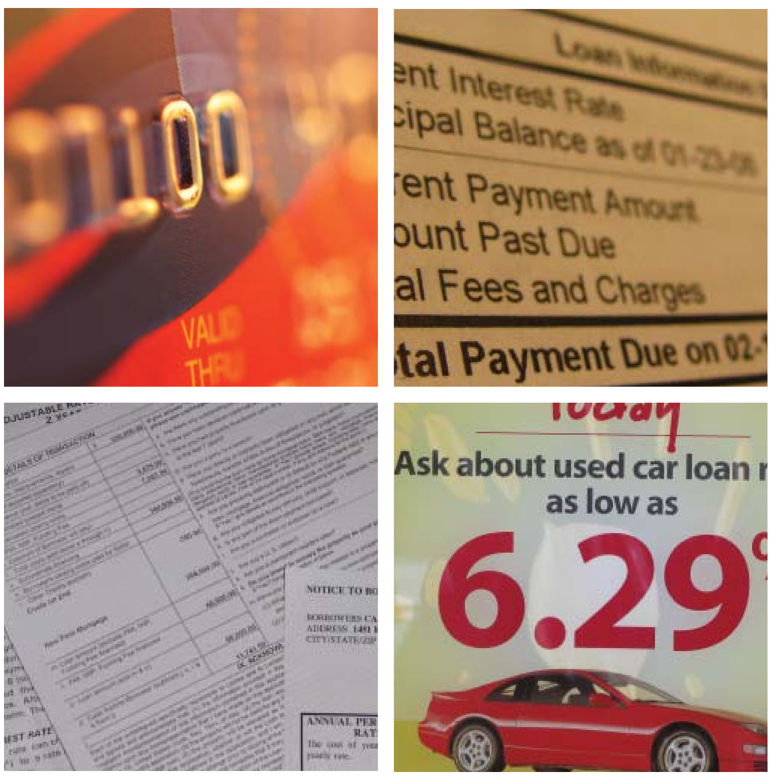
QUARTERLY REPORT ON

HOUSEHOLD DEBT AND CREDIT

November 2011



FEDERAL RESERVE BANK OF NEW YORK

RESEARCH AND STATISTICS GROUP • MICROECONOMIC STUDIES

Household Debt and Credit Developments in 2011Q3[1]

Aggregate consumer debt fell slightly in the third quarter. As of September 30, 2011, total consumer indebtedness was $11.66 trillion, a reduction of $60 billion (0.6%) below its (revised) June 30, 2011 level.[2] The 2011Q2 and 2011Q3 totals reflect improvements in our measurement of student loan balances, which we had previously undercounted; see below for more detail. As a result, student loan and total debt balances for 2011Q2 and 2011Q3 are not directly comparable to earlier data, so we have removed discussion of changes in total number of accounts and indebtedness over longer horizons. The 2011Q2 and 2011Q3 are, however, consistent with each other, so quarter-to-quarter comparisons are valid. Other components of household debt are unaffected by this change.

Mortgage balances shown on consumer credit reports fell noticeably ($114 billion or 1.3%) during the quarter; home equity lines of credit (HELOC) balances rose by $14 billion (2.3%). Household mortgage and HELOC indebtedness are now 9.6% and 10.5%, respectively, below their peaks. Consumer indebtedness excluding mortgage and HELOC balances rose slightly ($32 billion or about 1.3%) in the quarter. Consumers' non-real estate indebtedness now stands at $2.62 trillion.

Aggregate credit card limits fell back by $25 billion (0.9%) during the quarter, partially offsetting increases earlier this year. Credit cards have been the primary source of the reductions in open accounts over the past two years, and during 2011Q3 the number of open credit card accounts fell back by 6 million, to 383 million. The number of open credit card accounts on September 30 remained nearly 23% below its 2008Q2 peak and balances on those cards were nearly 20% below their 2008Q4 high. The number of credit account inquiries within six months – an indicator of consumer credit demand – increased again, and this measure is now 13% above its 2010Q1 trough.

Total household delinquency rates rose in 2011Q3. As of September 30, 10.0% of outstanding debt was in some stage of delinquency, compared to 9.8% on June 30. About $1.2 trillion of consumer debt is currently delinquent, with $834 billion seriously delinquent (at least 90 days late or "severely derogatory").

About 264,000 individuals had a foreclosure notation added to their credit reports between June 30 and September 30, a 7% decrease from the 2011Q2 level of new foreclosures. New bankruptcies in 2011Q3 were 18.8% below their levels of 2010Q3, at 423,000.

Mortgage originations, which we measure as appearances of new mortgages on consumer credit reports, fell for a second consecutive quarter, to $292 billion. Mortgage originations in 2011Q3 were 17% below their 2011Q2 level and 24.7% below their levels of a year ago. At $292 billion, mortgage originations in 20011Q3 were at their lowest level since mid-2000. Auto loan originations rose in the quarter, to $81.5 billion, and are now more than 60% above their trough level of 2009Q1.

About 2.5% of current mortgage balances transitioned into delinquency during 2011Q3, reversing a recent trend of reductions in this measure. The rate of transition from early (30-60 days) into serious (90 days or more) delinquency also rose slightly, to 31.3%. This deterioration was accompanied by a significantly lower cure rate, with the transition rate from early delinquency to "current" decreasing over four percentage points in the quarter.

While many of the national trends described here are present in most areas of the country, the data for selected states indicate substantial heterogeneity. The accompanying charts provide graphic representations of the national data and, for selected series, the underlying geographic variation. The charts and accompanying data have been adjusted and annotated to indicate the effects of our revisions to student loan accounts.

