Tenth District Consumer Credit Report

4th Quarter 2013

Federal Reserve Bank *of* Kansas City

Summary

Tenth District average consumer debt, which for this report includes all outstanding debt except first mortgages and is presented as a four-quarter moving average, increased very modestly in the fourth quarter after remaining flat in the third quarter (Chart 1). In the first quarter of 2012, District consumer debt was at a post-recession low of about $15,440. Since then, debt has grown by about 4.1 percent. Based on the last two quarters, however, debt accumulation appears to have slowed. Data from the next few quarters should identify if this slowdown is a trend or an aberration. Despite its increase in recent quarters, average consumer debt in the fourth quarter of 2013 remained well below its peak of $17,420 in the first quarter of 2009. Average consumer debt in the District also remained well below the national average of $17,311, which was down slightly from the third quarter.

Revolving debt, which is the sum of open lines of credit—largely credit cards, but also home equity lines of credit and other financial products—continued to decline in both the District and the nation. This decline suggests increases in consumer debt over the last several quarters have come from increases in installment debt, mostly auto and student loans. Although increases in average consumer debt recently have slowed, falling revolving debt in the last two quarters still indicates at least a moderate increase in installment debt. Revolving debt in the District has declined about 23 percent from a peak of $6,680 in the second quarter of 2009 to about $5,140 in the fourth quarter of 2013.

While fourth-quarter consumer debt in the District increased slightly from the third quarter (U.S. consumer debt fell modestly), there was significant variation across District states (Chart 2). Average consumer debt across the District ranged from $14,641 in New Mexico (Nebraska was roughly the same) to $19,088 in Colorado. Higher debt levels in Colorado likely reflect a higher cost of living. The New Mexico economy is struggling, and debt tends to move with income. Nebraska consistently has among the District's lowest levels of consumer debt.

Average consumer debt has grown significantly in the Tenth District since 2012, including an increase of about 9.2 percent in Oklahoma. Four states had growth of 5 percent or more, including Missouri (5.4 percent), Nebraska (5.5 percent), Kansas (8.5 percent) and Oklahoma. New Mexico was the only state to see a drop in average consumer debt over the period, which was a fairly substantial 6.1 percent.

District credit delinquencies fell moderately in the fourth quarter following significant declines in earlier quarters. The student loan delinquency rate was 9.7 percent in the fourth quarter (including loans in deferment or forbearance), down from 10 percent in the third quarter and a high of 14 percent in mid-2007.[1] The student loan delinquency rate in Oklahoma, in particular, has fallen considerably, from 25.7 percent in the second quarter of 2008 to about 13.4 percent in the fourth quarter of 2013. However, the student loan delinquency rate in Oklahoma increased significantly from a third-quarter reading of

12.8 percent. Although District student loan delinquencies have surpassed the national rate in most past quarters, that trend reversed in the first quarter of 2013.

The District delinquency rate on all accounts fell significantly to 3.1 percent from 3.4 percent in the third quarter and was down substantially from a high of 4.8 percent in late 2010. Bank card and auto loan delinquencies were down slightly from the third quarter. District mortgage delinquencies also fell modestly by about 0.1 percent for both past due and seriously delinquent mortgages. District credit delinquencies were lower than U.S. delinquencies across all categories, most notably in mortgage delinquencies (Chart 3). Bankruptcy filing rates were near national bankruptcy filing rates.[2]

Mortgage delinquency rates in the District continued to fall and were well below national delinquency rates, with the exception of Oklahoma (past due) (Chart 4). Much of the difference in serious delinquency rates (90 or more days past due or in foreclosure) reflects differences in foreclosure rates. As with student loan delinquencies, mortgage delinquencies have fallen significantly in most District states. At least part of the lower delinquency rates in the District likely reflects a smaller housing bubble in District states relative to the nation, although mortgage delinquency rates also have been falling nationally.[3]

In This Issue: Splitting Joint Accounts

The Federal Reserve Bank of New York, which largely maintains control of the Equifax data used in this report, has noted in several documents that splitting joint accounts is necessary to avoid double counting.[4] The formula used to split a joint account is uniform across all forms of credit: one-half the value of the joint accounts is subtracted from the total amount of debt. For example, in the case of first mortgages, the formula would be

Total first mortgage balances – (0.5 * joint mortgage balances)

The splitting of accounts is critical to avoiding double counting when totaling debt across individuals. For example, in its "Quarterly Report on Household Debt and Credit," which largely takes a national view, the Federal Reserve Bank of New York splits joint accounts as it sums total amounts of debt for the United States.[5]

