Tenth District Consumer Credit Report

3rd Quarter 2012

Federal Reserve Bank *of* Kansas City

Summary

Average consumer debt in the Tenth District, which for this report includes all debt other than first mortgages, continued to climb at a modest pace in the third quarter (Chart 1). As noted in previous reports, consumer debt trended downward for a considerable period following its peak in the fourth quarter of 2008 of $17,640. U.S. consumer debt in the third quarter of 2012 was considerably higher at $17,300.

Nationwide, consumer spending has played a significant role in the modest gains in U.S. output growth in recent quarters, while personal income has remained relatively flat, suggesting that recent spending has come, at least in part, from reduced saving or debt. Tenth District numbers are consistent with this trend.

Revolving debt in the Tenth District, which includes open lines of credit like credit cards and home equity lines of credit, declined moderately to about $5,570, down from $5,680 in the second quarter. Revolving debt in the United States as a whole also declined.

Oklahomans held the least consumer debt, at $14,070 (Chart 2), followed closely by Nebraskans, who had the lowest levels in the previous quarter. With disproportionate output and employment in mining and agriculture, respectively, both did relatively well during the recent recession and in the continued recovery, which may have kept consumer debt accumulation at bay.

Debt levels tend to correlate with income. This phenomenon likely explains the relatively high debt levels in states like Wyoming and, especially, Colorado. A number of cultural and additional economic factors regarding debt accumulation likely also play a role in differences in debt accumulation across Tenth District states.

Consumer credit delinquencies continued to settle much lower in the Tenth District than in the nation as a whole (Chart 3), again with the exception of student loan delinquencies, which have been a consistent problem in the Tenth District. But student loan delinquencies are driven largely by a few states. For example, the student loan delinquency rate in Oklahoma is the highest in the nation. But other states in the District have relatively high student loan delinquencies as well. The fourth quarter 2011 report discussed student loans in more detail.

Delinquencies were mixed in the third quarter relative to the previous quarter. The overall delinquency rate, at 4.0 percent, was modestly down from the 4.1-percent rate in the second quarter. Delinquencies were down modestly for student loans and auto delinquencies, but were up for mortgages. Mortgage delinquencies were considerably lower in the Tenth District than in the nation as a whole, however (Chart 4). Bank card delinquencies held steady at 1.7 percent.

In This Issue: A Look at Debt Burdens

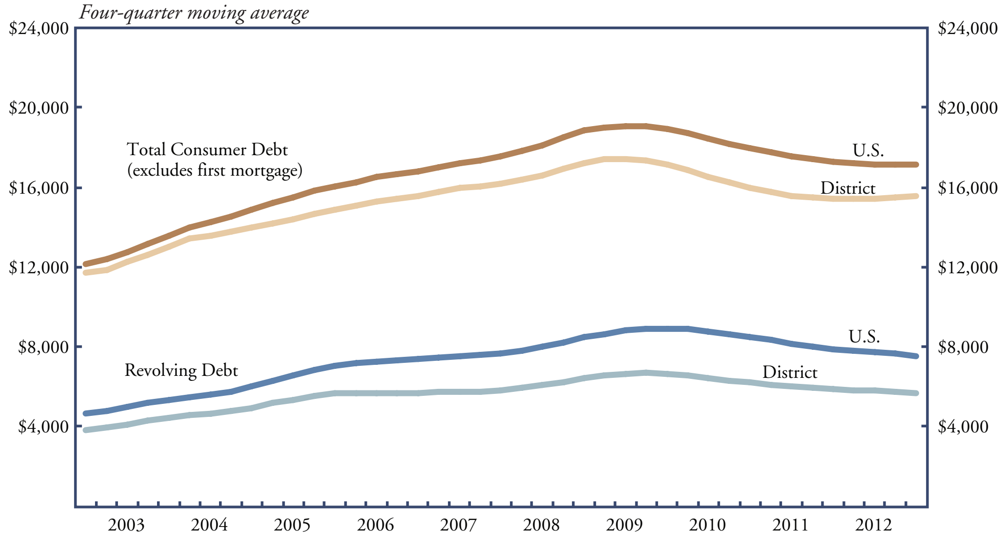
While debt levels are important indicators of consumer credit conditions, it is the capacity to pay that debt that is perhaps most critical to consumers. In this issue, as in every third quarter issue, we investigate this capacity to pay debt. For this report, we evaluate the average minimum payment on debt over the previous four quarters relative to annual disposable income (net of taxes).