[1] This report is based on data from the FRBNY Consumer Credit Panel. Please contact Andrew Haughwout, Wilbert van der Klaauw or Donghoon Lee with questions.
[2] For details on the data set and the measures reported here, see the data dictionary available at the end of this release.

Revisions to Student Loan and Total Debt Balances

From the inception of the FRBNY Consumer Credit Panel, we have frequently compared the aggregate balances reported on our sample of consumer credit reports to other publicly available sources of data. For most categories of consumer debt, our aggregate figures are close to other public estimates and/or we are able to understand the differences we observe. However, we came to realize that our aggregate reported student loan balance was at the low end of the substantial range of publicly available sources.[3] After several months of discussions with our vendor, we have now come to understand the source of this difference.

Our new data reflect changes to our vendor's method of identifying outstanding student loans in 2011Q2 and 2011Q3. In particular, the new data for student loan balances – and total debt outstanding – incorporate additional student loan accounts that had previously been excluded.[4]

The revisions to the data are fairly substantial: as of our August report, 2011Q2 student loan balances were reported at $550 billion. We now estimate that student loans outstanding in that quarter (2011Q2) amounted to $845 billion, $290 billion or 53.7% higher than we reported earlier. These previously excluded loans were also missing from the total debt outstanding; as a result, our estimate of total debt outstanding in 2011Q2 is also revised upward by $290 billion (2.5%).

For now, we only have data using the revised methodology for the two most recent quarters – 2011Q2 and 2011Q3. As noted above, the charts and data for the 2011Q3 Quarterly Report have been adjusted and annotated to reflect this fact. We are continuing to work with our vendor to make revisions to earlier data (1999Q1-2011Q1) and will report revised data when we have them.

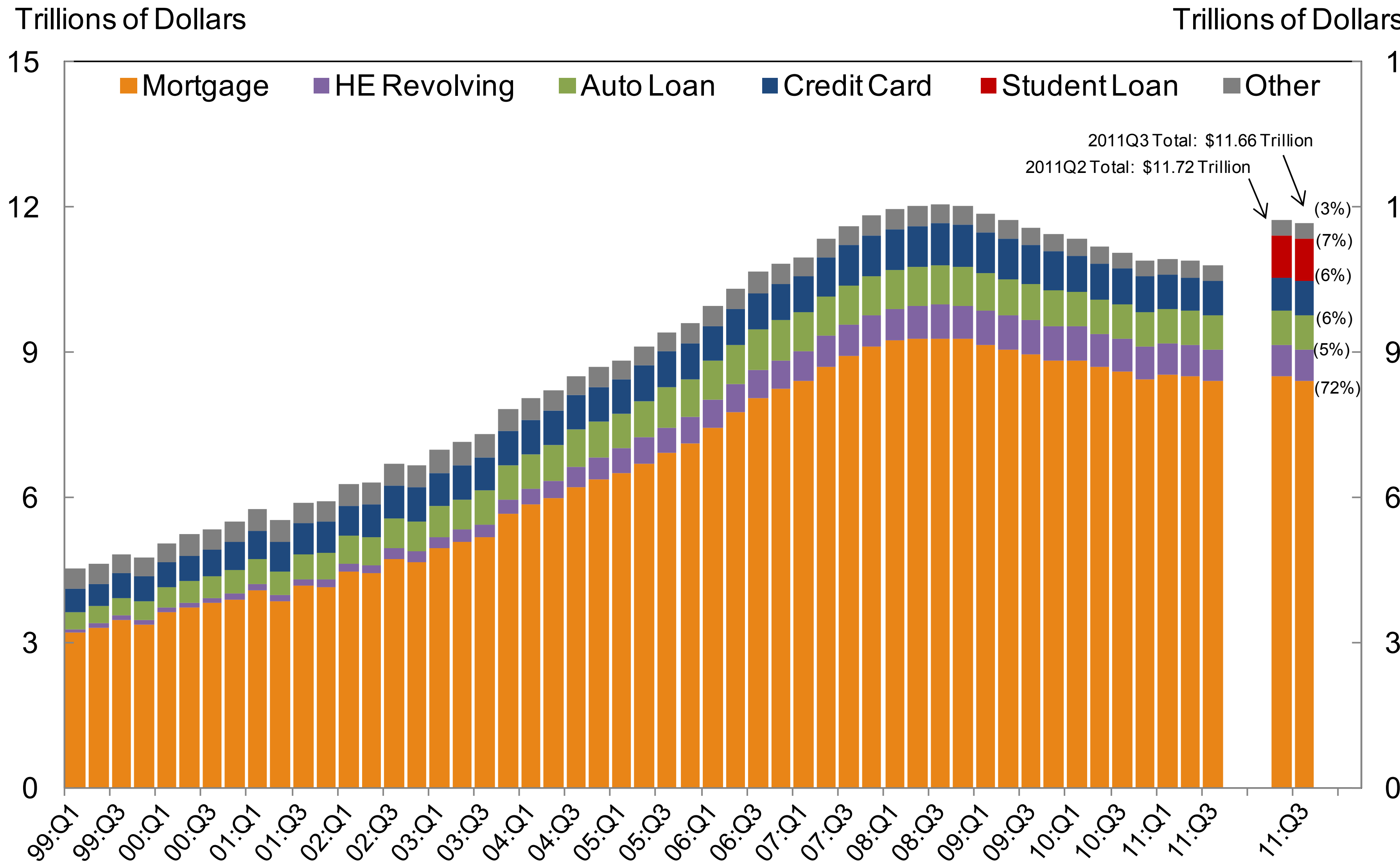
[3] For example, while our estimated total of $380 billion in outstanding student loans for 2007Q3 aligned well with the $379 billion implied by figures in the 2007 SCF Chartbook, our estimate of $450 billion for 2008Q4 was low relative to the U.S. Department of Education's Federal Student Aid 2008 Annual Report, which reports an outstanding federal loan volume of $556 billion, and calculations from Mark Kantrowitz of finaid.org indicating a private student loan total of $131 billion for 2008.

