

# Tenth District Consumer Credit Report



3RD QUARTER 2013

FEDERAL RESERVE BANK of KANSAS CITY

## Summary

Average consumer debt in the Tenth District, which for this report includes all outstanding debt except first mortgages and is presented as a four-quarter moving average, was flat in the third quarter at about \$16,000 after climbing steadily for several quarters (Chart 1). In the second quarter of 2012, District consumer debt was at a post-recession low of about \$15,440; thus, the District's consumer debt has grown from its trough by about 3.6 percent. Nevertheless, debt in the third 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 consumer debt of \$17,340, which was down slightly from the previous quarter.

Revolving debt, which is the sum of open lines of credit—largely credit cards—continued to decline in both the District and the nation. This suggests that recent increases in consumer debt have come from increases in installment debt, mostly auto and student loans. Further, flat consumer debt in the third quarter, along with declining revolving debt, in turn reveals increasing installment

debt even in the most recent quarter. Revolving debt in the District has declined more than 21 percent from a peak of \$6,680 to about \$5,250 from the second quarter of 2009 to the third quarter of 2013.

While consumer debt increased moderately in the District and the nation in the third quarter relative to a year ago, there was significant variation across District states (Chart 2). Average consumer debt across the District ranged from \$14,640 in Nebraska to \$19,080 in Colorado. Both New Mexico and Oklahoma had average consumer debt \$15,000, while Missouri debt was just more than \$15,000. New Mexico and Wyoming posted the only declines over the year among District states, falling about 3.4 percent in New Mexico and 2.1 percent in Wyoming. Consumer debt tends to move with income, and the New Mexico economy has struggled relatively in the last year and the strength of Wyoming's largely commodity-based economy is beginning to wane. The coincident movement of income and debt, along with a higher cost of living, also help explain relatively high levels of debt in Colorado, and

to a lesser extent, Wyoming.

District credit delinquencies changed little in the third quarter following significant declines in earlier quarters. For example, the student loan delinquency rate in the District fell from 13.5 percent in the first quarter of 2011 to 10 percent in the third quarter of 2013.<sup>1</sup> The student loan delinquency rate in Oklahoma, in particular, has fallen considerably, from 21.4 percent in the second quarter of 2011 to about 12.8 percent in the third quarter of 2013. In most past quarters, the District student loan delinquency rate has surpassed the national rate, though that trend reversed in the first quarter. The delinquency rate on all accounts was down modestly to 3.4 percent from the second quarter, but was down significantly from 4.8 percent in late 2010. Bank card and auto loan delinquencies were little changed from the second quarter. 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.<sup>2</sup>

Mortgage delinquency rates in the

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District continued to fall well below national delinquency rates, with the exception of Oklahoma (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.<sup>3</sup>

## In This Issue: A Look at Debt Burden

While debt levels are important indicators of consumer credit conditions, it is the capacity to repay debt that is most critical to consumers. Every third quarter issue of the Consumer Credit Report investigates the capacity to repay debt by computing the average minimum payment on debt over the previous four quarters relative to per capita disposable income. Various measures of income are available for conducting such an analysis. The use of per capita disposable income is consistent with

the use of individuals in the Equifax data and nets out any taxes paid, giving a better gauge of the real burden of debt facing individuals. To the extent that payments are made on the basis of family income, burdens as measured here could be overstated.

The average debt burden in the District was 14.4 percent of disposable income (including first mortgages) in 2012, the latest year for which full data are available (Chart 5). This burden was roughly on par with the national burden of 14.2 percent. District debt burdens generally have been in line with national burdens in the last several years. In 2012, however, there was a wide variation in debt burdens across District states, from 11.8 percent in Oklahoma to 18.1 percent in New Mexico. In previous years, debt burdens have been highest in Colorado, likely due in part to higher home prices in parts of Colorado, especially in the Denver area.

The pattern of consumer debt burdens over time reveal an interesting but not unexpected trend. Credit burdens were highest in 2009 during the trough of the recent recession. This pattern is consistent with relatively

high levels of debt during that period, as shown in Charts 1 and 2. The pattern is also consistent with lower average incomes during that period as the most recent recession was associated with larger drops in income relative to previous post-World War II recessions. Although personal incomes have not risen as rapidly as is generally the case following a recession, they have increased moderately, putting less pressure on debt burdens. Further, until recently, households had significantly reduced debt, resulting in lower minimum payments, and interest rates have been relatively low.

Throughout the analysis period, low interest rates have helped restrain debt burdens. However, because of poor credit histories—partly due to the recession and slow recovery—many individuals and families have not been able to take advantage of low rates. In the event that interest rates rise sharply, debt burdens would be expected to increase significantly as well, especially for revolving debt, which generally has variable interest rates. Conventional 30-year mortgage interest rates have risen recently from 3.4 percent in early 2012 to 4.2 percent in October 2013. In September the rate was 4.5 percent.

