Tenth District Consumer Credit Report

3rd Quarter 2014 | Federal Reserve Bank *of* Kansas City

Summary

Tenth District average consumer debt, which for this report includes all outstanding debt other than first mortgages and is presented as a four-quarter moving average, rose in the third quarter of 2014 (Chart 1). Average consumer debt in the District was $16,105—up 4.3 percent from its 2012 post-recession low—but remained well below the U.S. average, which rose modestly to $17,205. Average revolving debt in the District of $4,940 inched down in the third quarter. Revolving debt, which has declined in every quarter for nearly five years, was down 26 percent from its peak in the second quarter of 2009. U.S. revolving debt declined to $6,470. Revolving debt is the sum of balances on open lines of credit—largely credit cards, but also home equity lines of credit and other financial products.

The substantial decline in revolving debt over the past three years has coincided with moderate increases in total consumer debt; this pattern implies the increase in installment debt (total debt minus revolving debt) has been significant. The largest components of consumer installment debt are student loans and auto loans. In the past three years, Tenth District average student loan balance, for those holding student loans, increased 14.2 percent to $25,396 in the third quarter, but was below the U.S. third-quarter average of $26,891. In that same time, average balances for auto loans have increased 10 percent to 20 percent, depending on the type of lender. Trends in auto debt are discussed in detail as this issue's special topic.

Average consumer debt varied widely across the District, from a low of about $14,780 in Nebraska and New Mexico to just under $18,820 in Colorado (Chart 2). Nebraskans have historically held low levels of debt. The relatively low levels of consumer debt in New Mexico are likely a function of a struggling state economy, as New Mexico consumers typically have had debt loads roughly on par with the District average. Colorado, on the other hand, has a high cost of living, particularly for housing, and high average incomes relative to other District states, two factors typically associated with higher levels of consumer debt.

The District consumer credit delinquency rate was flat in the third quarter at 4.1 percent for any account, well below the national rate of 5.8 percent (Chart 3). However, much of the difference in overall delinquency rates can be explained by the difference in mortgage delinquency rates, largely due to a higher foreclosure rate nationally. The District consumer credit delinquency rate on any account was down sharply from its fourth quarter 2010 peak of 6.5 percent.

Student loan delinquencies dipped modestly in the third quarter after rising steadily for several quarters. The national pattern is similar. While student loan delinquency rates have fluctuated periodically over the last decade, the secular trend is clearly up. Given this long history, additional data would be required to establish a reversal in trend. Much of the increase in student loan delinquencies in recent years is attributable to severe derogatory loans, most of which are in default.[1] Excluding severe derogatory loans, student loan delinquencies have been declining moderately for more than a year.

At the state level, while Oklahoma continued to have the nation's highest student loan delinquency rate, the rate of 19.0 percent was down from 19.4 percent in the first quarter. Student loan delinquency rates were also relatively high in Missouri and New Mexico and increased in both states. Missouri's student loan delinquency rate increased 0.3 percentage point to 17.0 percent, while New Mexico's rate rose substantially from 13.0 percent to 16.9 percent. These delinquency rates include loans in forbearance and deferment. When these loans, which are not in repayment, are excluded, student loan delinquency rates increase significantly.

The District auto loan delinquency rate has moderated over the last year, remaining at 7.6 percent in the third quarter. Bank card delinquencies have declined consistently since the early months of the economic recovery, falling to 4.4 percent in the third quarter. District consumer bankruptcy filing rates declined across the District in the third quarter, in some cases substantially. The overall District rate fell from 84.3 bankruptcy filings per 10,000 households to 77.1, while the U.S. rate fell to 81.5 from 87.7.

The mortgage delinquency rate in the District increased to 6.3 percent from 6.0 percent in the first quarter (Chart 4). The U.S. rate was flat at 7.8 percent. The difference in mortgage delinquency rates is due almost entirely to differences in seriously delinquent rates across states. Surprisingly, the increase in past-due mortgage rates in most District states reversed a decreasing trend over the last few years and occurred in spite of generally positive developments in housing markets. The mortgage delinquency rate in Kansas increased sharply from 6.5 percent to 7.0 percent. Although mortgage delinquency rates generally increased in the District, seriously delinquent rates were down in a majority of District states.

