

The Quarterly Debt Monitor

Trends in Consumer Debt in
St. Louis, Little Rock, Louisville, Memphis—and Beyond



Mortgage Debt Continues Decline While Auto Lending Soars

By Lowell R. Ricketts and Don E. Schlagenhauf

Consumer debt grew across the United States and all of the major metropolitan areas in the Eighth Federal Reserve District in the second quarter of 2016. While non-metropolitan areas showed similar debt growth trends, the total debt in these larger geographic areas is smaller than the MSAs'. Those are two of the findings of this second issue of *The Quarterly Debt Monitor*, a detailed report on consumer debt nationally compared to the four largest metropolitan statistical areas (MSAs) in the District, which has headquarters in St. Louis.¹

This report uses the latest release of the Federal Reserve Bank of NY/Equifax panel data, with the latest observation being the second quarter of 2016. A subset of the figures reported in the previous report is presented to offer a more focused narrative. The special section for this issue will focus on consumer debt trends within nonmetropolitan regions of the seven District states. For readers interested in seeing the full set of updated figures, see the QDM [charts appendix](#).^{*} In addition, the appendix offers a detailed description of our methodology and definitions.

Executive Summary

1. In the second quarter of 2016, real per capita consumer debt grew across the United States and all of the major District MSAs except for Memphis. Auto and student debt continue to be the fastest growing debt categories.
2. Per capita mortgage debt grew marginally for St. Louis and the nation, while declining slightly in Little Rock. Mortgage debt holdings in Louisville exhibited the strongest growth, with a 1.7 percent increase over the past year.

TABLE 1

Changes in Per Capita Debt Levels and Serious Delinquency Rates

Year-over-Year Percent Change from 2015:Q2 to 2016:Q2²

2016:Q2	United States	St. Louis MSA	Louisville MSA	Memphis MSA	Little Rock MSA
% Change in Per Capita Consumer Debt					
Total	1.6	1.4	2.2	-0.2	1.9
Mortgage	0.6	0.5	1.7	-3.5	-0.3
HELOC	-2.3	-6.2	0.3	-9.8	-0.3
Auto	8.3	7.7	7.9	7.9	8.1
Credit Card	1.9	1.9	-1	2.9	3.6
Student	3.9	3.2	4.3	5.9	3.3
Change in Serious Delinquency Rate					
Mortgage	-0.7	-0.4	-0.2	-0.4	-0.4
HELOC	-1.1	-1.3	0	-1.5	-0.2
Auto	0.1	-0.1	0.6	0.1	0.8
Credit Card	-0.9	-0.5	-0.8	-0.8	-0.3
Student	0	-2.1	2	-0.2	0.7

SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

NOTES: Serious delinquency rates are the share of outstanding debt that is over 90 days past due. Changes to those rates are given as the differences in percentage points. Figures are rounded.

3. In contrast, Memphis declined significantly (3.5 percent), pushing the total level of mortgage debt in Memphis further below 2003 levels.
4. Auto debt grew at an average rate of about 8 percent across the nation as well as in the four MSAs. That outpaced the growth rate for any other type of debt by a large margin. Auto debt in the largest MSAs, save for Louisville, exceeds pre-recession levels.
5. Serious delinquency rates for mortgage and credit card debt declined in both the four MSAs and the nation. However, the fraction



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^{*}https://www.stlouisfed.org/~media/publications/quarterly%20debt%20monitor/issue_2/2016_Q2_QDM_appendix

of auto and student debt that is seriously delinquent jumped by a significant margin in both Louisville and Little Rock. In contrast, serious delinquency rates fell for all types of debt in St. Louis, including a 2.1 percentage point drop for student debt. Despite mostly falling rates, Memphis continues to have the highest serious delinquency rate across *all* types of debt.

5. With the exception of St. Louis, the size of total debt across nonmetropolitan areas of each state was close (80 percent) to that of the respective MSAs. A comparison of consumer debt trends in nonmetropolitan areas versus metropolitan areas shows similar growth trends for most types of debt. Within mortgage markets, nonmetropolitan areas experienced a milder deleveraging period following the recession. However, the average and total value of mortgage debt in metropolitan areas exceeds that found across nonmetropolitan areas as a whole.

