Tenth District Consumer Credit Report

1st Quarter 2013

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 in the first quarter to $15,890 (four-quarter moving average), up substantially from $15,680 in the fourth quarter and $15,440 one year ago (Chart 1). U.S. average consumer debt also increased moderately, having remained stable for several quarters previously. District consumer debt had fallen steadily from the first quarter of 2009 through the first quarter of 2011, and had maintained a stable value before its recent climb over the past year. Still, average District consumer debt remained well below its fourth quarter 2008 peak of $17,420 and well below average consumer debt for the nation as a whole, which was $17,300 in the most recent quarter.

Revolving debt in the Tenth District, which includes open lines of credit like credit cards and home equity lines of credit, has fallen every quarter since the second quarter of 2009, and that trend continued in the most recent quarter with a significant $100 decline to $5,510. District revolving debt was down $1,170 from its second quarter 2009 peak. Average revolving debt in the District was substantially below that of the nation as a whole, which was $7,270 in the first quarter.

Average consumer debt increased in all District states except for New Mexico over the past year (Chart 2). New Mexico consumer debt has declined 5.7 percent from the first quarter of 2012, which is likely due in large part to a relatively poor economy compared to other states in the District. Levels of debt were highest in Colorado and Wyoming—above national levels—which is consistent with their higher average incomes. Debt levels tend to correlate with incomes, although numerous other factors also work to determine average consumer debt levels. Oklahoma and Nebraska, respectively, had the lowest average debt levels, but both states have relatively robust economies and weathered the recession well. Consumer debt has been increasing in both states about at the District pace.

Overall, consumer delinquencies continued to trend downward in the first quarter, falling from 3.9 percent for "any account" in the fourth quarter to 3.8 percent in the first quarter (Chart 3). Consumer delinquencies have fallen sharply from their third quarter 2010 peak of 4.8 percent. Delinquencies on any account also remained well below the national rate of 5.5 percent. District consumer delinquencies remained below national levels in all categories but student loans, the latter largely driven by Missouri and, in particular, Oklahoma; but the delinquency rate on student loans in the District fell sharply from 10.3 percent to 9.9 percent. The U.S. student loans delinquency rate also fell, although not as substantially. Mortgage delinquencies (30 or more days past due or in foreclosure) remained especially low in the District relative to the nation. Auto and bank card delinquencies were moderately lower in the District, and the rate of delinquency has fallen significantly for both over the last several quarters.

In This Issue: A Dynamic Look at Student Loan Debt and Delinquencies

The Consumer Credit Reports typically give a static view of student loan delinquencies; that is, they present the most recent data only. Further, student loan debt is not isolated from overall consumer debt. In this issue, the report takes a look at the trends in District and national student loan debt and delinquencies over the last several years.

Total outstanding student loan debt in the United States has increased considerably over the last several years, growing from $346 billion in the fourth quarter of 2004 to nearly $1 trillion today (Federal Reserve Bank of New York). While this growth has alarmed many, it results largely from growth in student enrollments in higher education. But the average amount of student loan debt outstanding has increased as well, although at a more moderate pace. In the Tenth District, average student loan debt increased from $13,750 to $23,600 between the first quarters of 2001 and 2013 (Chart 5). The U.S. figure rose from about $13,870 to $25,180 over the period.

The median amount of student loan debt may be more reflective of the debt situation of the typical borrower. In the Tenth District, median outstanding student loan debt was $13,780 in the first quarter of 2013, meaning that half of all borrowers held less debt and half held more. In the first quarter of 2001, the median was $6,470. The large difference in the average and the median reflects a small share of borrowers at the top of the debt distribution with massive amounts of debt. Nationwide, about 3 percent of borrowers have debt over $100,000.

