

# IN THE Balance

*Perspectives on Household Balance Sheets*



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## The Quarterly Debt Monitor: Trends in Consumer Debts in St. Louis, Little Rock, Louisville, Memphis—and Beyond

By Don E. Schlagenhauf and Lowell R. Ricketts

The Center for Household Financial Stability at the Federal Reserve Bank of St. Louis is pleased to dedicate this issue of *In the Balance* to preview a new report, “The Quarterly Debt Monitor: Trends in Consumer Debts in St. Louis, Little Rock, Louisville, Memphis—and Beyond.” This quarterly report will track and analyze new developments in select types of consumer debt—mortgages, home equity lines of credit, auto loans, credit cards and student debt—as well as delinquency measures for each of these categories.

For this preliminary report, we examine some of this data for the entire U.S. economy, the Eighth District and the four largest District metropolitan statistical areas (MSAs): St. Louis, Little Rock, Louisville and Memphis.<sup>1</sup> Our hope is that by monitoring these trends in consumer debt—a key and relatively understudied component of family balance sheets—policymakers and others will be better able to assess the financial health of U.S. families and the overall health of the U.S. economy.

Our first look at the data reveal some interesting trends:

### **District Versus Nation**

District borrowers had a very different experience than the rest of the country. The District had a more gradual deleveraging period and a smaller share of borrowers who fell seriously delinquent on their loans.

### **Debt Burdens**

Total per capita debt in the District has been growing since 2013, led in large part by lending for automobile purchases and borrowing for higher education.

### **Student Loans**

Student loan debt was largely immune to post-recession deleveraging and is growing faster than any other type of debt. Much of the new student loan debt is being accumulated by younger age groups. Also, the serious delinquency rate for student loan borrowers has increased steadily since before the recession. Thus, rising delinquency rates imply that many young borrowers will find their access to credit and ability to save diminished at the outset of their economic lives. This may present a significant headwind for the aggregate economy.

### **What Has Happened to Consumer Debt Since the Great Recession?**

In Figure 1, total real per capita consumer debt for the nation and the Eighth District is presented relative to their respective balances in 2003 to compare debt growth. Between the first quarter of 2003 and the third quarter of 2008, total per capita debt in the nation increased around 50 percent. Much of this rise stemmed from increased mortgage borrowing. From that peak, per capita debt declined until the second half of 2013, a process known as “deleveraging” whereby consumers discharge or pay down debts. After reaching a turning point in 2013, total per capita debt has been growing at a gradual pace in the District and has been essentially flat for the nation.

The pattern for consumer debt growth in the District is similar to that of the nation, although there are some important exceptions. In particular, the run-up



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in debt was milder than that observed for the nation. More affordable house prices within the District played a big role in moderating the growth of overall mortgage borrowing. In turn, this protected consumers from the worst of the housing crash. While the District did deleverage, the intensity was much milder.

### Borrowing for Higher Education and Automobiles Is Driving Debt Rebound

Consumers across the country are borrowing more to finance car purchases and pursue higher education. For both the nation and the District, student and auto loans combine for around 90 percent of debt growth since the fourth quarter of 2012. In Figure 2, the remarkable growth is reflected by the average amount of auto and student debt held by borrowers.<sup>2</sup> Average auto debt grew at a similar rate to student loans since the close of 2010. However, unlike auto loans, the recession did little to slow the growth of student loan balances. Since 2003, the average student loan balance has increased by more than 58 percent.

Some reports argue that part of the slow recovery is due to recent graduates paying down student debt rather than buying houses and other goods.<sup>3</sup> Figure 3 breaks down the growth in both student debt and auto debt by age groups and highlights the groups generating the majority of the economic activity.

The vast majority of new student loan debt is concentrated in younger age groups. Coupled with consistently rising average balances, this heavy concentration of new debt among the young supports the theory that these borrowers will experience headwinds in the form of a longer deleveraging period before other spending or saving decisions may be financially sound. In contrast, much of the new auto debt is concentrated in the older age groups. This is especially true for the District, where 61 percent of new auto debt was accumulated by individuals age 56 and above.

