

Tenth District Consumer Credit Report



1st QUARTER 2014

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, changed little in the first quarter of 2014, standing at just under \$16,100 following a modest increase in the fourth quarter (Chart 1). Average consumer debt remained well below its first quarter 2009 peak of \$17,415, but has increased 4.1 percent since reaching a post-recession low of about \$15,440 in the first quarter of 2012. Although average consumer debt has increased since the first quarter of 2012, it has been stable over the last five quarters, varying within a \$100 band, suggesting increases in consumer debt have tapered off. District consumer debt was also significantly lower than first-quarter U.S. debt, which was \$17,250.

Revolving debt, the sum of balances on open lines of credit—largely credit cards, but also home equity lines of credit and other financial products—continued to decline in the first quarter to just over \$5,000. Revolving debt has now declined for 19

consecutive quarters from its post-recession peak of \$6,680 in the second quarter of 2009, a 24.6 percent decrease. The decline in revolving debt in recent quarters coincided with stable or rising levels of total consumer debt, indicating a consistent increase in installment debt. Most of the increase in installment debt has been in student loans and auto loans. U.S. average revolving debt was \$6,650 in the first quarter, 32 percent higher than average revolving debt in the Tenth District.

As is typical, average consumer debt varied substantially across District states (Chart 2). Colorado and Wyoming had relatively high levels of consumer debt at \$18,987 and \$17,128, respectively. Colorado has a high cost of living, particularly for housing, and high average incomes relative to other District states, and both typically are associated with higher levels of consumer debt. Wyoming is home to a number of younger adults earning substantial salaries in the energy sector, and the younger cohort tends to have a higher propensity to consume out of current income. Thus,

demographics may play a role in higher average consumer debt in Wyoming.

Beginning with this quarter's issue, severe derogatory loans are included in the calculation of delinquency rates on credit instruments. Usually, a severe derogatory classification represents a charge-off of the debt (not because of bankruptcy), but the borrower still owes the debt. As a result, the credit delinquency rates reported in this issue are significantly higher than in previous issues. First-quarter delinquency rates are therefore not comparable with delinquency rates reported in previous quarters.

Credit delinquency rates changed little in the fourth quarter (Chart 3). Delinquency on any account fell moderately from 4.5 percent to 4.3 percent, largely due to a decline in mortgage delinquencies. Student loan delinquencies (including loans in forbearance and deferment) in the District have increased over the past year, rising from 13.9 percent in the first quarter of 2013 to 14.5 percent in the first quarter of 2014. Much of the rise in student loan delinquencies is due to severe

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derogatory loans. If severe derogatory loans are excluded, student loans delinquency rates have declined over the past year and are much lower. The student loan delinquency rate in Oklahoma was 19.4 percent—among the nation’s highest—up significantly from 18.7 percent in the fourth quarter. In contrast, Nebraska’s student loan delinquency rate of 10.1 percent was lowest in the District and lower than the U.S. rate of 13.8 percent.

Auto loan delinquencies fell for the 10th consecutive month, dropping from 7.7 percent in the third quarter of 2011 to 6.4 percent in the most recent quarter. The bank card delinquency rate has held steady for the past few quarters and was 4.3 percent in the first quarter. Bankruptcy filings in the District were near the national rate. Colorado’s bankruptcy filing rate was the highest in the District at 107 filings per 10,000 households, well above District and national rates. Bankruptcy filing rates have been relatively high in Colorado for several years.

District mortgage delinquency rates continued to fall in the first quarter, as did the national rate. Indeed, District mortgage delinquency rates fell dramatically. Specifically, the (30 days or more) past due rate in the District dropped from 7.1 percent

to 6.0 percent. The seriously delinquent rate (90 days or more past due or in foreclosure) decreased from 3.3 percent to 3.0 percent. The District mortgage delinquency rate was significantly lower than the national rate of 7.8 percent. Much of the difference in the rate of seriously delinquent mortgages in the District and nation reflects substantially higher foreclosure rates in the nation relative to the District.