In the Tenth District, in the four quarters leading up to the most recent quarter, minimum debt payments (including first mortgages) absorbed 13.7 percent of disposable annual income (Chart 5). Nationally, minimum payments on debt absorbed about the same amount of gross annual income, 13.6 percent.

Over time, the data reveal an interesting, but not unexpected pattern. For most states in the Tenth District, debt peaked in 2009, and that is when payment burdens were the largest. Debt growth was substantial from 2007 to 2009. By 2012, a combination of low interest rates combined with a paring down of household balance sheets has left most with modestly lower payment burdens. Not all consumers, of course, have been able to take advantage of lower interest rates, due to the erosion of credit scores for many over the course of the recession and continued recovery.

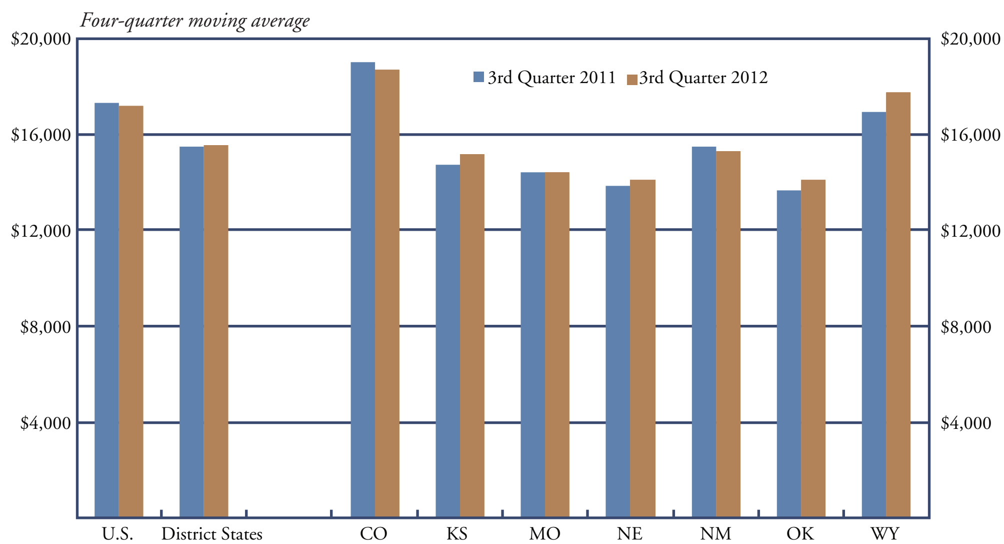
The pattern in debt burdens is for the most part similar across Tenth District states, with some exceptions, such as Kansas and New Mexico. These disparities are discussed in more detail in the individual state reports.

Chart 1: Average Debt Per Consumer



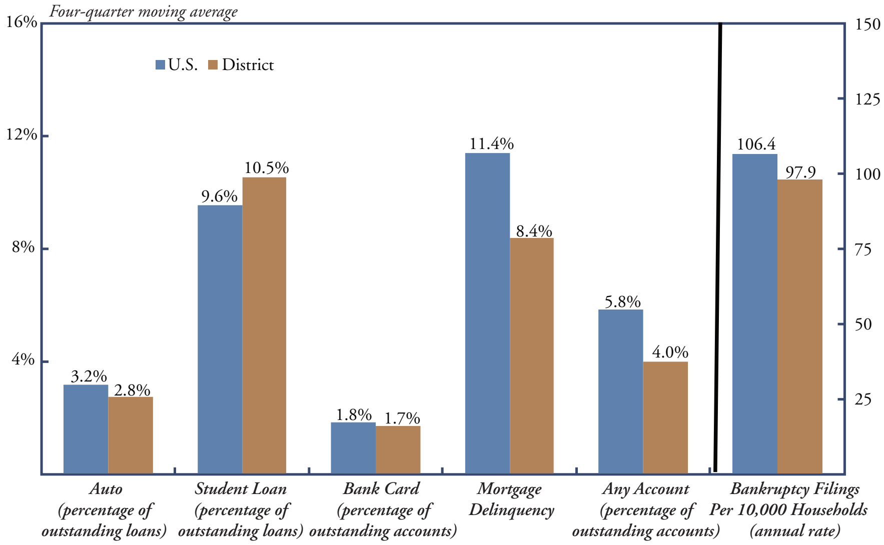
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
Note: Excludes first mortgage. A first mortgage represents the primary note on the home and typically is not used to purchase consumer goods.