The Declining Importance of Mortgage Debt

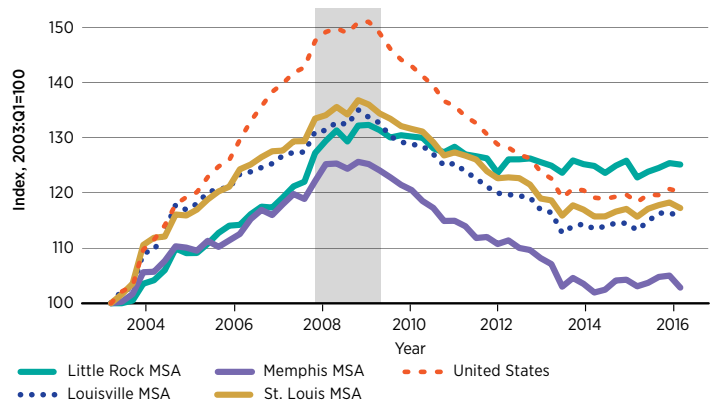
Mortgage debt is typically the largest financial obligation that a household acquires; given this, it represents the largest share of total consumer debt. At its peak in the third quarter of 2007, mortgage debt comprised 74 percent of total debt nationally. As the housing market crashed, so did the rising share of mortgage debt. Within only a year, \$340 billion of mortgage debt was shed from the collective balance sheets of consumers. Since the peak, mortgage debt's share of total debt has declined by 6 percentage points, reaching the lowest level since 2003. Among the hardest hit of the MSAs, Memphis' mortgage debt contracted from a peak of 68.2 percent to a historic low of 57.6 percent.

All of this turmoil in mortgage markets caused extensive deleveraging for total debt (see Figure 1). Prior to the recession, per capita mortgage debt nationally grew quarterly year-over-year by an average of 10 percent. This quarter marks the first positive year-over-year growth for the nation since the first quarter of 2009. However, other types such as auto and student debt have grown rapidly, buoying total debt. Coupled with the decline in mortgage debt, the rapid growth has claimed a greater share of the total for auto and student debt. Since the third quarter of 2007, auto and student debt grew by 2.2 and 6.4 percentage points, respectively. They now account for 9.1 and 10 percent of total debt, respectively.

Figure 2 shows the contribution to total growth for each type of consumer debt within the past year. The decline in mortgage debt for Memphis particularly stands out. The combined growth in auto debt and student debt helped offset much of the overall decline. Growth of per capita debt in Louisville was the strongest thanks to a sizable jump in mortgage debt, coupled with increased auto and student loan borrowing. New auto and student debt constituted over two-thirds of total growth in Little Rock.

FIGURE 1

Total Real Per Capita Consumer Debt



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.
 NOTES: "Real" data are inflation-adjusted. The gray bar indicates recession.

Memphis: A Strengthening Housing Market despite Declining Mortgage Balances

The mortgage market in Memphis continues to contract while the nation and other MSAs have stabilized (See Figure 3). Deleveraging, the process where consumers pay down or shed debt, appears to have resumed since levels steadied around 2014. The latest estimate of real per capita mortgage debt shows levels 5.5 percent lower than in the first quarter of 2003. In Memphis, the deleveraging process following the recession was faster and deeper. Per capita mortgage debt levels for the other MSAs have essentially stabilized while the residents of Memphis continue to shed or pay down mortgage debt. In addition, participation in the Memphis mortgage market is at an all-time low. The borrowing rate for mortgages has declined by 6 percentage points in the last decade. In the latest quarter, only 22.7 percent of our sample participated in the mortgage market. In comparison, 27.5 percent of Little Rock residents and 29.5 percent of St. Louis residents had a mortgage.