## ENDNOTES

<sup>1</sup>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>).

<sup>2</sup>The count of households was changed in the third quarter, which makes bankruptcy reports in the third quarter less comparable to those of previous quarters. In the U.S. and every District state, the number of households fell significantly from the previous year.

<sup>3</sup>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>.

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](mailto:kelly.edmiston@kc.frb.org).

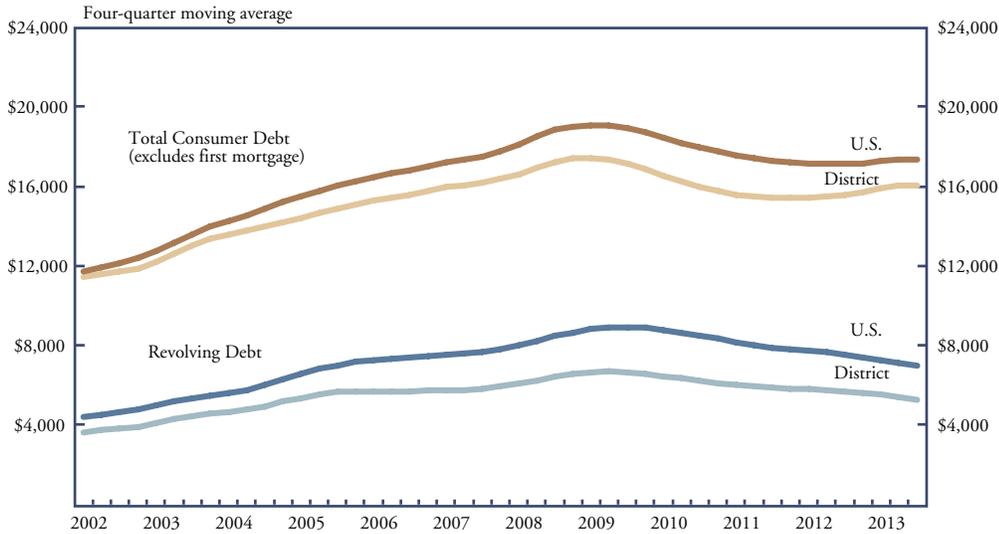
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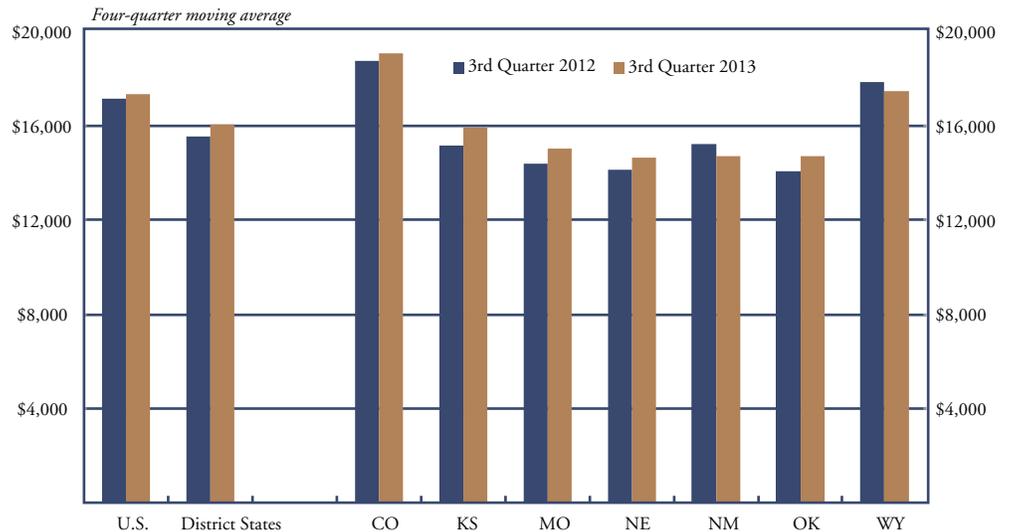
## Chart 1: Average Debt Per Consumer



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.