The Tenth District Consumer Credit Report does not split joint accounts for two reasons. First, the report is intended as a snapshot of the credit situation of the typical consumer in the District (with a credit report). This analysis is based on taking averages, and total balances are not reported for the United States, District, or any District states, so double counting is not relevant. Second, and perhaps most important, all parties holding a joint account are individually responsible for the entire debt. For example, if a married couple takes out a joint mortgage, each spouse is legally responsible for the entire mortgage. If the goal of the Tenth District Consumer Credit Report is to provide a picture of the typical consumer's credit situation, all debt responsibilities must be included, including the full amount of joint debt.

Although the methodology used in the Tenth District Consumer Credit Report is appropriate for its purpose, in this issue balances include the full value of consumer debt values commonly used in this report and are compared to values obtained when joint accounts are split. Charts 5 through 8 demonstrate the difference in average debt using both methodologies for first mortgages, bank cards, home equity credit (both installment and revolving lines) and auto debt, respectively. The charts present annual data.

It is clear that splitting accounts significantly reduces the value of average debt, in some cases more substantially than others. For example, first mortgages are much more likely to be joint accounts than bank cards. For first mortgages in 2013, the value of average debt without splitting accounts was $43,520, while when joint accounts are split, the average debt amount falls to $27,280, a difference of 37.3 percent (Chart 5). For bank cards in 2013, the value of average debt without splitting accounts was $2,860, while splitting drops the value to $2,530, a difference of 11.5 percent (Chart 6). Similar relationships for home equity credit and auto debt are shown in Charts 7 and 8. Splitting joint accounts reduces average home equity balances by 38.5 percent and reduces auto debt balances by 30.8 percent.

Endnotes

[1] The Tenth District Consumer Credit Report for the first quarter of 2013 and associated state reports document this recent, relatively consistent decline in student loan delinquency rates. The report is available at *http://www.kansascityfed.org/publications/community/ccr/index.cfm.* These figures are delinquency rates for all consumers holding student loan debt, including those in forbearance and delinquency. If only loans in active repayment are included, the delinquency rates are substantially higher (see Kelly D. Edmiston, Lara Brooks and Steven Shepelwich, "Student Loans: Overview and Issues (Update)," Federal Reserve Bank of Kansas City, working paper 12-05, available at *http://www.kansascityfed.org/publicat/reswkpap/pdf/rwp%2012-05.pdf.*

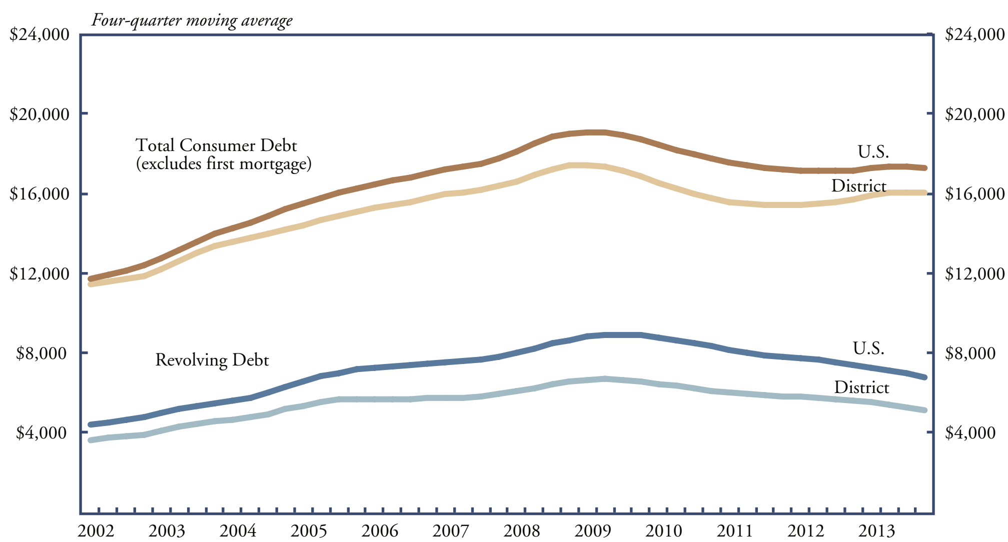
[2]The count of households was changed in the fourth quarter, which makes bankruptcy reports in the fourth quarter less comparable to previous quarters. In the United States and every District state, the number of households fell from the previous year.