[4] These loans are reported by lenders under the industry category of "All others - miscellaneous". Equifax is using other information contained in the tradeline to identify these as student loans.

NATIONAL CHARTS

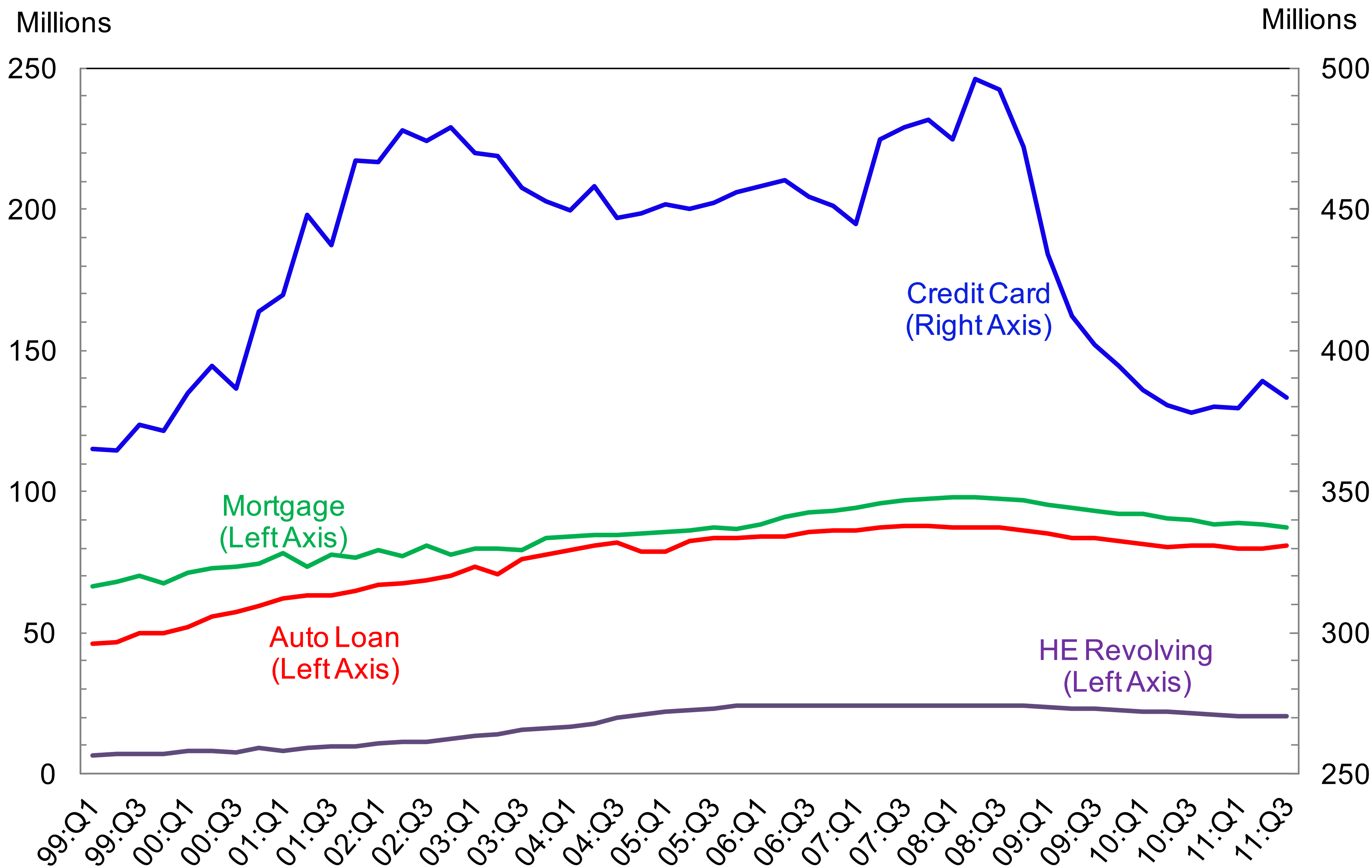