### Serious Delinquency Rates Tell a Story of Financial Hardship

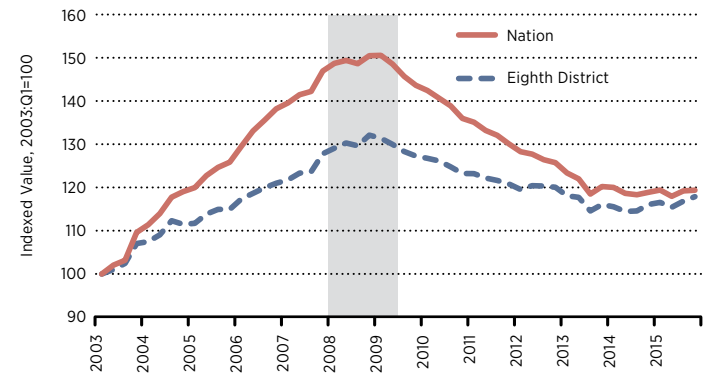
As borrowers encounter unexpected setbacks—both financial and otherwise—they are more likely to fall behind on loan payments. If the duress is prolonged or worsens, then borrowers' loans may fall into serious delinquency (defined as a payment is overdue by at least 90 days). Figure 4 shows the serious delinquency rates for both student loans and auto loans.

Intuitively, the rate for auto loans rose during the recession and peaked at close to double the pre-recession rate. The rate for student loans also rose over the same period, but never declined substantially. However, these delinquency rates likely *understate* the effective delinquency rates, because many student loans are in deferment, grace periods or forbearance and are temporarily not in the repayment cycle.<sup>4</sup>

The implications of these alarmingly high rates is not immediately clear, especially given that many student loans cannot be shed in personal bankruptcy. However, a large share

FIGURE 1

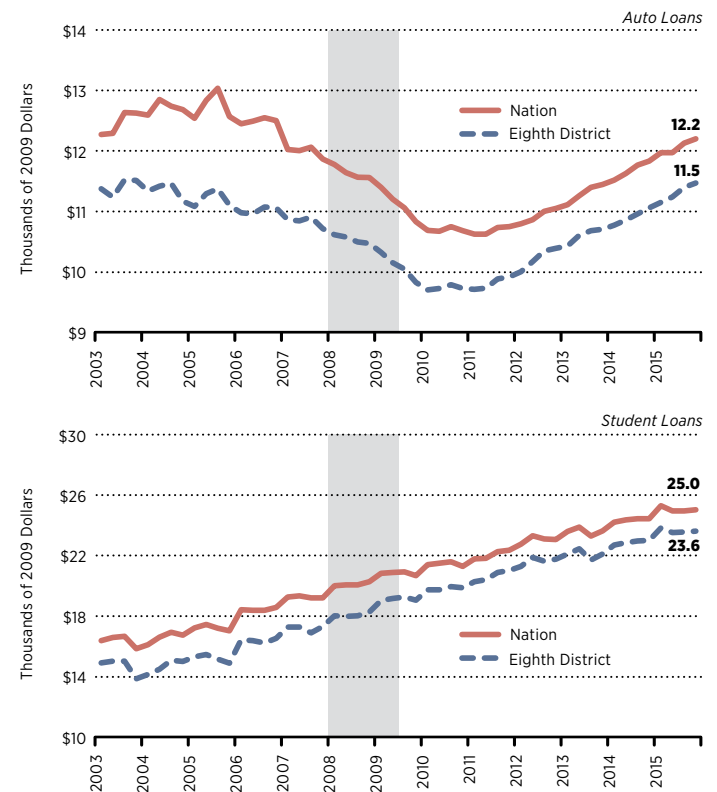
### Total Real Per Capita Debt, Nation vs. District



SOURCES: FRBNY Consumer Credit Panel/Equifax Data, BEA, NBER and authors' calculations.  
NOTE: Gray bar indicates the most recent recession as defined by the NBER.  
Adjusted for inflation using PCE chain-type price index.

FIGURE 2

### Average Auto and Student Loan Debt Balances, Nation vs. District



SOURCES: FRBNY Consumer Credit Panel/Equifax Data, BEA, NBER and authors' calculations.  
NOTE: Gray bar indicates the most recent recession as defined by the NBER.  
Adjusted for inflation using PCE chain-type price index.

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of young borrowers saddled with severely delinquent loans may inhibit aggregate economic growth as this group is unable to participate in other economic activities, such as buying a home or saving for retirement.