The persistent decline in mortgage debt in Memphis coincides with various positive signals found in the local housing market. Over the past year, the CoreLogic house price index for Memphis has grown by 3.7 percent. According to the Memphis Area Association of Realtors, year-to-date home sales are at the highest level since before the recession. Within our data, the serious delinquency rate has fallen to the lowest level since the first quarter of 2006. Based on calculations using data from a different source, McDash Analytics, the foreclosure rate in June 2016 fell to 0.8 percent, the same rate seen in July 2007. Given these low distress rates, it is unlikely that defaults and foreclosures are the main force behind the decline. Rather, the deleveraging may be the result of borrowers continuing to pay down their debt. As for the robust activity seen elsewhere, anecdotal evidence has

suggested that the strength in prices and sales may be due to outside investors—motivated by the relatively low prices in the area—purchasing properties and converting them to rental units.

Surging Auto Lending Continues to Draw Scrutiny

The increase in borrowing for automobile purchases has been remarkable (see Figure 4). Since the start of 2014, real per capita auto debt has grown by 20.6 percent across the nation. This rate has been slightly lower for the District MSAs, ranging from 15.3 percent in Louisville to 19 percent in Memphis.

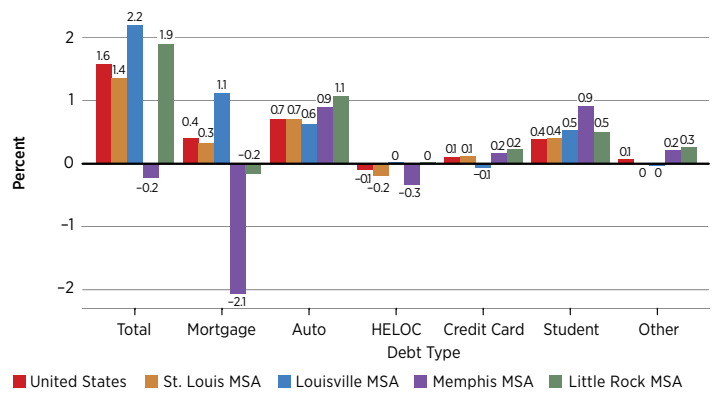
Why have consumers taken on all of this auto debt? According to the University of Michigan Surveys of Consumers, 71 percent of respondents claimed that it was a good time to purchase a vehicle, the largest share to give that favorable assessment since the first quarter of 2004. This may reflect the fact that the average commercial bank interest rate on a new car loan has fluctuated between 4 and 4.5 percent since the second quarter of 2013. The current rate of 4.3 percent is close to 600 basis points below the pre-recession average.³ These favorable rates and positive consumer sentiment have pushed light vehicle sales to the highest level since the third quarter of 2005.⁴

At face value, all of these trends suggest a reasonable uptick of consumption and economic activity. However, one development worth watching is the concentration of new debt among individuals with credit scores in the subprime and deep subprime range.⁵ In Memphis, over 57 percent of new auto debt for the second quarter of 2016 was issued to borrowers with an Equifax Risk Score below 660.⁶ Increased lending to individuals with a greater risk of delinquency suggests that serious delinquency rates could increase in the near future if these households experience a financial setback. Within the past year, both Little Rock and Louisville have seen a sustained increase in the serious delinquency rate for auto loans (see Figure 5).

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FIGURE 2

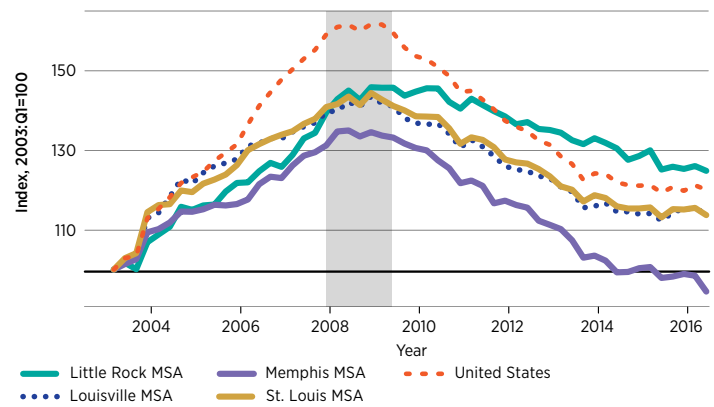
Contribution to Percent Change in Total Per Capita Debt