Total Debt Balance and its Composition

Historical Totals Prior to 2011Q2 Exclude Student Loans



Source: FRBNY Consumer Credit Panel/Equifax

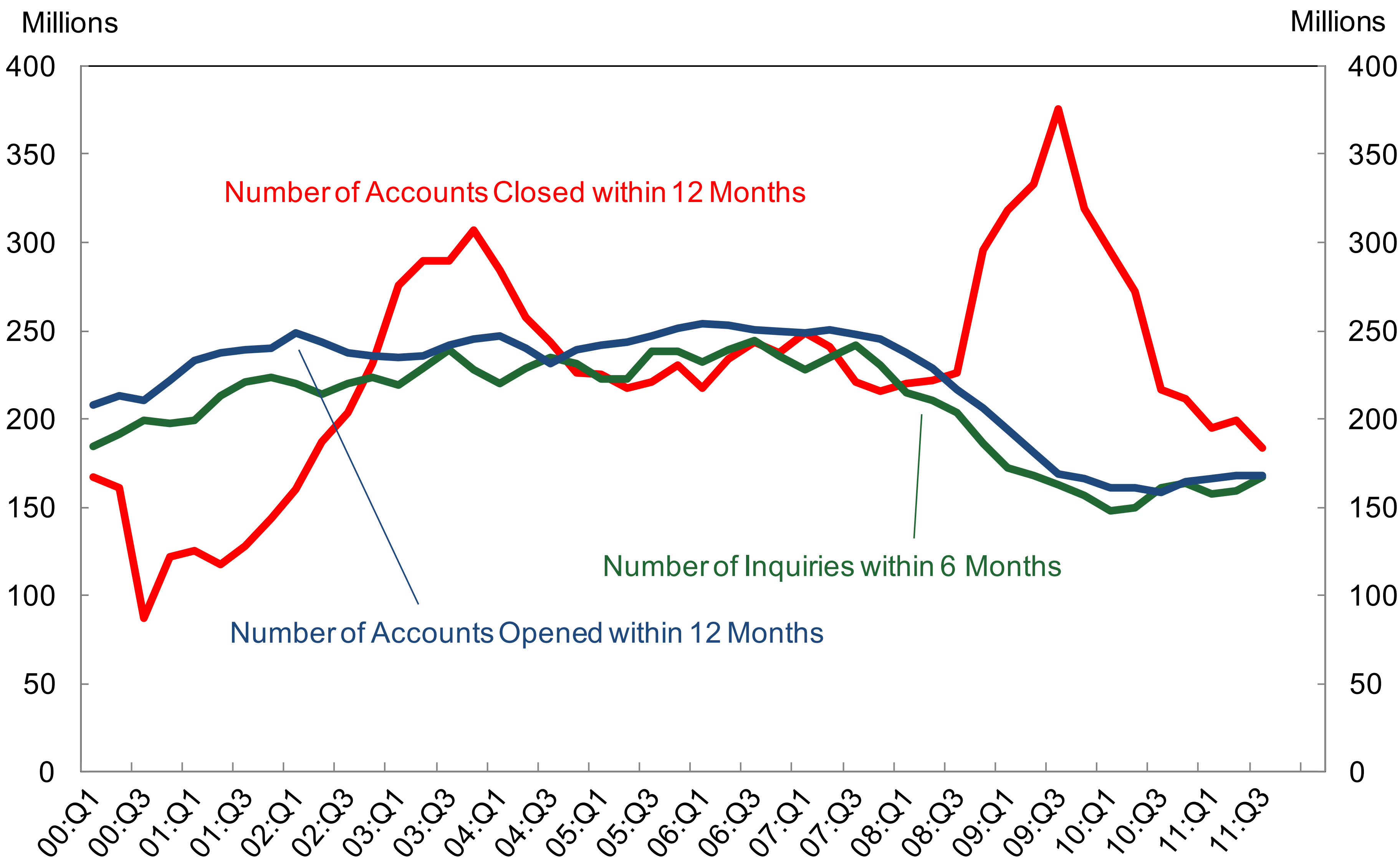
Number of Accounts by Loan Type