In This Issue: Developments in the Automobile Credit Market

During the recession of 2007-09, automobile sales in the U.S. declined precipitously (Chart 5). In February 2009, in the depths of the Great Recession, automobiles sold in the U.S. at an annualized rate of 9.0 million (light vehicles), well off the mid-2005 annualized rate of 20.6 million.

The reduction in new automobile sales over that period increased the average age of automobiles on the road from 9.8 years to 10.3 years.[2] By 2013, the latest year for which data are available, the average age had increased to 11.4 years. As the average age of automobiles on the road rose, so did the need for replacement, stimulating demand. Automobile sales have grown significantly since the 2009 trough, and in 2014 (through October) reached an annualized rate of 16.3 million.

Increased auto sales have resulted in increased outstanding loan balances. Roughly 73 percent of new cars are financed, either through a purchase loan or a lease, with the remainder being purchased with cash.[3] The large majority of automobiles are financed through a finance company or a bank. Finance company loans typically are arranged by the auto dealer. In the third quarter, more auto-related debt—both number of loans and total balance—was outstanding at banks than finance companies. From the 2009 trough, the number of auto loans outstanding has increased 7.7 percent. In addition, the average balance of outstanding auto loans has increased 17.0 percent.

The average outstanding balance on Tenth District auto loans from a finance company was $17,084, compared to $16,137 from a bank (Chart 6). Auto loan balances have increased significantly from late 2009, when the average outstanding balance was $14,000 for both finance company and bank loans. The increase suggests a greater share of outstanding auto loans was made relatively recently, which comports with the increase in sales creating a younger loan stock. Consumers also may be purchasing more expensive cars, reflecting increased income and economic security.

While auto lending has increased, delinquencies have declined (Chart 7). The District automobile loan delinquency rate, which was more than 9.0 percent in the third quarter of 2009, has declined in every quarter since, reaching 7.6 percent in the third quarter of 2014. The delinquency rates on loans from finance companies and banks are significantly different. In the third quarter, the delinquency rate was 10.2 percent for finance company loans and 3.5 percent for bank loans. The difference in the two delinquency rates largely is related to the risk the lender is willing to bear. In most cases, auto dealers and their associated lenders, typically finance companies, are willing to accept greater risks than banks, such as risk resulting from loans to consumers with poor credit histories.

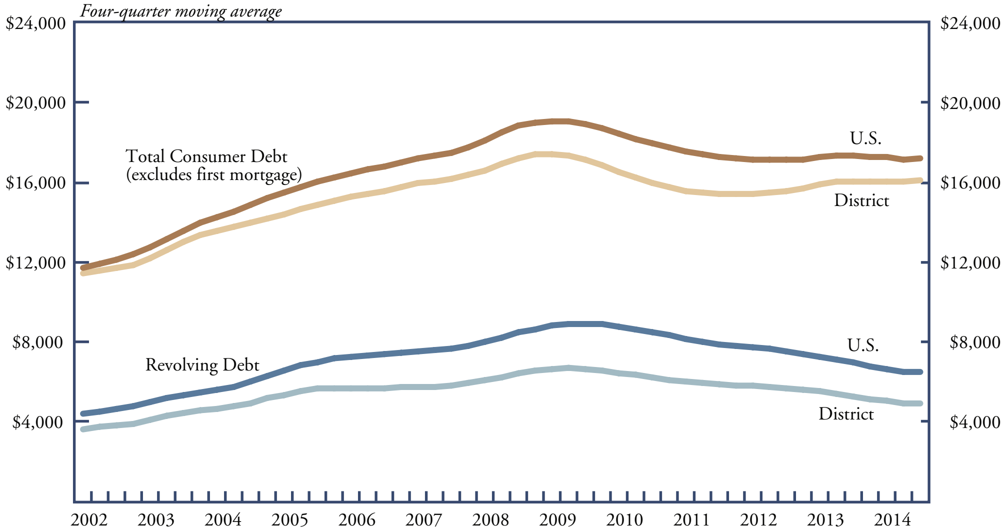
Endnotes

[1]Severe derogatory debt has been charged off by the lender (not through bankruptcy) but is still owed by the borrower.