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

FIGURE 3

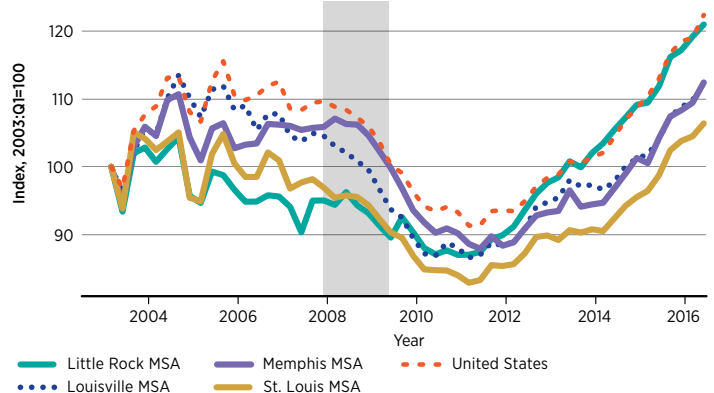
Total Real Per Capita Mortgage Debt



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

FIGURE 4

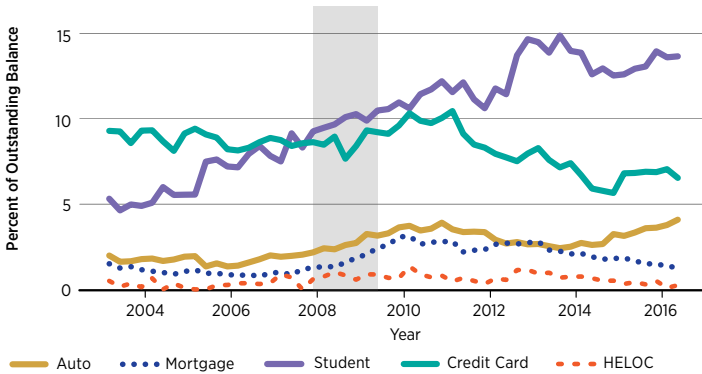
Total Real Per Capita Auto Debt



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

FIGURE 5.1

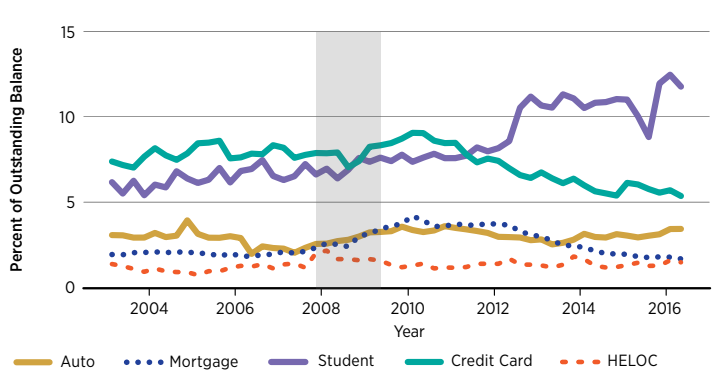
Serious Delinquency Rates, by Debt Type: Little Rock MSA



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

FIGURE 5.2

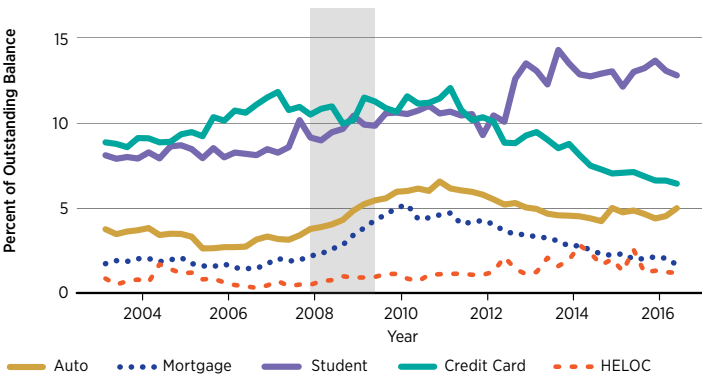
Serious Delinquency Rates, by Debt Type: Louisville MSA