Source: FRBNY Consumer Credit Panel/Equifax

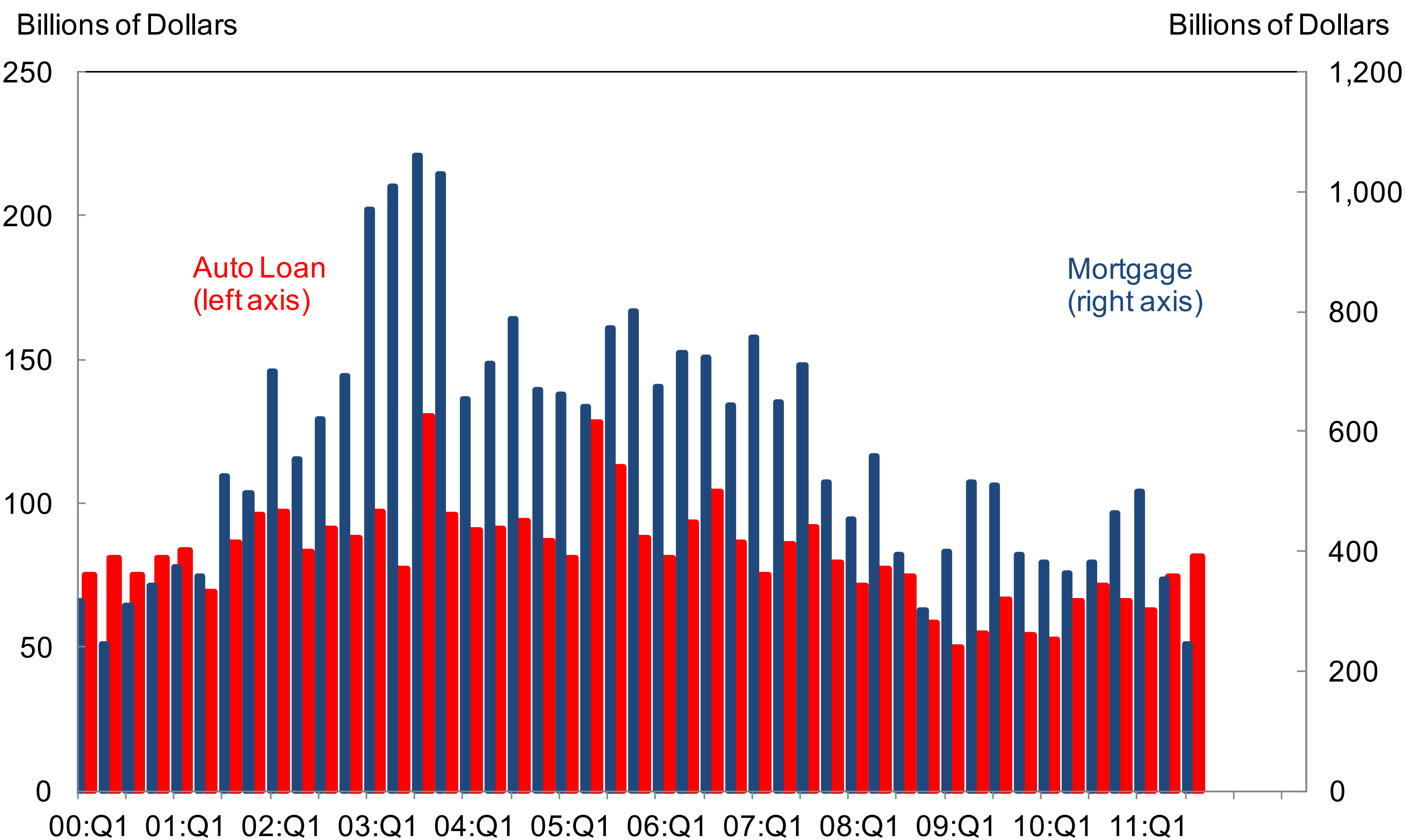
Note: Data Exclude Student Loans

Total Number of New and Closed Accounts and Inquiries



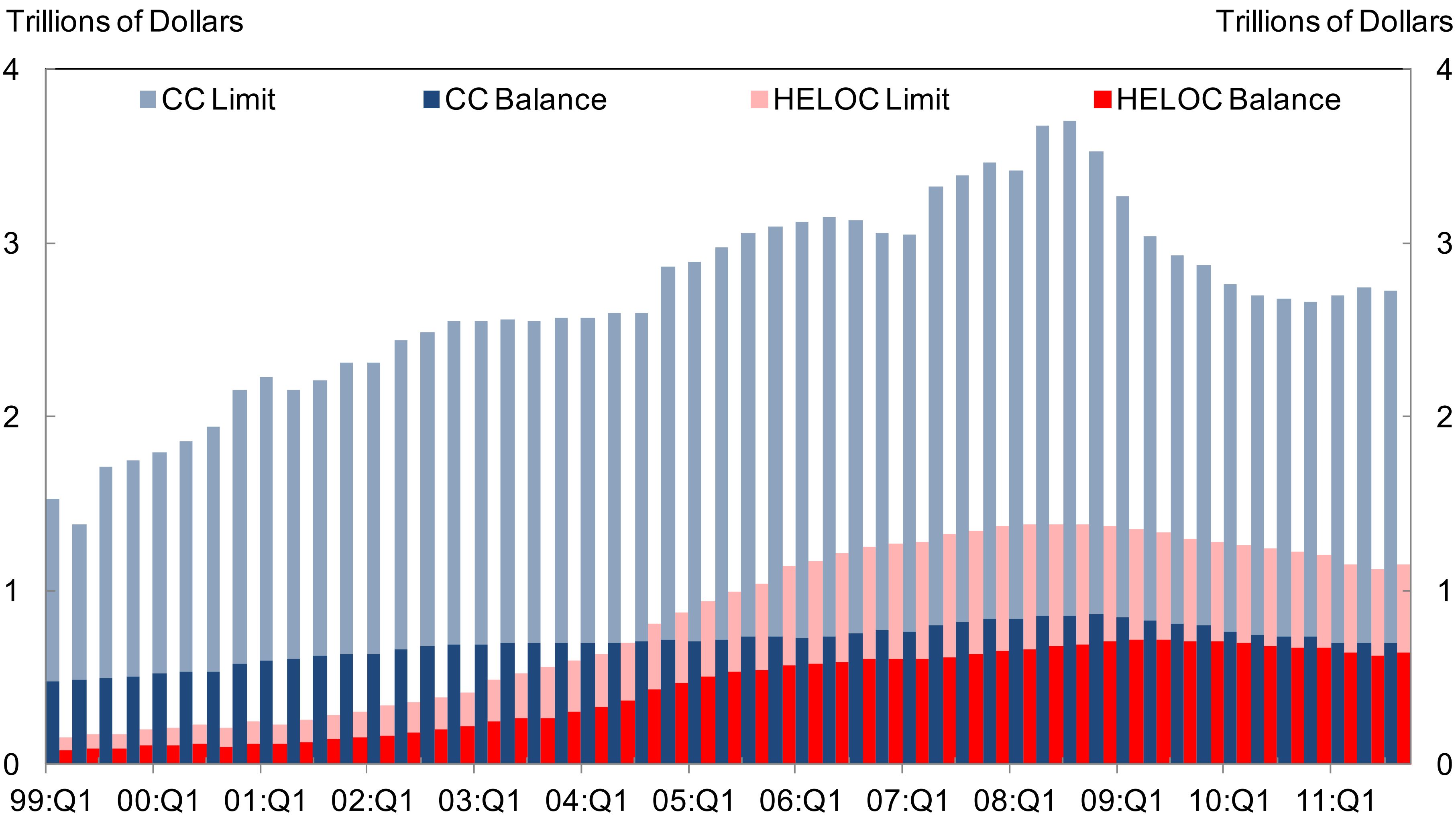
Source: FRBNY Consumer Credit Panel/Equifax