In This Issue: Credit Card Debt and Utilization Rates

Credit card debt has fallen consistently in both the District and the nation since the recession of 2007-09 (Chart 5). The decline is reflected in trends in revolving debt shown in Chart 1. In the first quarter, the average credit card balance in the District, for those with credit cards, was \$4,769 (four-quarter moving average), modestly below the U.S. average balance of \$4,895. The average credit card balance in the District has fallen 13.7 percent since the depths of the recession in the second quarter of 2009.

Another important indicator of credit card use is the utilization rate. The credit card utilization rate is the sum of outstanding balances on all credit cards divided by the sum of each card’s limit and is expressed as a percentage. While the amount of debt on a credit card does not affect a

cardholder’s credit score—largely because credit bureaus do not have information on income—the utilization rate has a significant effect on credit scores. While credit score models are proprietary, the consensus is that credit utilization accounts for about 30 percent of a credit score. The only factor given a greater weight in determining credit score is payment history, which is thought to account for 35 percent of the score. Thus, those with especially high utilization, such as those who have “maxed out” credit cards, are likely to have much lower scores, all else equal. Most personal finance professionals suggest consumers keep unused credit cards open for the sole purpose of maintaining a lower credit card utilization rate.

The average credit card utilization rate in the District in the first quarter was 26.2 percent (Chart 6). The District credit card utilization rate was 30.5 percent in the third quarter of 2011 and has declined steadily since then. The utilization rate was higher in the early 2000s (roughly 28 to 31 percent). The U.S. credit card utilization rate is only modestly higher than the District rate at 26.5 percent. Among District states, Kansas’ credit card utilization rate was lowest at 20.9 percent while Oklahoma’s was highest at 34.8 percent.

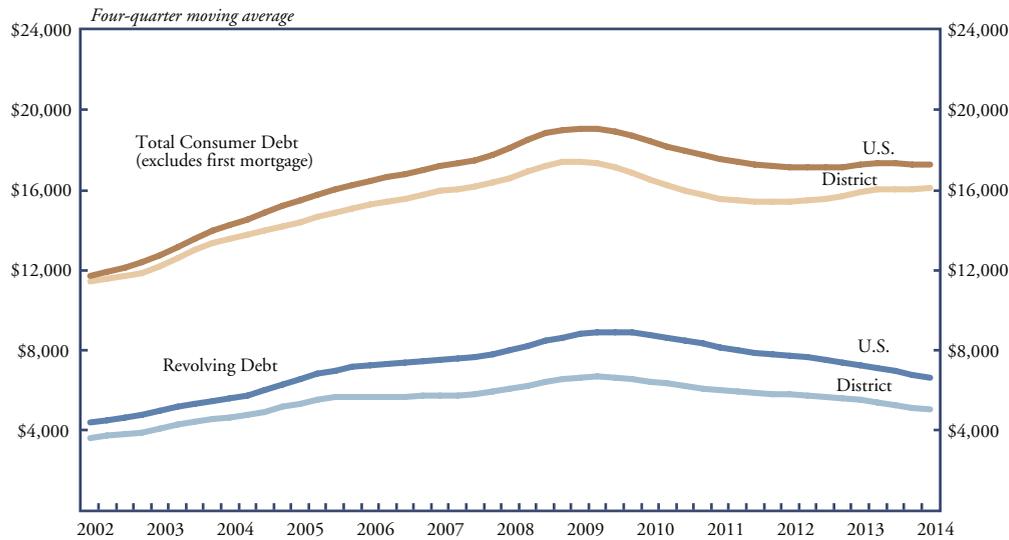
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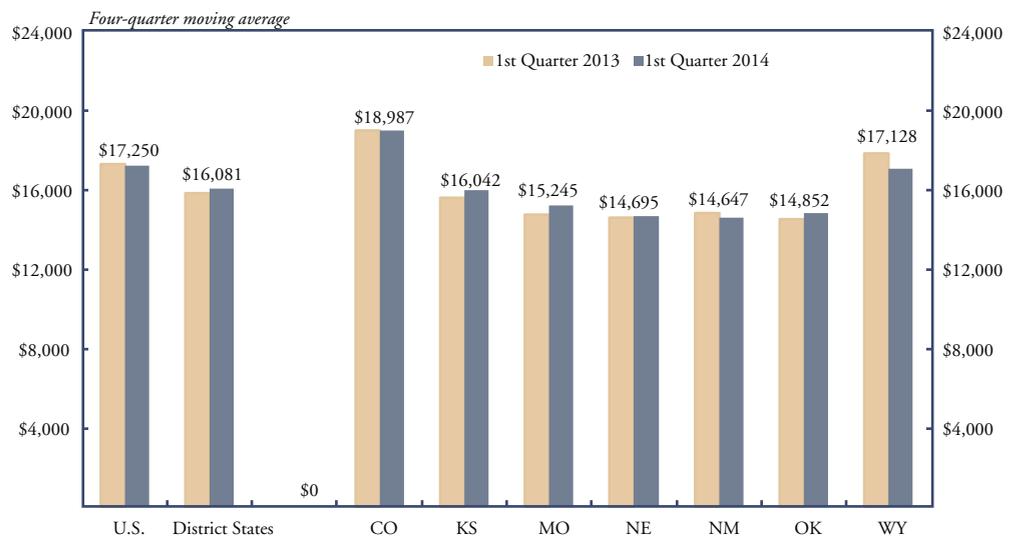
Chart 1: Average Debt Per Consumer