Chart 2: Average Debt Per Consumer



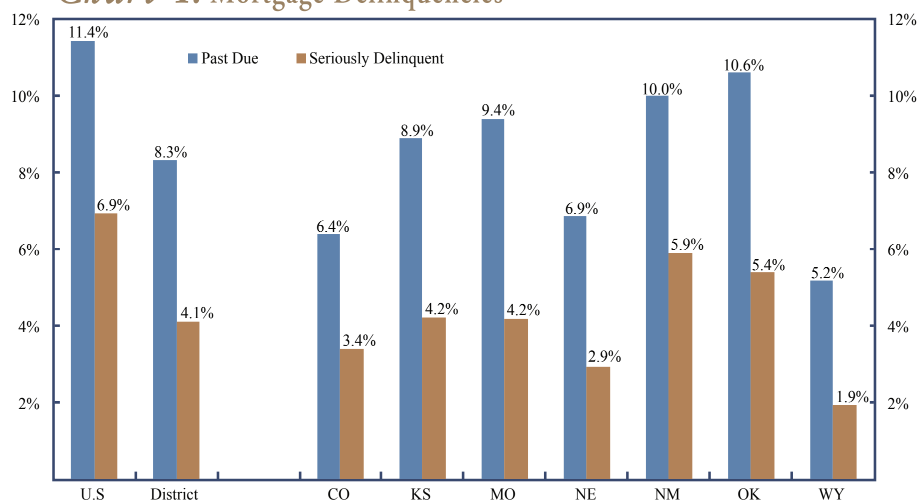
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
Note: Excludes first mortgage. A first mortgage represents the primary note on the home and typically is not used to purchase consumer goods.

Chart 3: Average Consumer Delinquency Rates



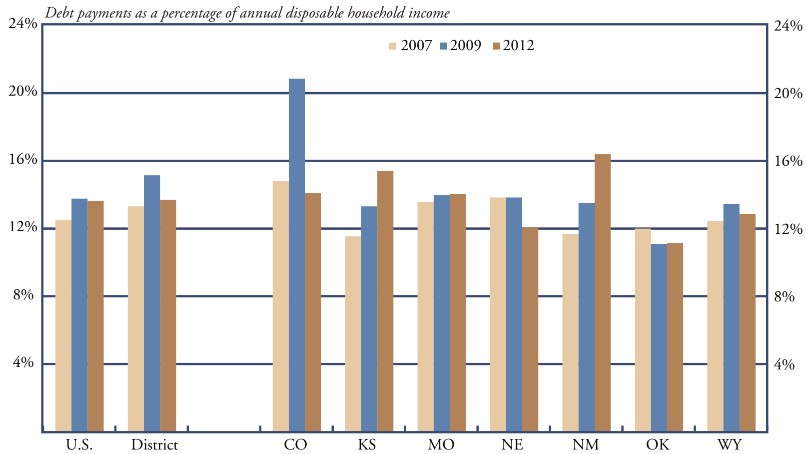
Sources: Federal Reserve Bank of New York Consumer Credit Panel/Equifax, the Administrative Office of the U.S. Courts; and Lender Processing Services Inc.
Note: At least 30 days past due. "Any Account" includes accounts not otherwise reported in the chart, such as first mortgages. The third quarter bankruptcy filing rate utilizes an updated estimate of households.

Chart 4: Mortgage Delinquencies



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

Chart 5: Debt Burden



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax; U.S. Census Bureau.

The Consumer Credit Report series is published quarterly by the Federal Reserve Bank of Kansas City to provide a summary of consumer credit standing 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.*

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