[2]R.L. Polk & Co., subsidiary of IHS Automotive.

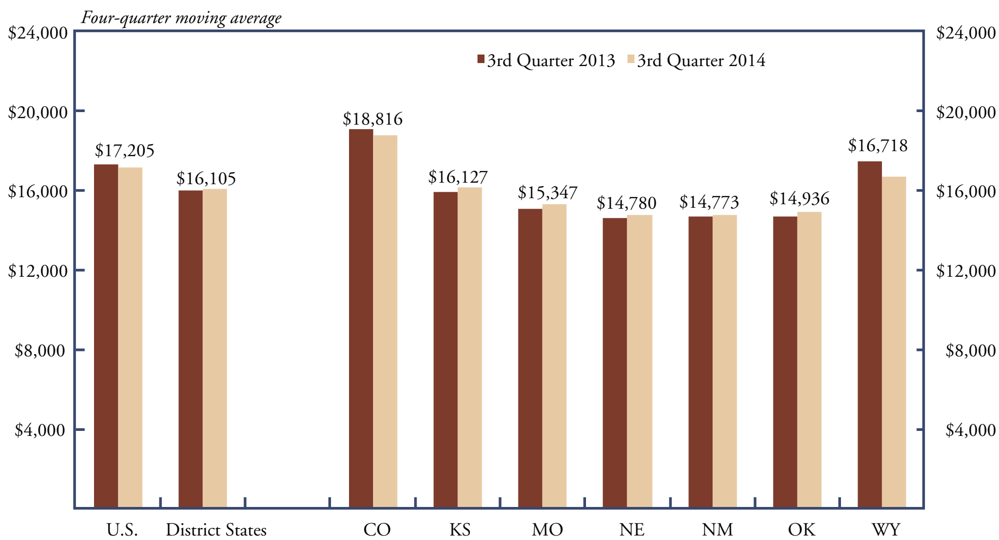
[3]Newcars.com, subsidiary of Cars.com.

Chart 1: Average Debt Per Consumer



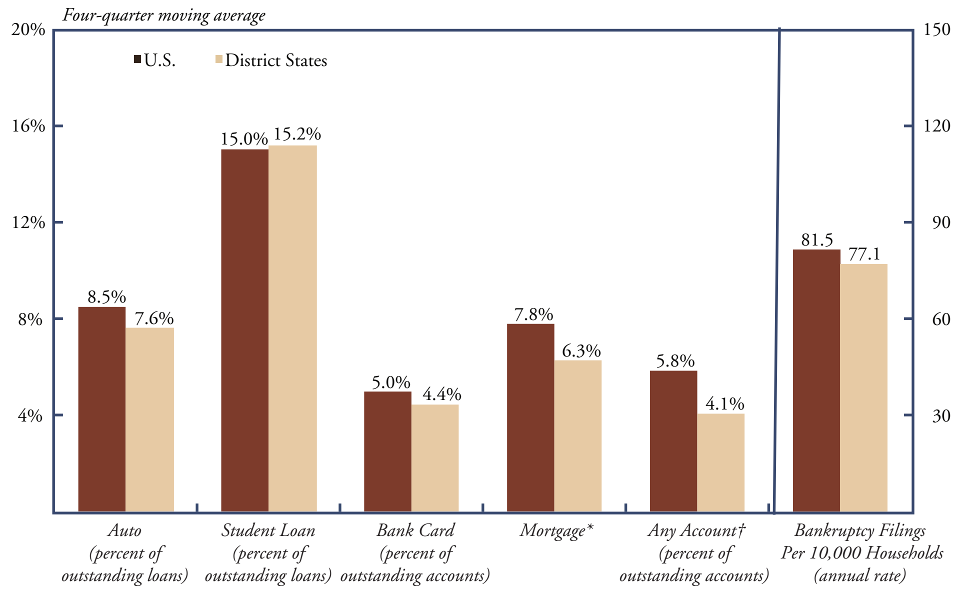
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
Notes: Excludes first mortgage. A first mortgage represents the primary note on the home and typically is not used to purchase consumer goods.