[3]Mortgage delinquency trends are documented more fully in the Tenth District Consumer Credit Report for the fourth quarter of 2012 and associated state reports, available at *http://www.kansascityfed.org/publications/community/ccr/index.cfm.*

[4]See, for example, Donghoon Lee and Wilbert van der Klaauw, "An Introduction to the FRBNY Consumer Credit Panel," November 2010. The document is available online at *http://www.newyorkfed.org/research/staff_reports/sr479.html.*

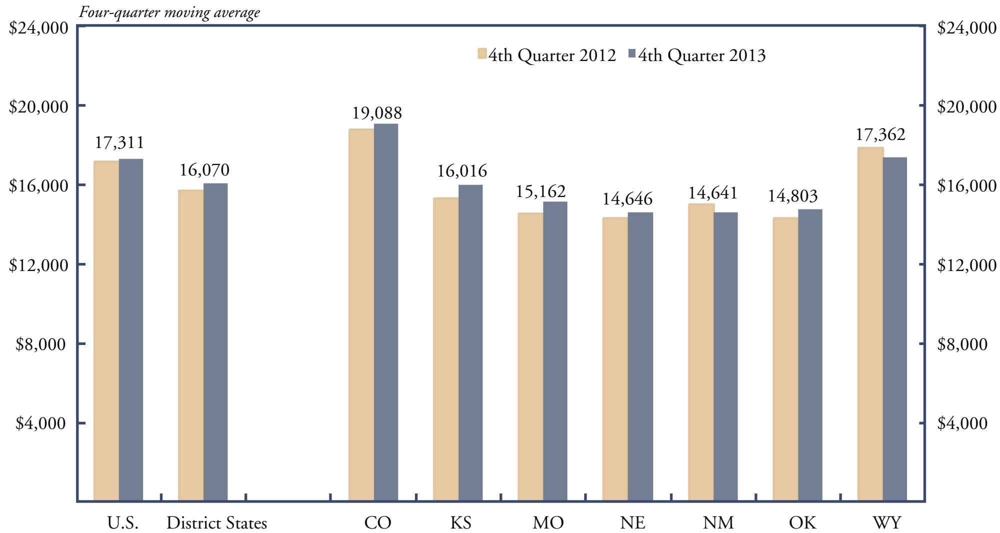
[5]See *http://www.newyorkfed.org/householdcredit/2013-Q3/HHDC_2013Q3.pdf.*

Chart 1: Average Debt Per Consumer



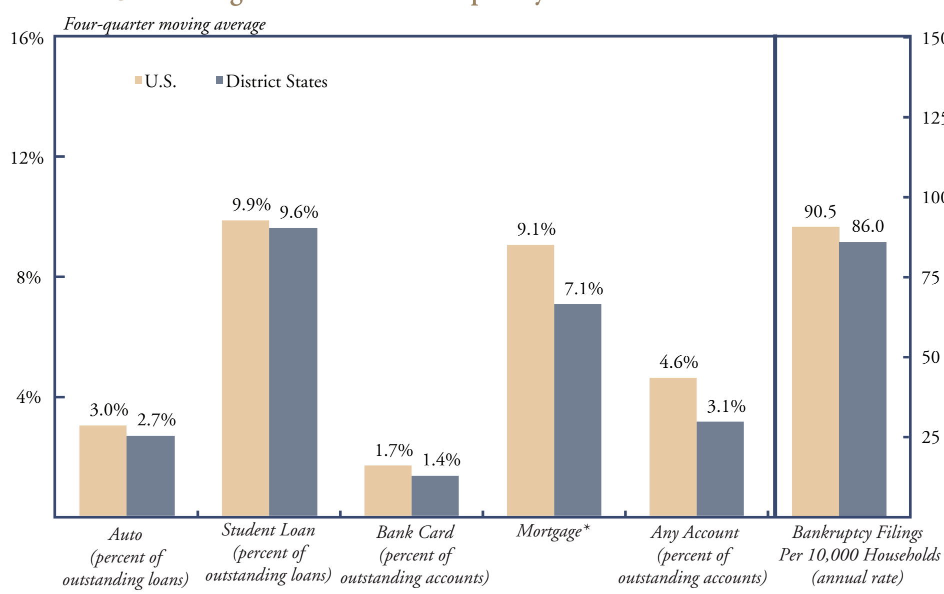
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
Notes: Excludes first mortgage. A first mortgage represents the primary note on the home and typically is not used to purchase consumer goods.