Newly Originated Installment Loan Balances



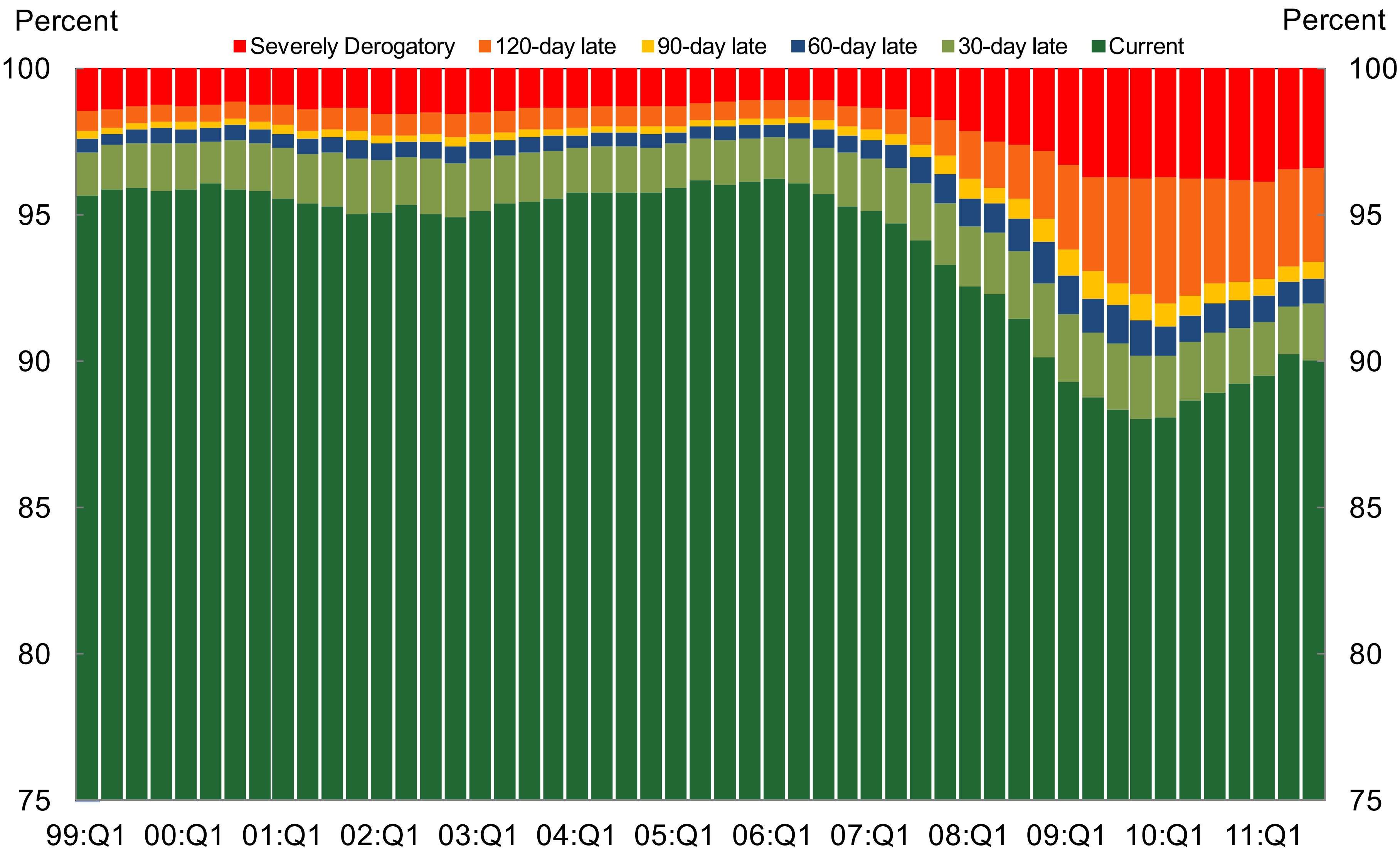
Source: FRBNY Consumer Credit Panel/Equifax