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

FIGURE 5.3

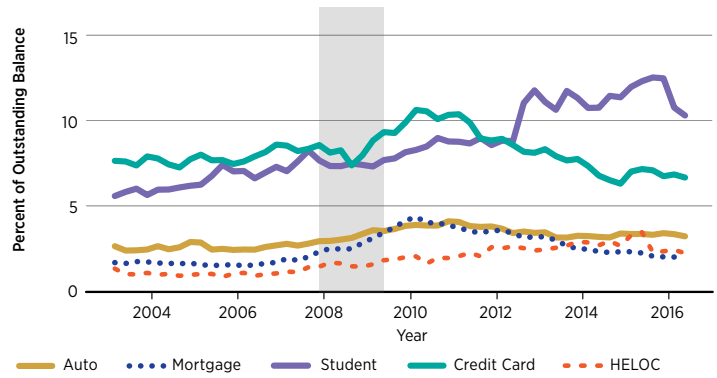
Serious Delinquency Rates, by Debt Type: Memphis MSA



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

FIGURE 5.4

Serious Delinquency Rates, by Debt Type: St. Louis MSA



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

Credit Trends In Nonmetropolitan Areas⁷

Considerable attention is given to the credit trends of metropolitan areas and the nation as a whole. Meanwhile, the trends in nonmetropolitan areas have largely been ignored. The extensive geographic coverage of the Consumer Credit Panel offers a detailed look at credit trends across the entirety of our District states. This section offers a brief look at notable differences between consumer debt in the four largest MSAs and the combined nonmetropolitan areas of the District states.

Table 2 provides a breakdown—similar to that of Table 1 for the District MSAs—of per capita debt growth and the change in serious delinquency rates for nonmetropolitan counties within the seven District states. Nonmetropolitan Illinois had the fastest growth rate for total debt, largely fueled by robust growth in mortgage debt, as well as strong growth in auto and credit card debt. Nonmetropolitan counties in Tennessee reduced holdings of mortgage, home equity lines of credit (HELOC), and credit card loans. However, growth in student and auto debt kept total debt essentially unchanged. Serious delinquency rates for mortgage and credit card balances declined across all nonmetropolitan areas with the exception of credit card debt in nonmetro Arkansas. The

serious delinquency rate for student debt in nonmetropolitan Missouri and Mississippi improved significantly.

Figure 6 offers a comparison of average debt balances across debt types for borrowers in Louisville as well as the nonmetropolitan portion of Indiana and Kentucky. The average mortgage balance for a borrower in Louisville is \$29,000 to \$32,000 higher than in the nonmetropolitan areas. The average HELOC loan in Louisville also exceeded the average in the nonmetropolitan portions of Louisville and Indiana. This is a byproduct of higher house prices characteristic of more densely populated areas. The average student debt for a borrower in Louisville was around \$4,000 to \$6,000 more than that of students in nonmetropolitan areas. In contrast, the average amount of auto and credit card debt are approximately equal in these metro and nonmetro areas.

While many of the growth rates for various debt types are similar between metro and nonmetro areas, some nonmetro areas have had much stronger growth (see Figure 7). Surprisingly, growth in mortgage debt for nonmetro Missouri outpaced St. Louis and eventually exceeded that of the nation. Of course, this is in relative terms: The level of total mortgage debt in nonmetro Missouri peaked in the fourth quar-

TABLE 2

Changes in Per Capita Debt Levels and Delinquency Rates, Nonmetropolitan Counties