Chart 2: Average Debt Per Consumer



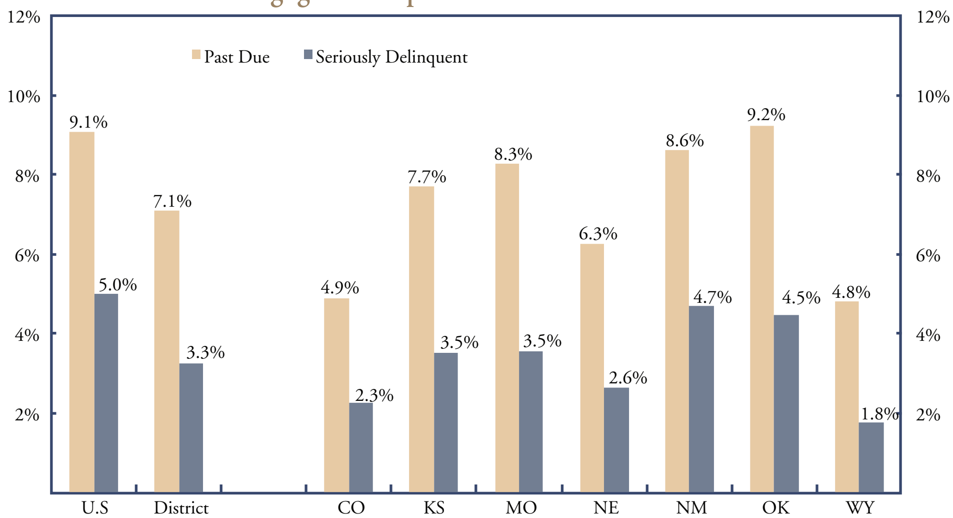
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
Notes: Excludes first mortgage. A first mortgage represents the primary note on the home and typically is not used to purchase consumer goods.

Chart 3: Average Consumer Delinquency Rates



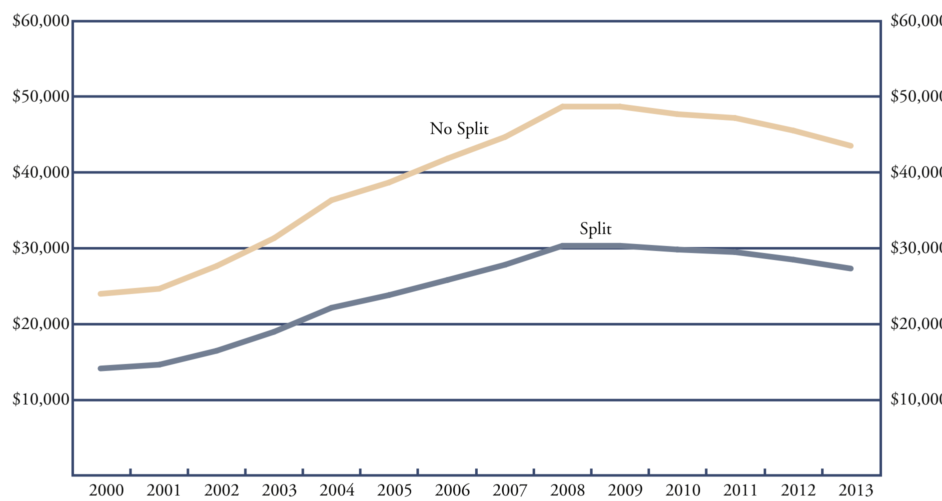
Sources: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; the Administrative Office of the U.S. Courts; and Lender Processing Services Inc.
*Notes: At least 30 days past due. "Any Account" includes accounts not otherwise reported in the chart, such as first mortgages. Estimates of households are updated in the second quarter. *Mortgage delinquency is the current rate and not a moving average.*