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.

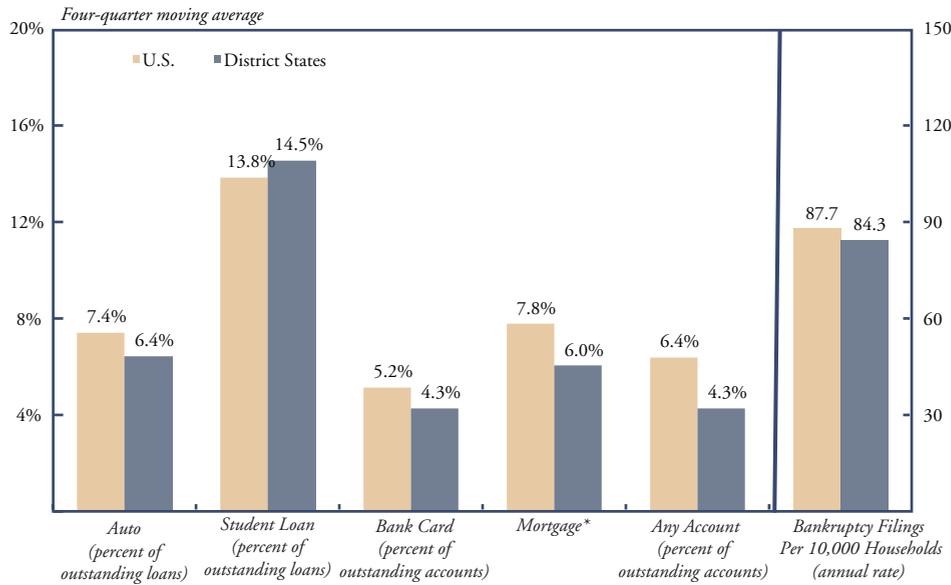
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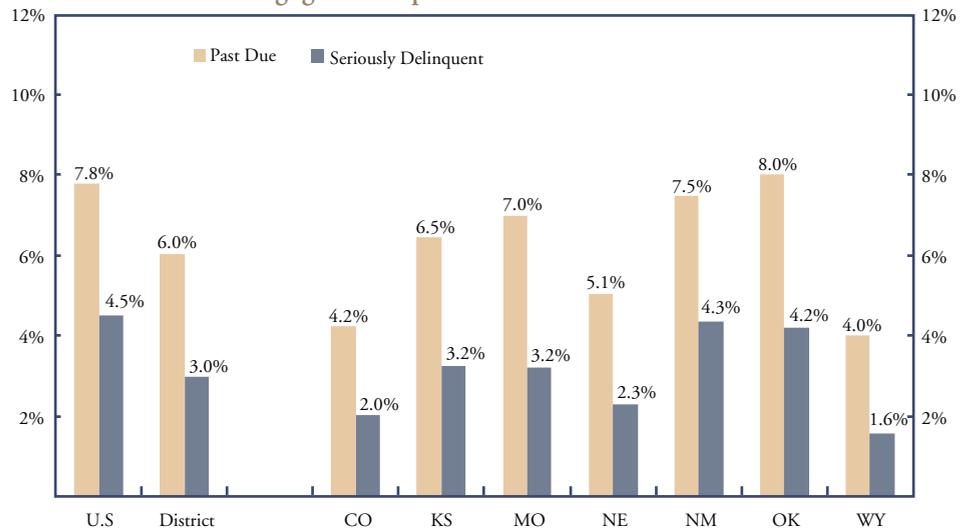
Chart 3: Average Consumer Delinquency Rates