### Borrowing Differs Greatly Across Large Cities

Data at the MSA level in the Eighth District also show different experiences for borrowers. As seen in Figure 5, Memphis' student debt growth in 2015 well outpaced that of the nation and other large District cities.

Serious delinquency rates for student debt rose across every city, while the rate fell for the nation as a whole. Of note, Louisville experienced a sharp increase over the year, representing the highest point in 13 years.

For auto debt, borrowers in each large city, as well as the nation, were accumulating debt at a rapid rate. Serious delinquency rates for auto debt largely held steady and were a quarter of the rate for student loans. This largely reflects the greater financial security, on average, for borrowers in older age groups.

### Further Analysis Ahead

This powerful dataset will allow us to monitor these statistics and several others across a wide range of geographic areas. In the next quarter, we will showcase trends for consumer debt across the nation, District and large District MSAs. Ultimately, we hope to provide valuable information to policymakers, business leaders, nonprofits and others interested in following this key component of household balance sheets. ■

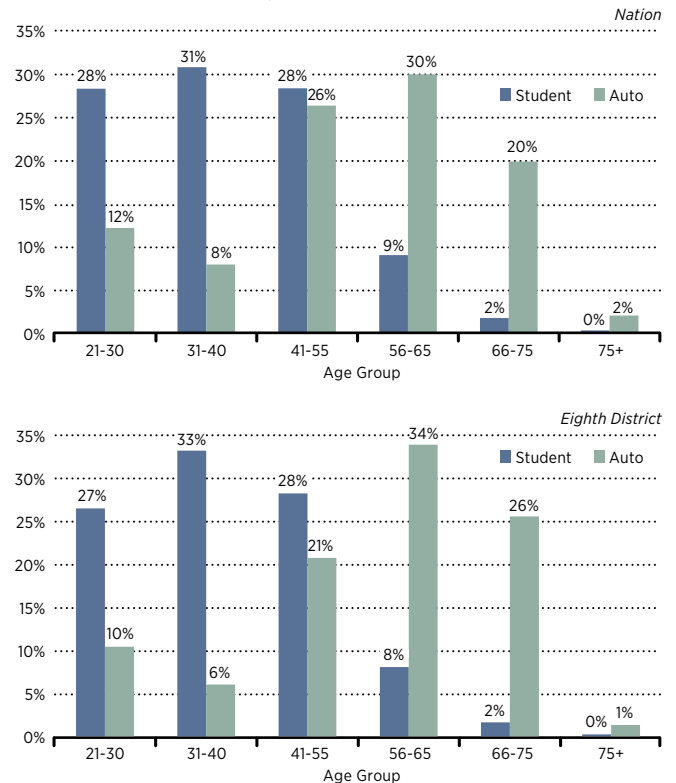
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### Methodology

To monitor developments in consumer debt, it is imperative to examine microeconomic data rather than traditional aggregate data. Thus, this project uses the Consumer Credit Panel dataset assembled by the Federal Reserve Bank of New York. This panel data is constructed from raw credit report data provided by Equifax. It contains credit-reporting data for a nationally representative 5 percent sample of all adults with a Social Security number and a credit report. The dataset is structured as a quarterly panel, begins in 1999 and includes snapshots of consumers' credit profiles captured at the end of each quarter. While we use the full sample for our regional analysis, a 2 percent subsample was used for national results to ease the computational burden. All debt figures are adjusted for inflation using the personal consumption expenditures chain-type price index. Average debt balances are calculated using the subset of the sample which owns that debt type. We report data as they are reported to Equifax, and we do not adjust for potential reporting issues within the data on student loans.

