



Debt is moderate, but delinquencies continue to rise

by: Kelly D. Edmiston

August 28, 2019

Average debts are moderate, but delinquencies have trended up

Although aggregate consumer debt continues to rise to historic highs, increases in average consumer debt, adjusted for inflation, have been quite moderate. The *Tenth District Consumer Credit Report*, released in July, shows that in the first quarter of 2019, inflation-adjusted average consumer debt in the Tenth District declined 0.3 percent from a year earlier to \$17,698. Although District average consumer debt rose 5.8 percent from its post-recession low in 2012 through 2017 (1.1 percent annually), it since has changed little from quarter to quarter.

Average revolving debt in the District continued to fall, which is an encouraging trend. Utilization rates on revolving accounts are weighted heavily when determining credit scores, and installment loans such as mortgages and student loans often finance appreciating assets (a house or earning potential) or long-lived assets, while credit cards and other forms of revolving credit often finance depreciating assets or consumables.

Although average debts are moderate, delinquencies in the District and the nation have trended up from their post-recession lows. Delinquency on any account in the District rose from 10.5 percent in the first quarter of 2016 to 11.1 percent in the first quarter of 2019.[1]

Although delinquency rates on student loans have declined modestly in the District, falling from 17.1 percent to 16.8 percent over the last three years, delinquencies on bank cards and auto loans have been increasing steadily. The bank card delinquency rate in the District was 7.4 percent in the first quarter, its highest level in five years.[2] The District's delinquency rate on auto loans was 7.4 percent in the first quarter, up from 7.2 percent a year ago and 6.8 percent in the first quarter of 2016. Although delinquencies on consumer debt largely have been increasing, delinquencies on mortgages have continued to fall.

This issue's special topic considers whether the capacity to pay off debt differs across geographic regions of the Tenth District. I use average consumer debt as a share of household median income as a gauge of the debt burden facing households in each state or county. These aggregate measures are intended to signal differences in the capacity to pay off debt across geographies and do not measure the capacity to pay off debt for a typical household.

The analysis of these ratios of average consumer debt to median household income reveals significant variation in debt burdens that are not captured by differences in average debt alone. For example, Colorado consistently has higher average consumer debt than other District states. But comparisons of average consumer debt to median household income put debt in Colorado relative to other District states in a much different perspective. Median household income in Colorado is 20.8 percent higher than District median household income. Average consumer debt relative to median household income shows the consumer debt load in Colorado to be much more compared with other District states. Using this ratio, the average consumer debt load in Colorado is the same as the average consumer debt load in Kansas.

Debt loads also were compared at the county level, showing significant variation in debt burdens. County-level data provide an added benefit of making comparisons across groups. For example, low- and moderate-income (LMI) counties—those with incomes less than 80 percent of the state median—carry much heavier consumer debt loads relative to household income than do those in middle-income and high-income counties. Average consumer debt relative to median household income is 43.3 percent at its median in LMI counties, compared with a median ratio of 30.6 percent for middle-income and high-income counties.

In summary, inflation-adjusted average consumer debt has fallen in the past year after increasing for several years, but delinquency rates on consumer debt warrant close monitoring, especially for auto loans and credit cards. Conversely, mortgage delinquency rates are very low by historical standards and continue to fall. The [full report](#) provides many additional details on these trends.

[1]I construct measures of delinquency using the share of consumers with at least one account in the credit category (such as auto loans) who are 90 days or more past due on at least one account in that category. Thus, if a consumer has four credit card accounts, and one is delinquent while the others are current, the consumer is considered delinquent. As a result, the delinquency rates in this report generally are higher than those determined by the share of accounts that are delinquent or the share of outstanding balances that are delinquent.

[2]Banks often exclude charged-off loans when reporting delinquency rates, including credit cards. In credit reports, these charge-offs often are still reflected in the “severe derogatory” category, which is included in the calculation of delinquency rates. Thus, delinquency rates reported by banks almost always will be lower than delinquency rates derived from credit reports.