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A Snapshot of U.S. Household Debt

By Editor Test *Wed, Aug 25, 2010*

As a country, the U.S. owes its bondholders almost $13.4 trillion. As individuals, Americans owe about $11.2 trillion. Unlike the national debt, however, household debt recently fell--for the first time in four years.

For the first time since early 2006, total household loan delinquency rates declined in 2010Q2. As of June 30, 11.4% of outstanding debt was in some stage of delinquency, compared to 11.9% on March 31, and 11.2% a year ago, according to a chart-rich report from the Federal Reserve Bank of New York.

Currently about $1.3 trillion of consumer debt is delinquent and $986 billion is seriously delinquent (at least 90 days late or “severely derogatory”). Delinquent balances are now down 2.9% from a year ago, but serious delinquencies are up 3.1%.

Aggregate consumer debt continued to decline in the second quarter, continuing its trend of the previous six quarters. As of June 30, 2010, total consumer indebtedness was $11.7 trillion, a reduction of $812 billion (6.5%) from its peak level at the close of 2008Q3, and $178 billion (1.5%) below its March 31, 2010 level. About three-quarters of household debt consists of mortgages.

The number of credit account inquiries within six months – an indicator of consumer credit demand –ticked up for the first time since 2007Q3. Credit cards have been the primary source of the reductions in accounts over the past two years, and during 2010Q2 the number of open credit card accounts fell from 385 to 381 million. The number of open credit card accounts on June 30 was down 23.2% from their 2008Q2 peak.

About 496,000 individuals had a foreclosure notation added to their credit reports between March 31 and June 30, an 8.7% increase from the 2010Q1 level of new foreclosures. Arizona, California, Florida and Nevada continue to indicate higher than average delinquency and foreclosure rates.

New bankruptcies noted on credit reports rose over 34% during the quarter, from 463,000 to 621,000. While we usually see jumps in the bankruptcy rate between the first and second quarter of each year, the current increase is higher than in the past few years, when it was around 20%.

Mortgage originations fell another 4.1% between 2010Q1 and 2010Q2, to $364 billion. While mortgage originations in 2010Q2 were 20.6% above their 2008Q4 trough, they remain more than 50% below their average levels of 2003-2007. Auto loan originations rose 25% in the second quarter, and were nearly 32% above their trough levels of 2009Q1. Still, auto loan origination balances remain well below their levels of 2005-2006.

About 2.6% of current mortgage balances transitioned into delinquency during 2010Q2, continuing the decline in this measure observed over the last year. Transitions from early (30-60 days) into serious (90 days or more) delinquency improved sharply in 2010Q2, falling from 39% to 33%, the lowest rate of deterioration since 2008Q2.

Nonetheless, despite recent improvements in this rate and the “cure” rate – transitions from delinquency to current status, which rose to nearly 30% – both remain at very unfavorable levels by pre-crisis standards.