FIGURE 3

### Share of New Debt by Type, 2003:Q1-2015:Q4

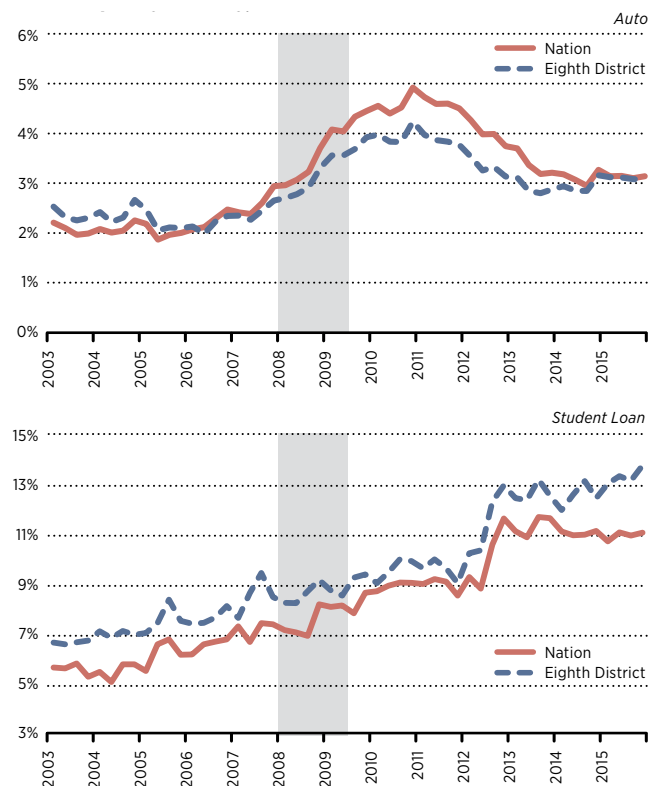


SOURCES: FRBNY Consumer Credit Panel/Equifax Data, BEA and authors' calculations.

NOTE: Adjusted for inflation using the PCE chain-type price index. Shares may not sum to 100 due to omission of borrowers under the age of 21.

FIGURE 4

### Serious Delinquency Rates by Type, Nation vs. District



SOURCES: FRBNY Consumer Credit Panel/Equifax Data and authors' calculations.

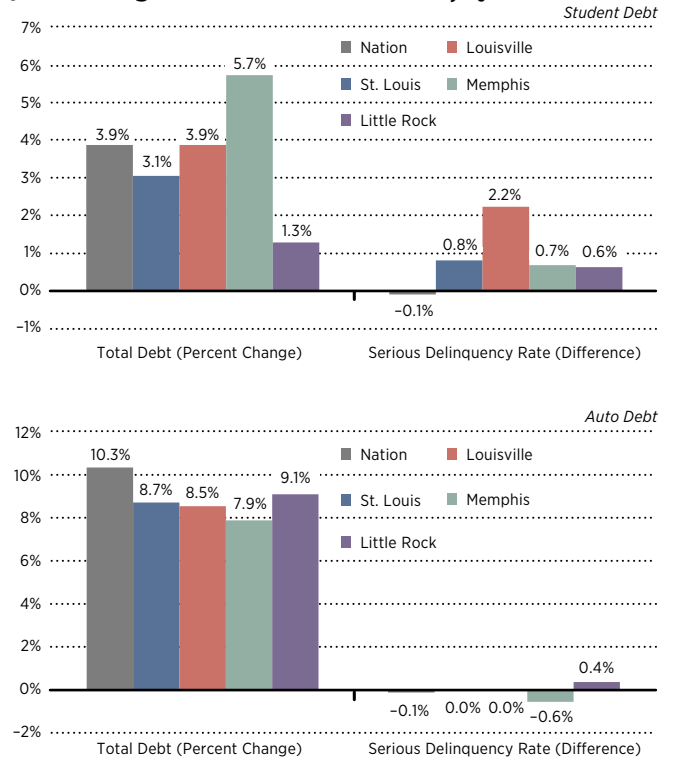
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ENDNOTES

- 1 The Eighth Federal Reserve District contains all of Arkansas and portions of six other states: Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee. An MSA consists of multiple counties and includes the core urban area, as well as any adjacent counties that have a strong social and economic attachment to the urban core.
- 2 These averages are for people who own these types of debt. People without student loan or auto debt are excluded from this analysis.
- 3 Bleemer, Zachary; Brown, Meta; Lee, Donghoon; and van der Klaauw, Wilbert. "Debt, Jobs, or Housing: What's Keeping Millennials at Home?" *Federal Reserve Bank of New York Staff Reports*, Staff Report No. 700, November 2014.
- 4 Brown, Meta; Haughwout, Andrew; Lee, Donghoon; Mabus, Maricar and van der Klaauw, Wilbert. "Grading Student Loans," *Liberty Street Economics*, March 5, 2012.

FIGURE 5

**Year/Year Change in Student and Auto Debt, by MSA**



SOURCES: FRBNY Consumer Credit Panel/Equifax Data, BEA and authors' calculations.  
 NOTE: Comparison period is between the fourth quarter of 2014 and the fourth quarter of 2015.