love their automobiles. There are more passenger vehicles in this country than licensed drivers, and one in four people considers his or her car "something special" vs. merely a "means of transportation," the Pew Research Center found. What's more, many Americans ascribe human characteristics to their cars: 31% say they think of their car as having a personality — with those ages 18 to 29 dominating that group (41% of them think their ride has a personality). What's more, the love affair is likely to progress: Transunion predicts that auto loan debt per borrower will jump more than $1,000 from a projected $16,942 in the fourth quarter of 2013 to $17,966 in same period in 2014.

On its surface, this devotion to car payments may not seem to be a problem, but financial experts say that consumers have their priorities wrong. "It's a huge mistake to pay off the car first," says Ted Jenkin, a certified financial planner and founder of Atlanta-based financial services firm oXYGen. Consumers should instead first set aside money for necessities, says Kimberly Foss, the founder and president of Roseville, Calif.-based financial planning firm Empyrion Wealth Management. "Pay for food and essential medical care, housing and related utilities, and transportation — in that order," she says. "It about survival." Once you've paid for those items — which should account for about 50% of your monthly spending — prioritize things like alimony, child support and taxes, which you can go to jail for not paying, as well as other debts like credit cards, Foss says.

Car technology's biggest failure

Cars now come equipped with GPS to keep you from getting lost and hands free technology to let you choose music by just asking for a song. So why can't technology solve a problem affecting millions of Americans each year? Quentin Fottrell reports. Photo: Getty Images.

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Some experts point out that, if you can't pay all your bills, prioritizing credit cards over both auto loans and mortgages is a mistake as well. The reason is that auto loans and mortgages are secured debts — meaning that the lender can take back the asset that's backing the loan (in these cases, your car or your home) if you don't pay.

Of course, that's not to say you should skip the credit card payment either. Experts say you should pay at least the minimum, or more if you can, on all debts each month to avoid dinging your credit score. But if you find yourself in a situation where some bills might have to fall through the cracks, call the creditors and see what you can work out, says Jenkin. "They are for-profit companies and they don't want to get nothing," he says. "It's better to call in advance and see if you can work something out — just be sure to get it in writing."

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