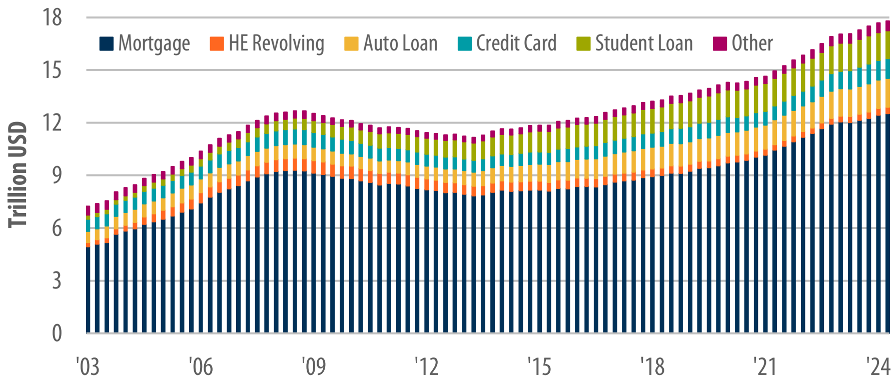
August 22, 2024

In this week's Three on Thursday, we explore the current state of indebtedness and financial health of U.S. households. Each quarter, the Federal Reserve Bank of New York provides a comprehensive overview of consumer borrowing and repayment trends, drawing from a nationally representative sample of Equifax credit reports. This data is thoroughly analyzed to estimate the total debt balances and delinquency rates across the country, offering valuable insights into how American households are managing their financial obligations. Curious about the latest trends? Dive into the three charts below to get a clearer picture of where things stand today.

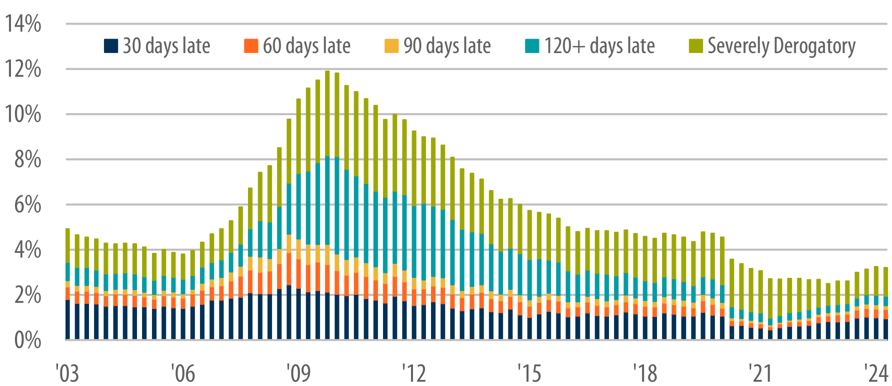
Composition of U.S. Household Debt



Source: New York Fed Consumer Credit Panel/Equifax, First Trust Advisors. Quarterly data Q1 2003 - Q2 2024.

Household debt balances grew by $109 billion in the second quarter of 2024, marking a 0.6% increase from the previous quarter, bringing the total to $17.80 trillion. Mortgage balances increased by $77 billion, reaching $12.52 trillion, accounting for 70% of overall household debt. This has provided stability for households despite a higher interest rate environment, as 94.3% of these mortgage loans are fixed-rate, with an average rate of 4%. Additionally, non-housing debt balances increased by $28 billion.

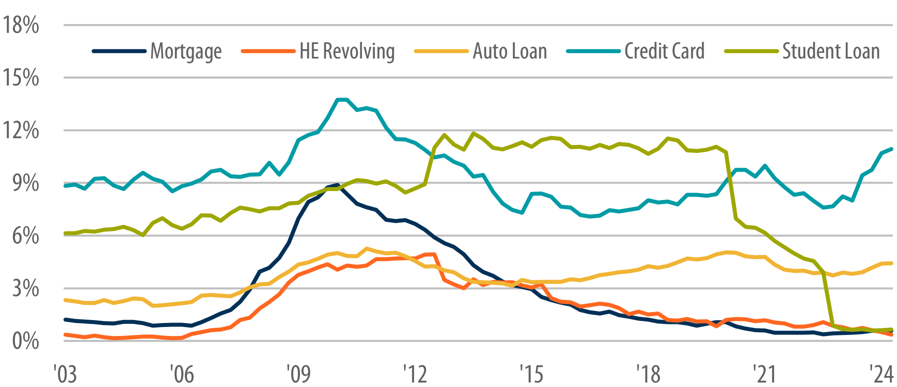
Delinquency Status of U.S. Household Debt



Source: New York Fed Consumer Credit Panel/Equifax, First Trust Advisors. Quarterly data Q1 2003 - Q2 2024.

Aggregate delinquency rates were unchanged from the previous quarter, with 3.2% of outstanding debt in some stage of delinquency. Besides last quarter, Delinquency rates sit at the highest rate since the fourth quarter of 2020. Over the past year, about 9.1% of credit card balances and 8.0% of auto loan balances have transitioned into delinquency, indicating rising financial strain in these areas. Mortgage delinquency rates edged up by 0.1 percentage point in early-stage delinquencies but remain low by historical standards. The overall 3.2% delinquency rate is still relatively low, but is largely due to the ongoing impact of student loan forbearance.

Percent of Balance Seriously Delinquent (90+ Days) by Loan Type



Source: New York Fed Consumer Credit Panel/Equifax, First Trust Advisors. Quarterly data Q1 2003 - Q2 2024.

The share of credit card balances 90+ days delinquent has risen to 10.9%, the highest since Q1 2012. Meanwhile, student loan delinquencies have dropped from around 11% in 2012 to just 0.65%, thanks to the CARES Act, which paused payments and set interest rates to zero. Although payments resumed in October 2023, delinquencies have remained low due to an "on-ramp" period that allows borrowers to delay payments without penalties until September 2024. However, as interest accrues, delinquencies are expected to rise once this temporary relief ends.