Chart 2: Average Debt Per Consumer



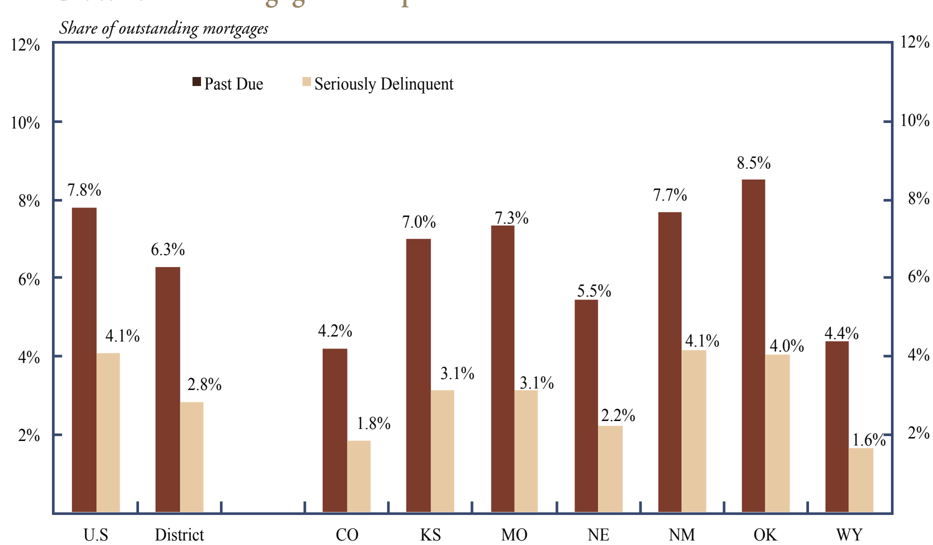
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
Notes: Excludes first mortgage. A first mortgage represents the primary note on the home and typically is not used to purchase consumer goods.

Chart 3: Average Consumer Delinquency Rates



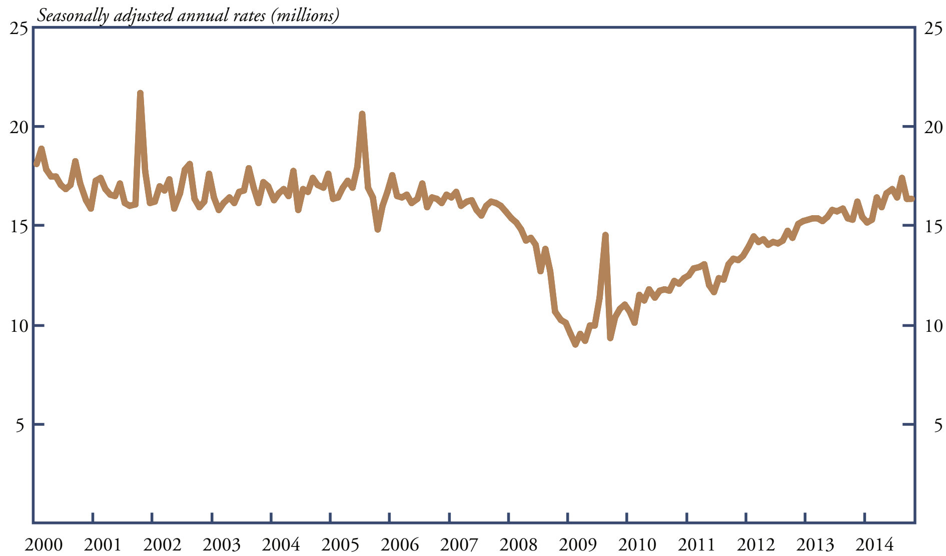
**Mortgage delinquency is the current rate and not a moving average.*
†"Any Account" includes accounts not otherwise reported in the chart, such as first mortgages.
Sources: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; the Administrative Office of the U.S. Courts; and Lender Processing Services Inc.
Notes: At least 30 days past due. Beginning in the first quarter, "severe derogatory" accounts are included in the calculation of delinquency rates, which makes delinquency rates higher than in other quarters, all else being equal. Thus, these delinquency rates are not comparable to delinquency rates provided in reports prior to 2014. Severe derogatory debt has been charged off by the lender (not through bankruptcy) but is still owed by the borrower.