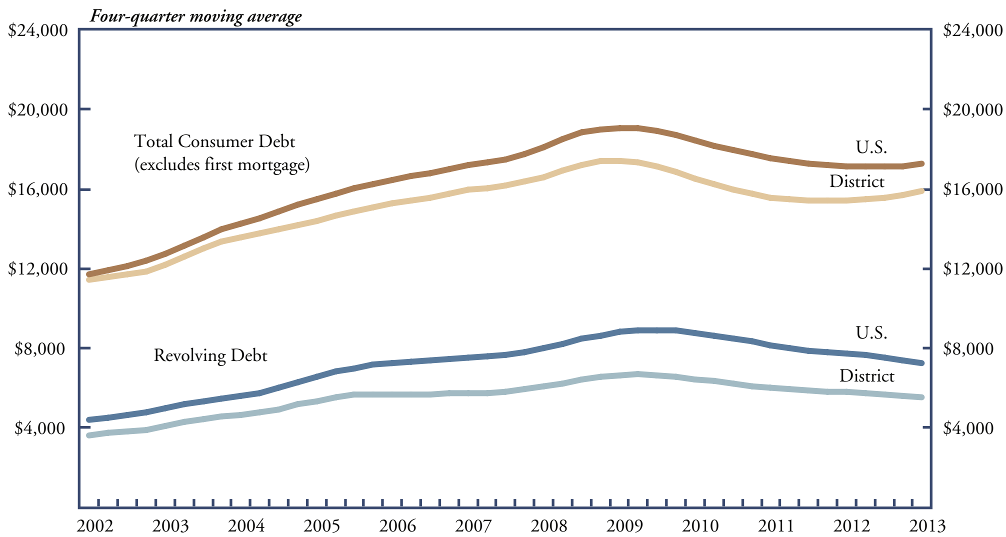
A number of factors explain the growth in average and median student loan debt over time. First, the cost of tuition, room and board has grown at a rate much higher than the general rate of inflation. Second, fiscal constraints have led to reduced levels of grant-based aid from both universities and governments—in particular, state governments. Third, the composition of students' selected institutions has changed, with an increasing share choosing to attend generally more expensive for-profit institutions where financial aid typically is offered only in the form of loans. Finally, weak economic growth and high unemployment in recent years has reduced access for many to personal resources.

More alarming to many than the growth in student loan debt is the high rate of delinquency. In the first quarter of 2013, about 9.9 percent of all outstanding student loans were delinquent (9.5 percent in the U.S.). While these rates are below the U.S. mortgage delinquency rate (10.3 percent), a substantial majority of the student loans had been delinquent for 120 days or longer and are likely to default. Further, if loans in deferment and forbearance are removed from the data, the delinquency rate is much higher, currently about 17.4 percent nationwide.

Although student loan delinquencies remain very high compared to most other forms of credit, delinquency rates are not substantially high on a historical basis (Chart 6). Further, delinquency rates have fallen substantially over the last several quarters. In the Tenth District, the student loan delinquency rate has fallen 2.1 percentage points from its fourth quarter 2010 peak of 12 percent. This recent pattern is typical of recessions and recoveries.

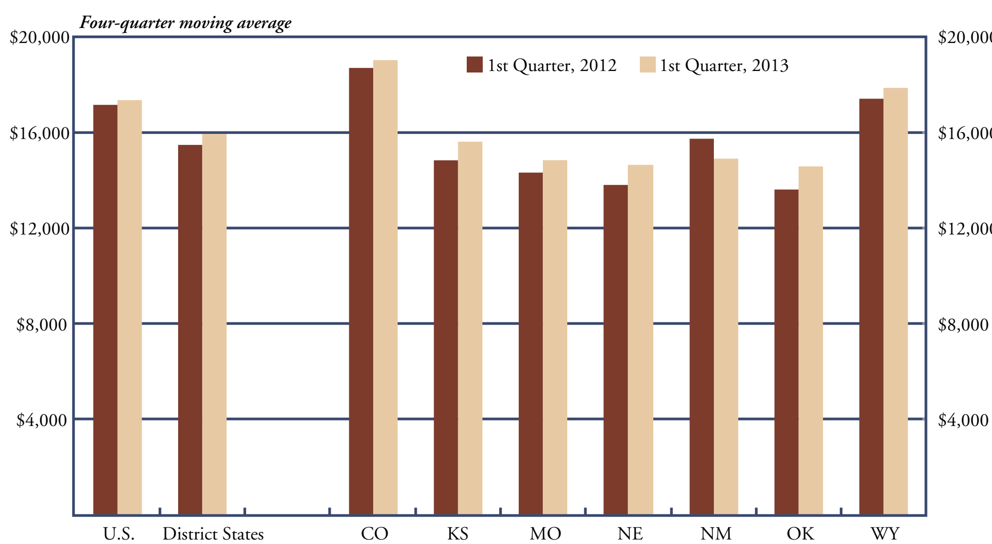
The Consumer Credit Report series is published quarterly by the Federal Reserve Bank of Kansas City to provide a summary of consumer credit in each state of the Tenth District, which comprises Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. For questions or comments,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