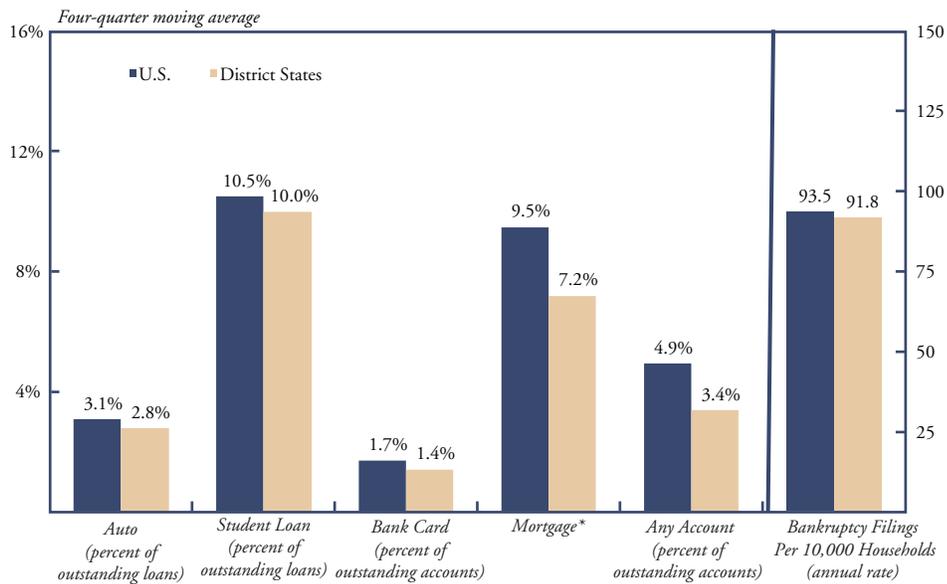
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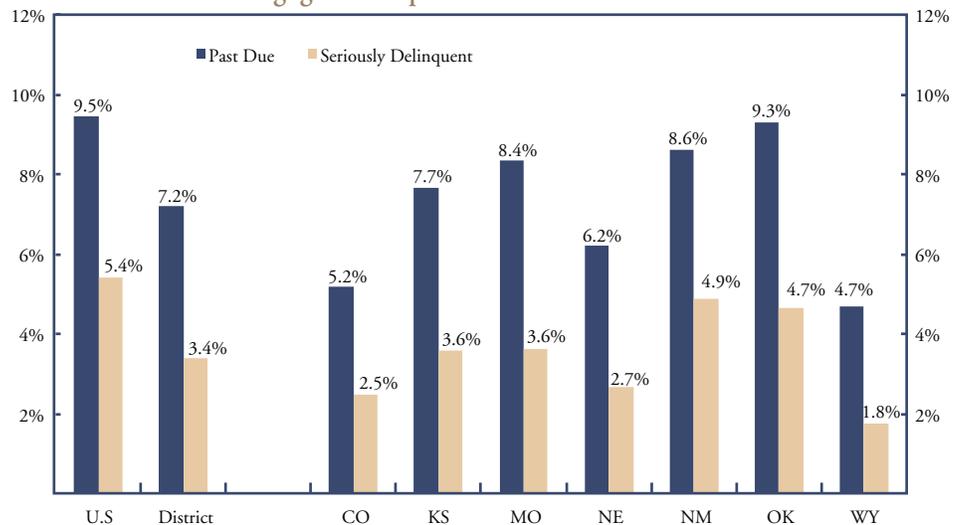
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### Chart 3: Average Consumer Delinquency Rates



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.

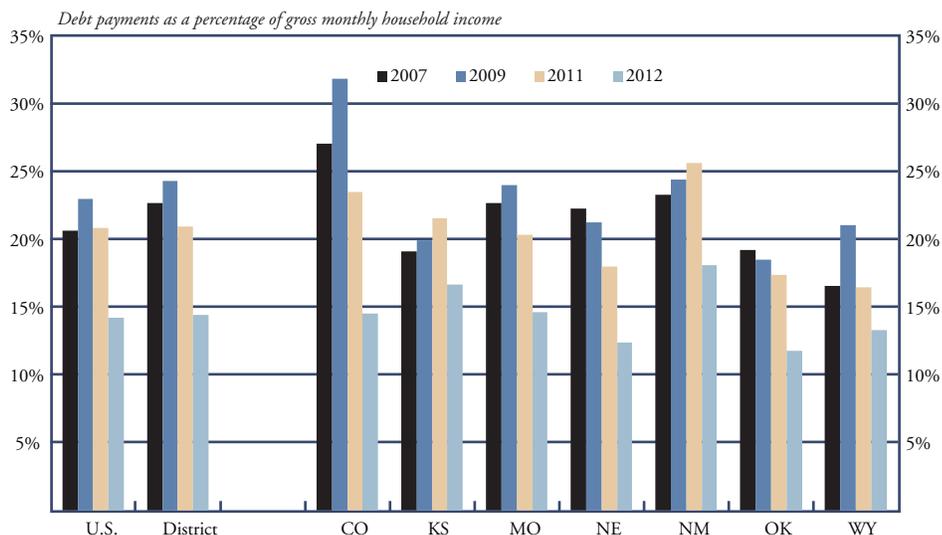
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## Chart 5: Debt Burden



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



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