Credit Limit and Balance for Credit Cards and HE Revolving



Source: FRBNY Consumer Credit Panel/Equifax

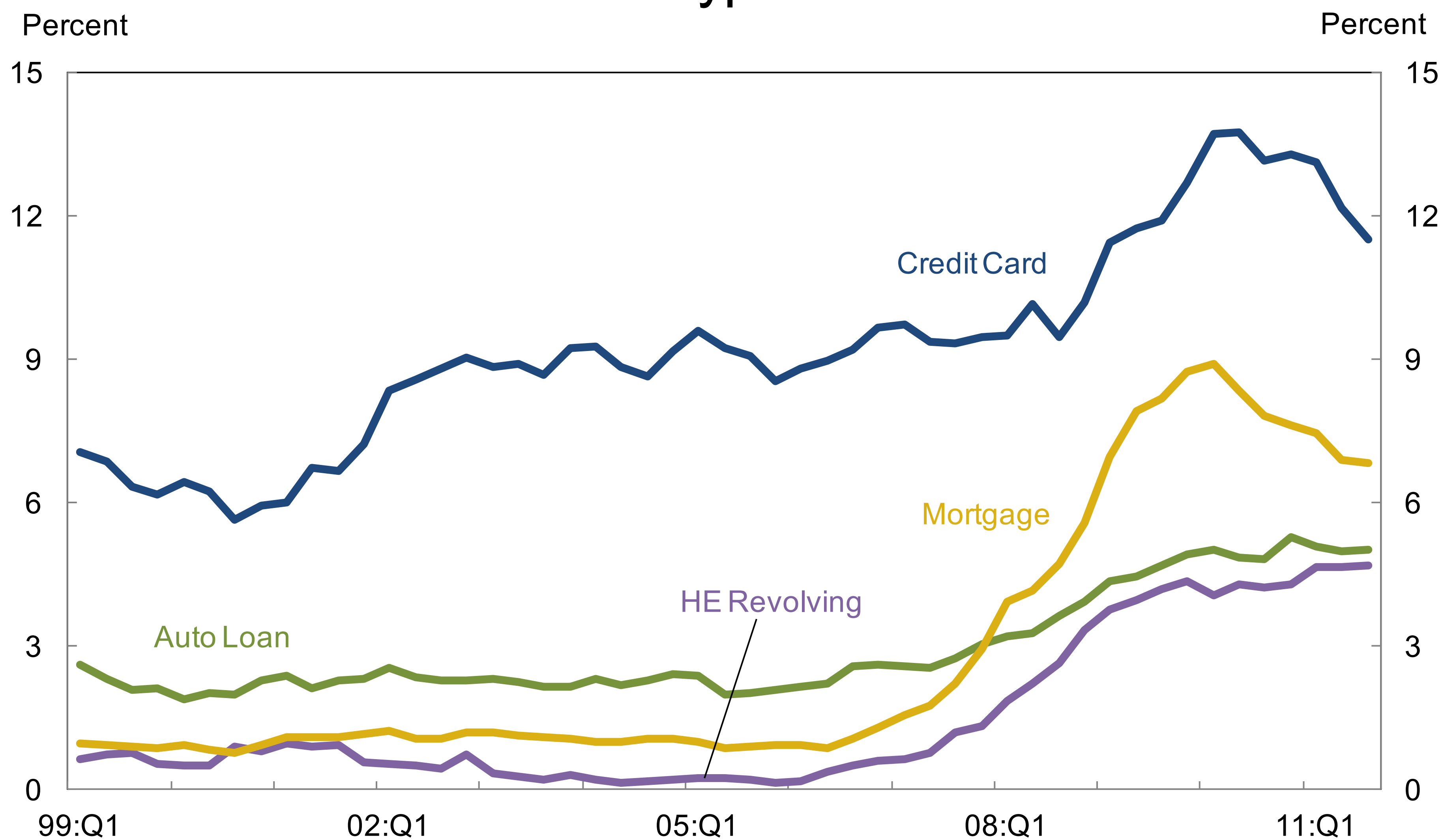
Total Balance by Delinquency Status



Source: FRBNY Consumer Credit Panel/Equifax

Note: Data prior to 2011 Q2 subject to revision

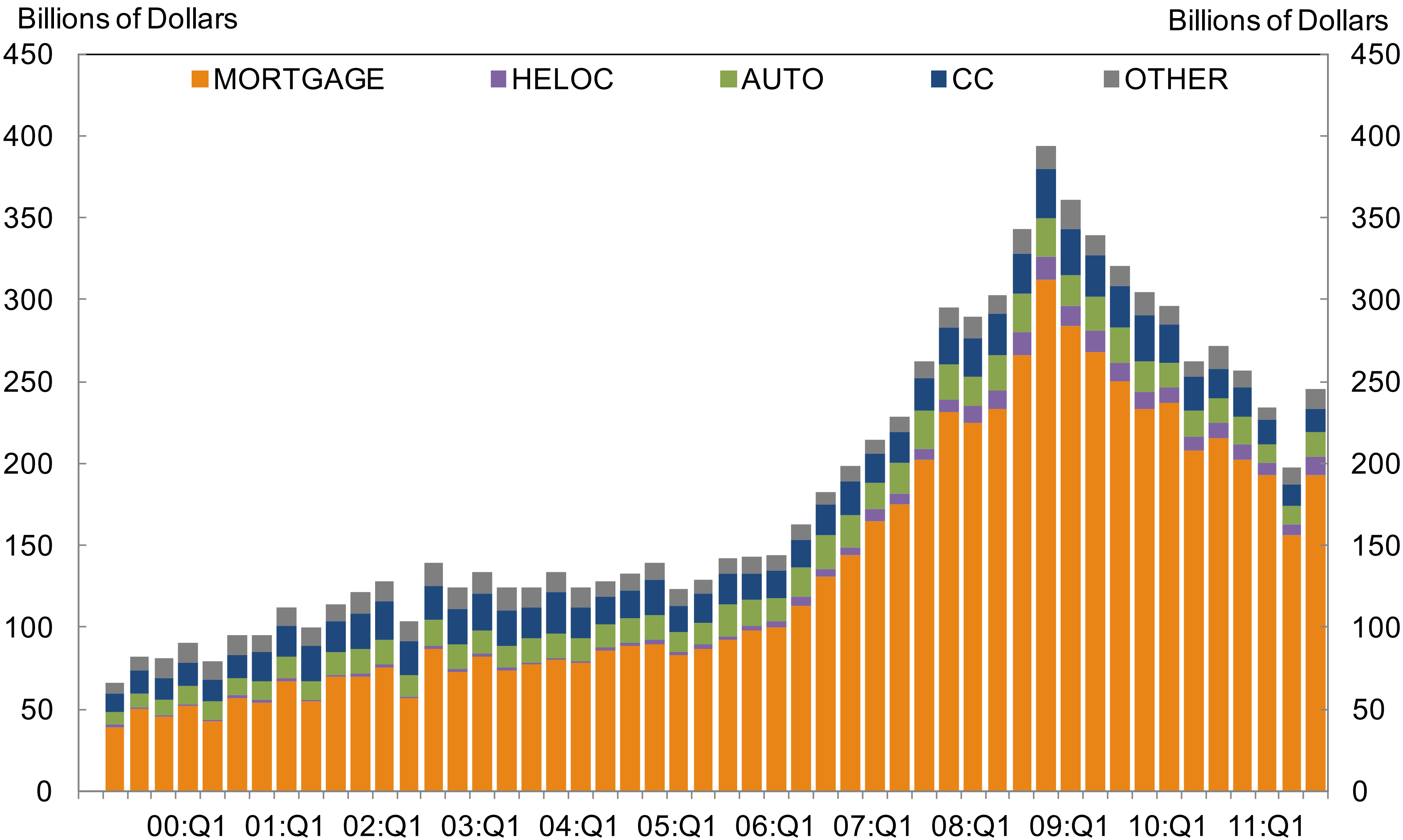
Percent of Balance 90+ Days Delinquent by Loan Type