Chart 1: Average Debt Per Consumer



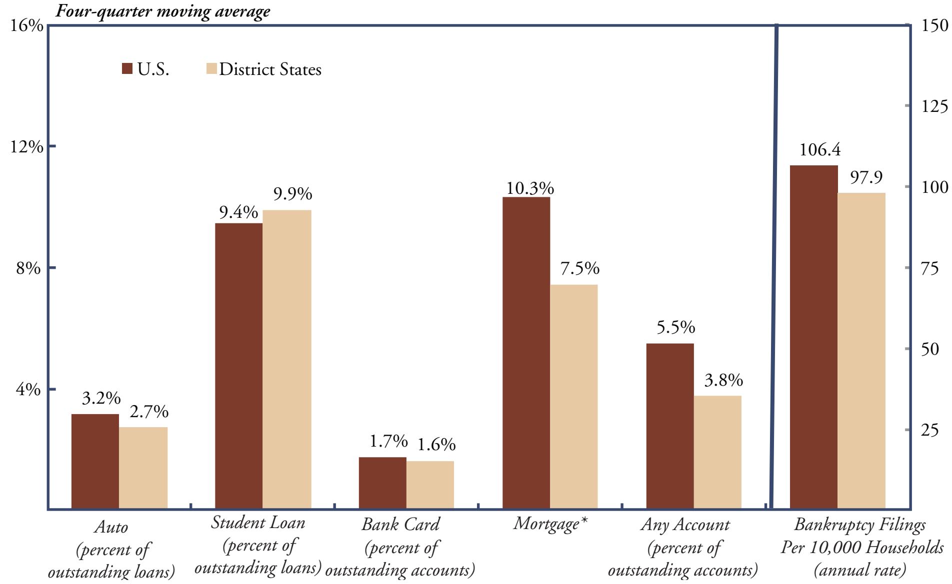
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
Notes: Excludes first mortgage. A first mortgage represents the primary note on the home and typically is not used to purchase consumer goods.

Chart 2: Average Debt Per Consumer



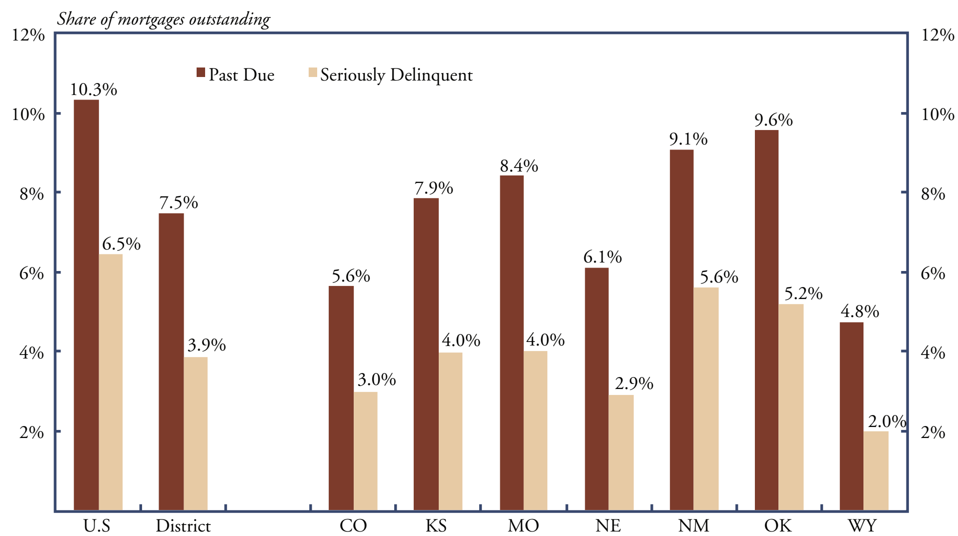
Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
Notes: Excludes first mortgage. A first mortgage represents the primary note on the home and typically is not used to purchase consumer goods.