Year-over-Year Percent Change from 2015:Q2 to 2016:Q2

2016:Q2	Missouri	Illinois	Indiana	Kentucky	Tennessee	Mississippi	Arkansas
% Change in Per Capita Consumer Debt							
Total	1	4.8	2.9	2.2	0.1	2.5	3.6
Mortgage	-2.1	4.7	1.3	-0.8	-1.8	0.3	1.3
HELOC	2.6	-1.8	1.3	3.1	-11.5	6.6	-0.5
Auto	8.9	6.4	9.2	8.9	9	9.2	10.4
Credit Card	1.6	5.6	1.3	3.4	-4.4	1.7	4.6
Student	3.7	1.5	2.9	6.7	3.3	5.6	4.4
Change in Serious Delinquency Rate							
Mortgage	-0.1	-0.1	-0.5	-0.5	-0.8	-0.1	-1.1
HELOC	-0.9	-0.1	0.5	-0.2	-0.4	-1.5	-3.1
Auto	0.2	0.1	0.2	0.2	0.3	-0.1	0.5
Credit Card	-0.1	-0.3	-1.2	-0.9	-0.4	-0.5	0.2
Student	-2	-0.7	0.7	-0.2	-0.5	-1.7	-0.7

SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

NOTES: Per capita growth rates are presented for total debt as well as individual debt types. Figures are rounded.

ter of 2008 at \$18.2 billion, while in St. Louis that figure was \$70.3 billion. Following the runup, the deleveraging in nonmetro Missouri has been much more gradual than what was seen in the MSAs and nation.

A demographic breakdown of mortgage debt growth provides further evidence of stronger borrowing activity within nonmetropolitan mortgage markets (see Figure 8). Within the past year, the change in total mortgage debt by age groups shows that overall mortgage debt growth well outpaced that of the metro areas. Unlike St. Louis and Little Rock, nonmetro Illinois and Arkansas derived considerable growth from borrowers under the age of 31. Growth within the 31-40 and 56-65 age groups for nonmetro areas also outpaced St. Louis and Little Rock.

The remarkable growth in auto debt identified earlier is not only reflected in all nonmetropolitan areas, but the nonmetro rates also exceed the metro rates in some cases. For example, Figure 9 shows the incredible growth rate for per capita auto debt in nonmetropolitan Mississippi. Since the trough in the fourth quarter of 2010, per capita auto debt has grown at a 7.9 percent annual rate. In comparison, auto debt in Memphis grew at a 2.4 percent annual rate over the same period.

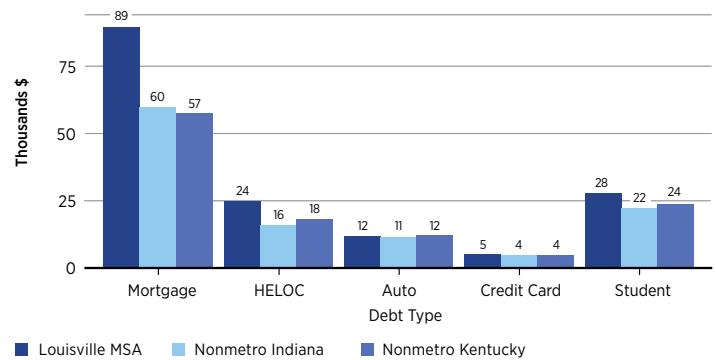
In summary, consumer debt trends in nonmetropolitan areas mirror many of the developments for the metropolitan areas. There was a runup in mortgage debt prior to the recession and a deleveraging period following it. The speed and depth of this deleveraging period varies and in several cases the nonmetropolitan areas have had a slower and shallower decline. Auto debt in nonmetropolitan areas has grown rapidly at similar or higher rates than metropolitan areas.

Similarities aside, levels of debt, both at the aggregate and at the individual level, differ between nonmetro and metro areas. Average mortgage debt balances for metropolitan borrowers well exceed those of their nonmetropolitan counterparts. A greater share of metropolitan borrowers take on student debt and their average balance exceeds that of their nonmetropolitan peers.