Chart 4: Mortgage Delinquencies



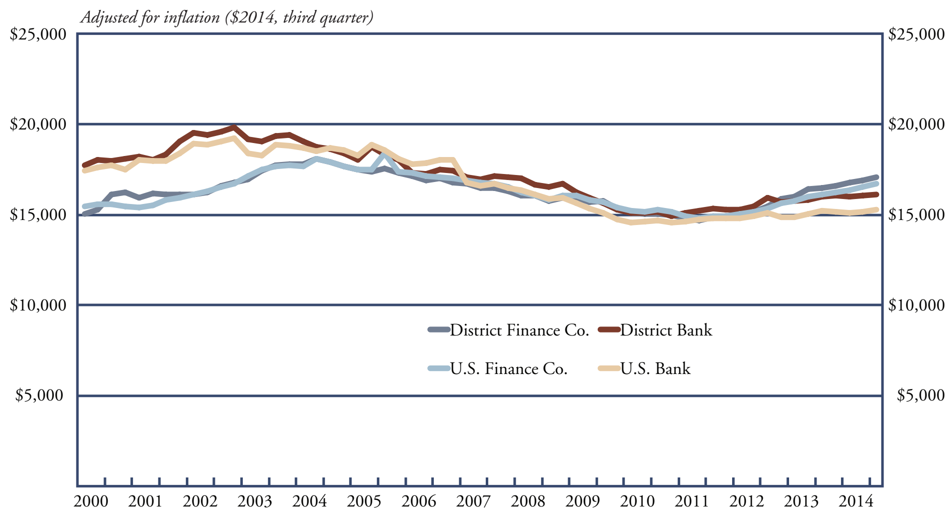
Source: Lender Processing Services Inc.
Notes: "Past due" represents mortgages that are 30 days or more delinquent, including those in foreclosure. "Seriously delinquent" represents mortgages that are 90 days or more past due or in foreclosure.

Chart 5: U.S. Sales of Cars and Light Trucks



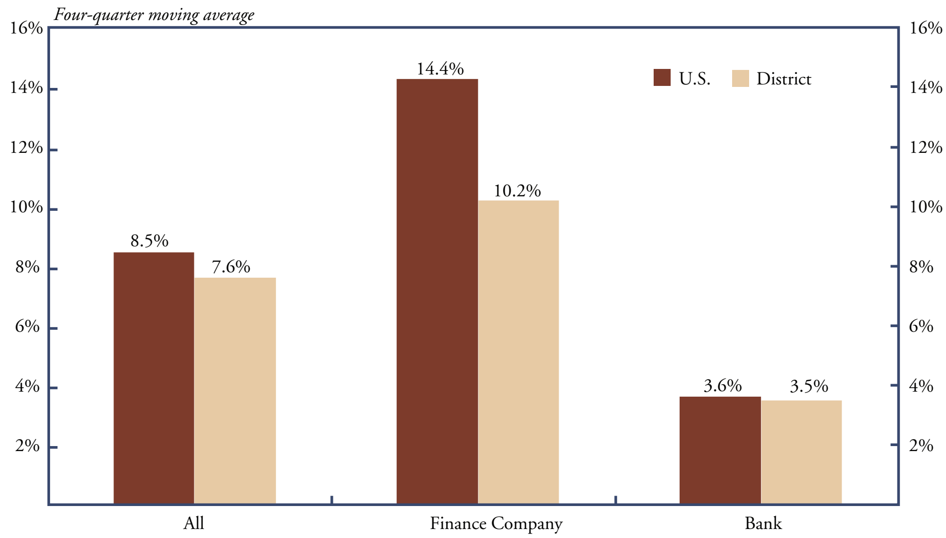
Source: Bureau of Economic Analysis.

Chart 6: Outstanding Auto Loan Balance by Issuer Type



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

Chart 7: Auto Loan Delinquencies



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

The Consumer Credit Report series is published biannually by the Federal Reserve Bank of Kansas City to provide a summary of consumer credit in each state of the Tenth District, which comprises Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. For questions or comments, contact Kelly Edmiston, senior economist, at *kelly.edmiston@kc.frb.org.*