Chart 3: Average Consumer Delinquency Rates



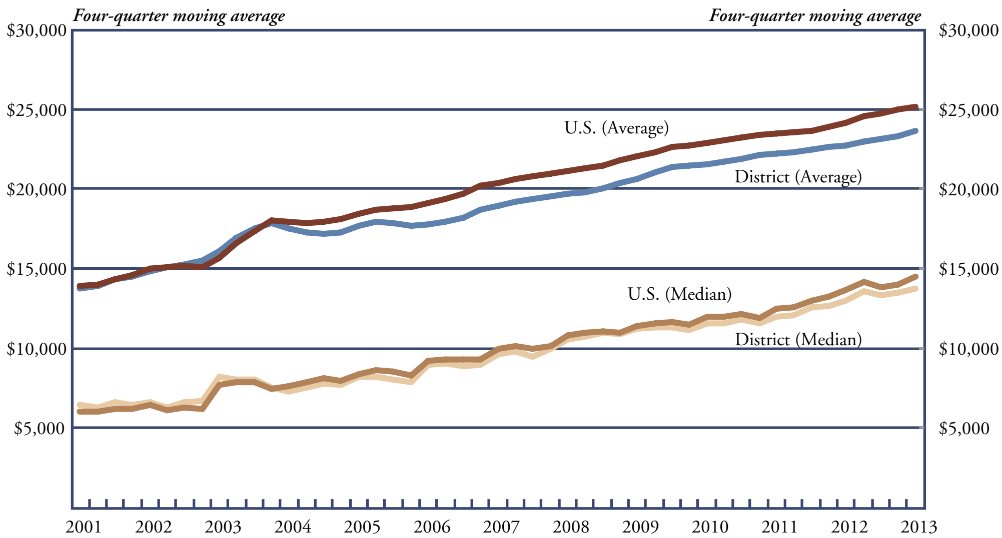
Sources: Federal Reserve Bank of New York Consumer Credit Panel / Equifax; the Administrative Office of the U.S. Courts; and Lender Processing Services, Inc.
*Notes: At least 30 days past due. "Any Account" includes accounts not otherwise reported in the chart, such as first mortgages. Estimates of households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

Chart 4: Mortgage Delinquencies



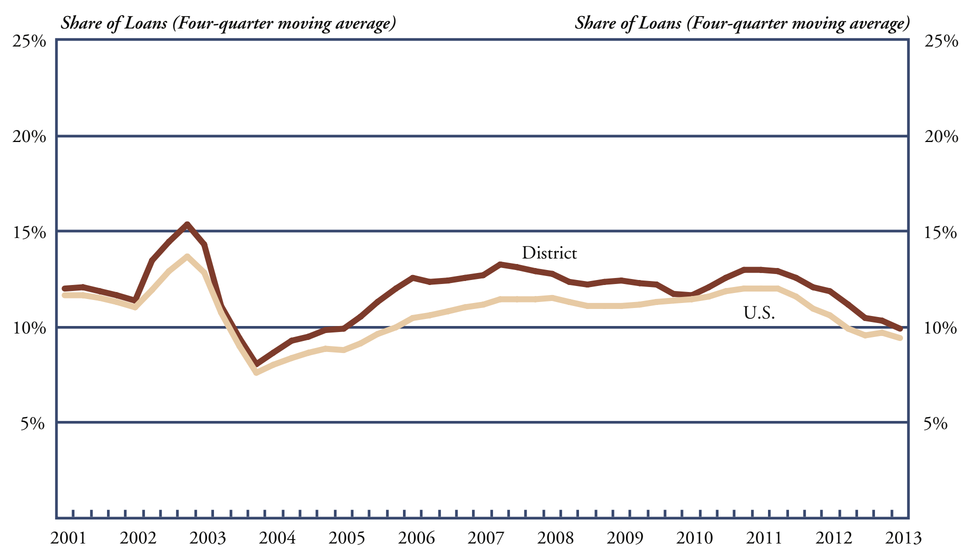
Source: Lender Processing Services Inc.
Notes: "Past due" represents mortgages that are 30 days or more delinquent, including those in foreclosure. "Serious delinquncies" represent mortgages that are 90 days or more past due or in some stage of the foreclosure process.

Chart 5: Inflation-Adjusted Average Oustanding Student Loan Debt per Consumer Holding Student Loan Debt



Source: Author's calculations using data from The Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

Chart 6: Share of Oustanding Student Loans 30 or More Days Past Due (including those in forbearance and deferrment)



Source: Author's calculations using data from The Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
Note: Excludes loans classified as "severe derogatory," which have had balances charged-off.

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