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FIGURE 6

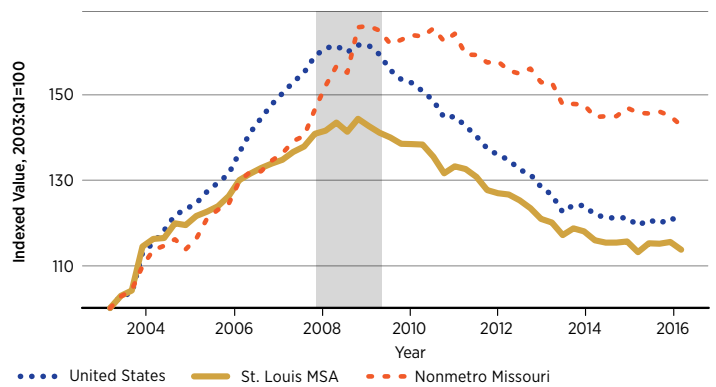
Average Debt Balance, by Type, 2016:Q2



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

FIGURE 7

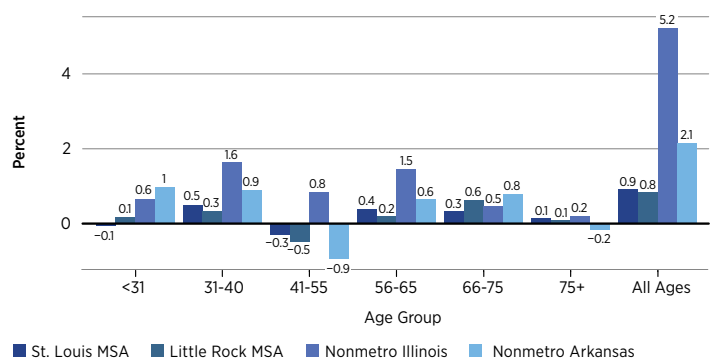
Total Real Per Capita Mortgage Debt



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

FIGURE 8

Year-over-Year Change in Mortgage Debt

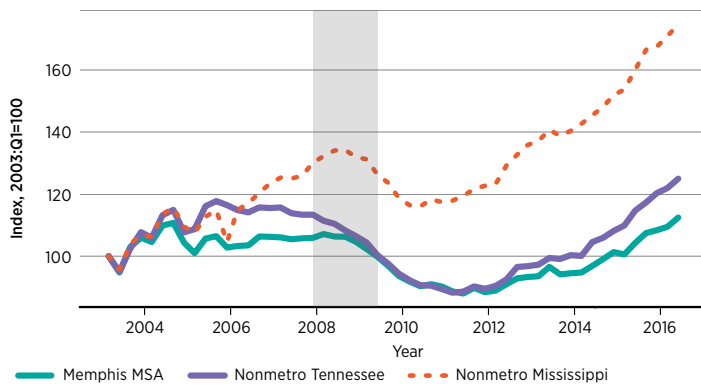


SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

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FIGURE 9

Total Real Per Capita Auto Debt



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

Endnotes

- 1 The Eighth Federal Reserve District comprises all of Arkansas and portions of 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 Looking at trends on a year-over-year basis is particularly important because of seasonal patterns in consumer debt data.
- 3 The rate corresponds to those for 48-month new car loans from commercial banks. Board of Governors of the Federal Reserve System, Consumer Credit (G.19).
- 4 Bureau of Economic Analysis.
- 5 Typically, credit scores below 600 are considered subprime. A score below 500 would qualify as deep subprime.
- 6 The Equifax Risk Score predicts the likelihood of a consumer becoming seriously delinquent (90-plus days past due on debt). The score ranges from 280 to 850, with someone with a higher score being viewed as a better risk than someone with a lower score.
- 7 Nonmetropolitan areas are defined according to the U.S. Department of Agriculture 2013 Rural-Urban Continuum Codes. Any county with a code greater than 3 was included in our sample. See: <http://www.ers.usda.gov/data-products/rural-urban-continuum-codes.aspx>. All counties within metropolitan statistical areas have been omitted, not just the four largest District MSAs. In other words, we removed counties in MSAs as large as the Chicago-Naperville-Elgin, Ill.-Ind.-Wis. MSA, as well as those in smaller MSAs such as Columbia, Mo.
- 8 It is important to note that these are growth rates for *total mortgage debt* rather than *per capita mortgage debt*. Looking at per capita growth rates across age groups is misleading, given it doesn't offer an interpretation with regards to how those individual rates factor into the total rate. Weighted contributions are not possible given the different size of populations and corresponding debt levels for each of the age groups.