Chart 4: Mortgage Delinquencies



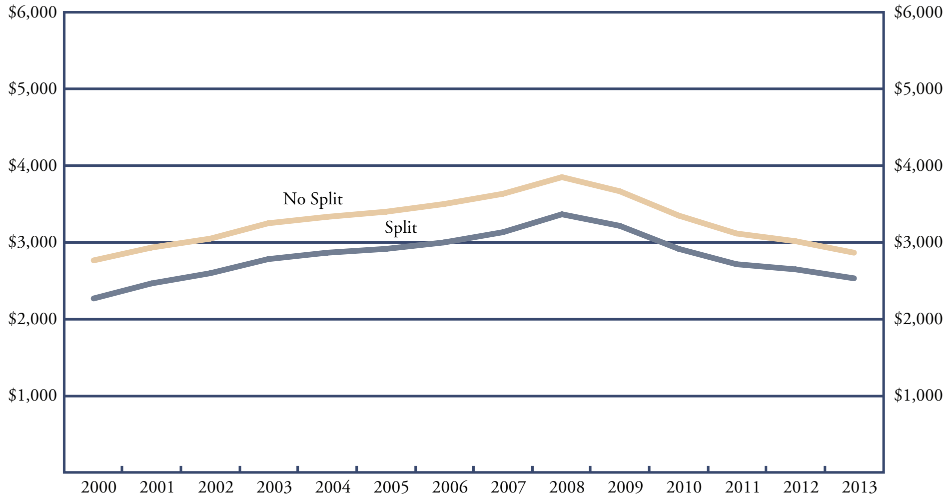
Source: Lender Processing Services Inc.
Notes: "Past due" represents mortgages that are 30 days or more delinquent, including those in foreclosure. "Seriously delinquent" represents mortgages that are 90 days or more past due or in some stage of the foreclosure process.

Chart 5: First Mortgages



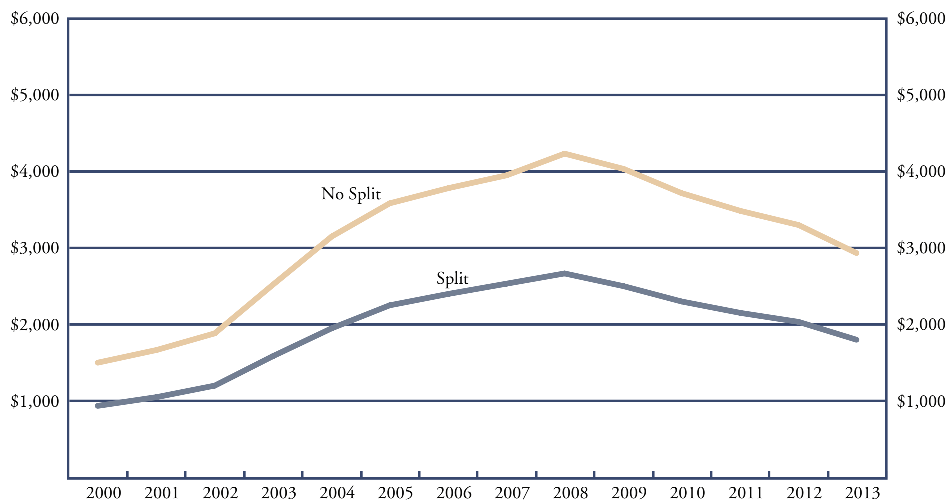
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

Chart 6: Bank Cards



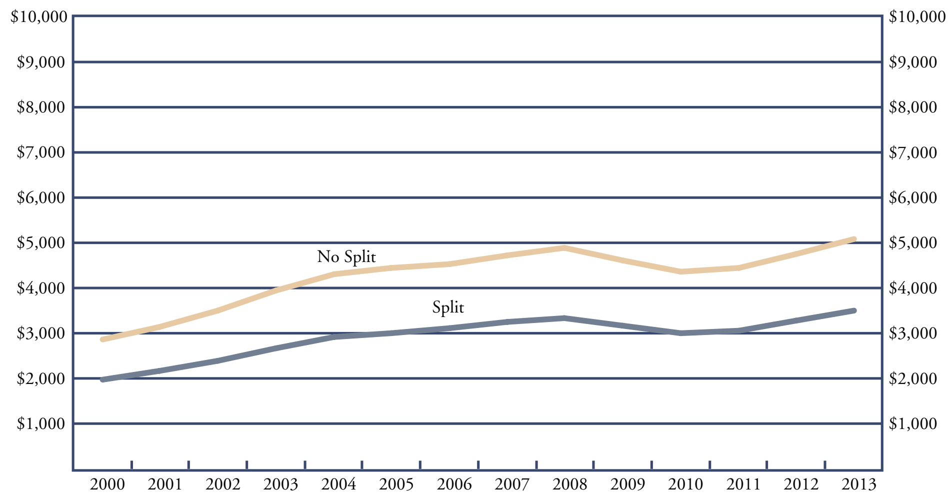
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

Chart 7: Home Equity Credit



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

Chart 8: Auto Debt



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

The Consumer Credit Report series is published quarterly 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*.