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. Beginning this quarter, "severe derogatory" accounts are included in the calculation of delinquency rates, which makes delinquency rates higher than in other quarters, all else equal. Thus these delinquency rates are not comparable to delinquency rates provided in previous reports.

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.

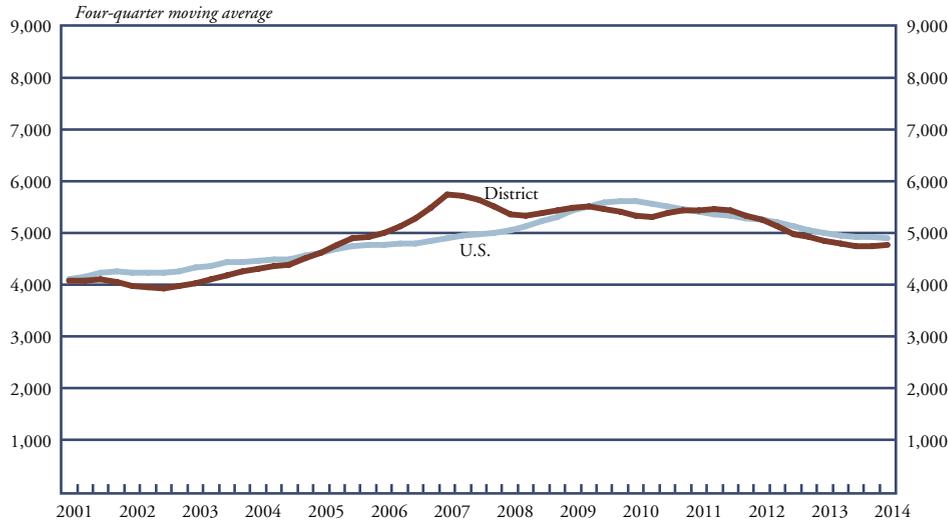
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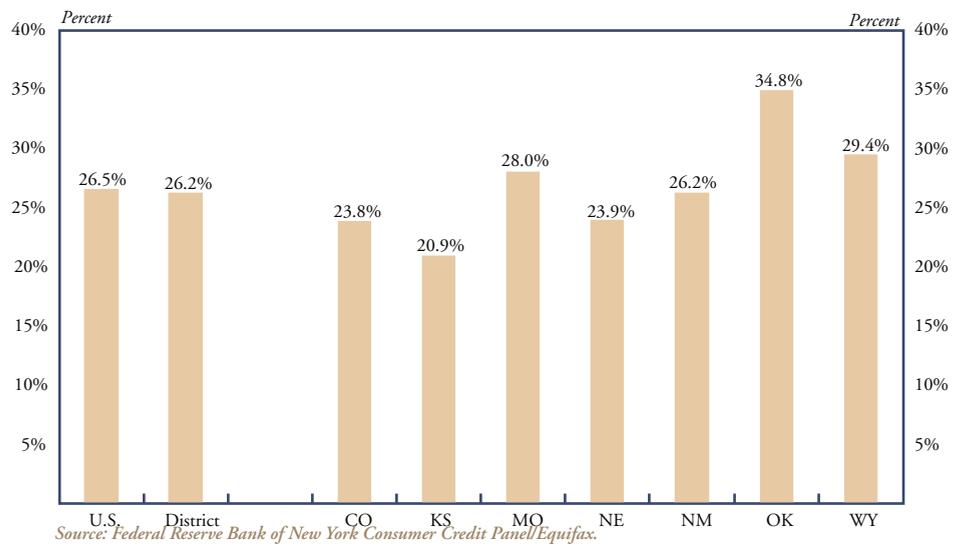
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Chart 5: Average Credit Card Balance for Those with Credit Cards



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

Chart 6: District Credit Card Utilization Rates



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

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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.