Source: FRBNY Consumer Credit Panel/Equifax

Note: Data Exclude Student Loans

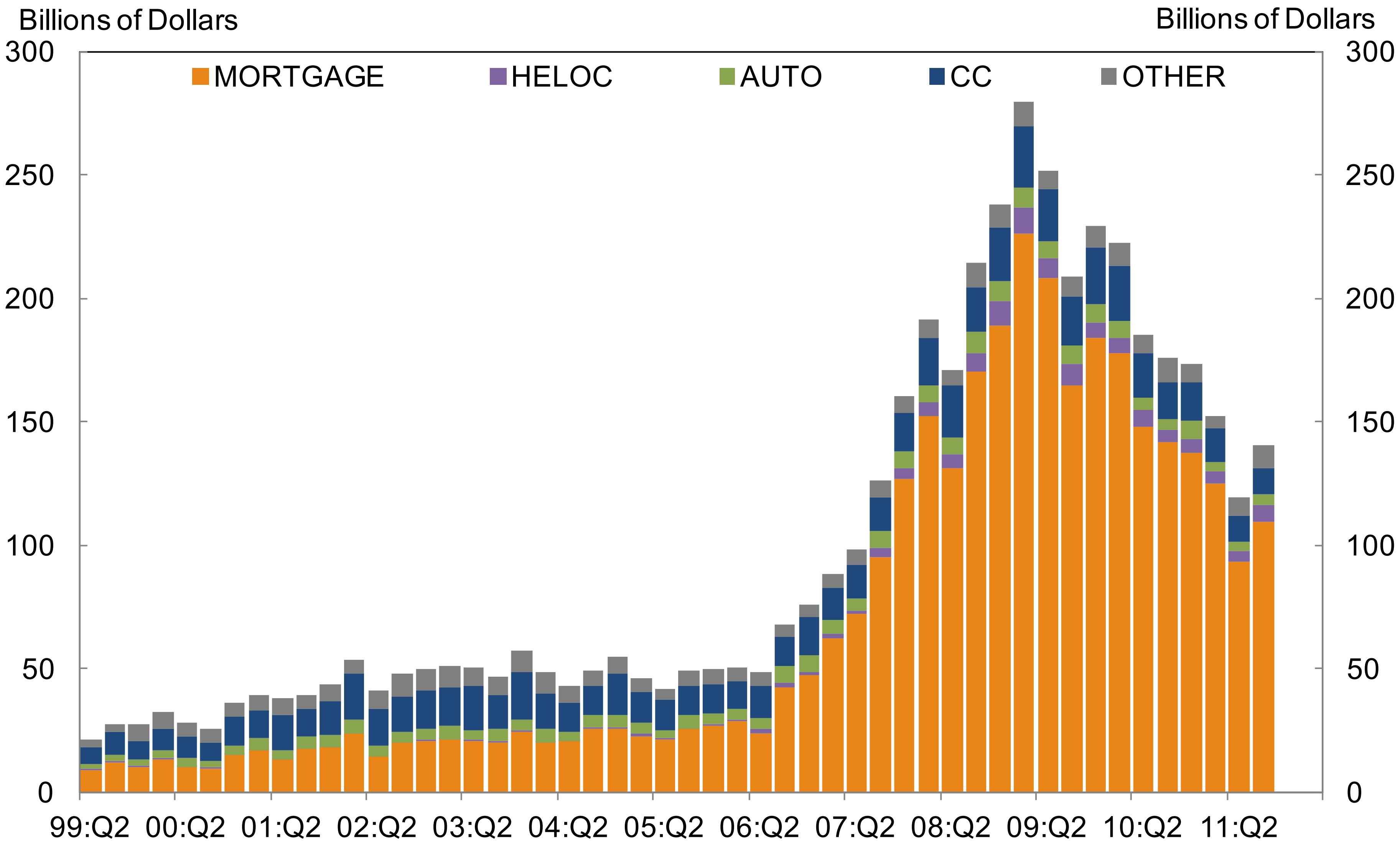
New Delinquent Balances by Loan Type



Source: FRBNY Consumer Credit Panel/Equifax

Note: Data Exclude Student Loans

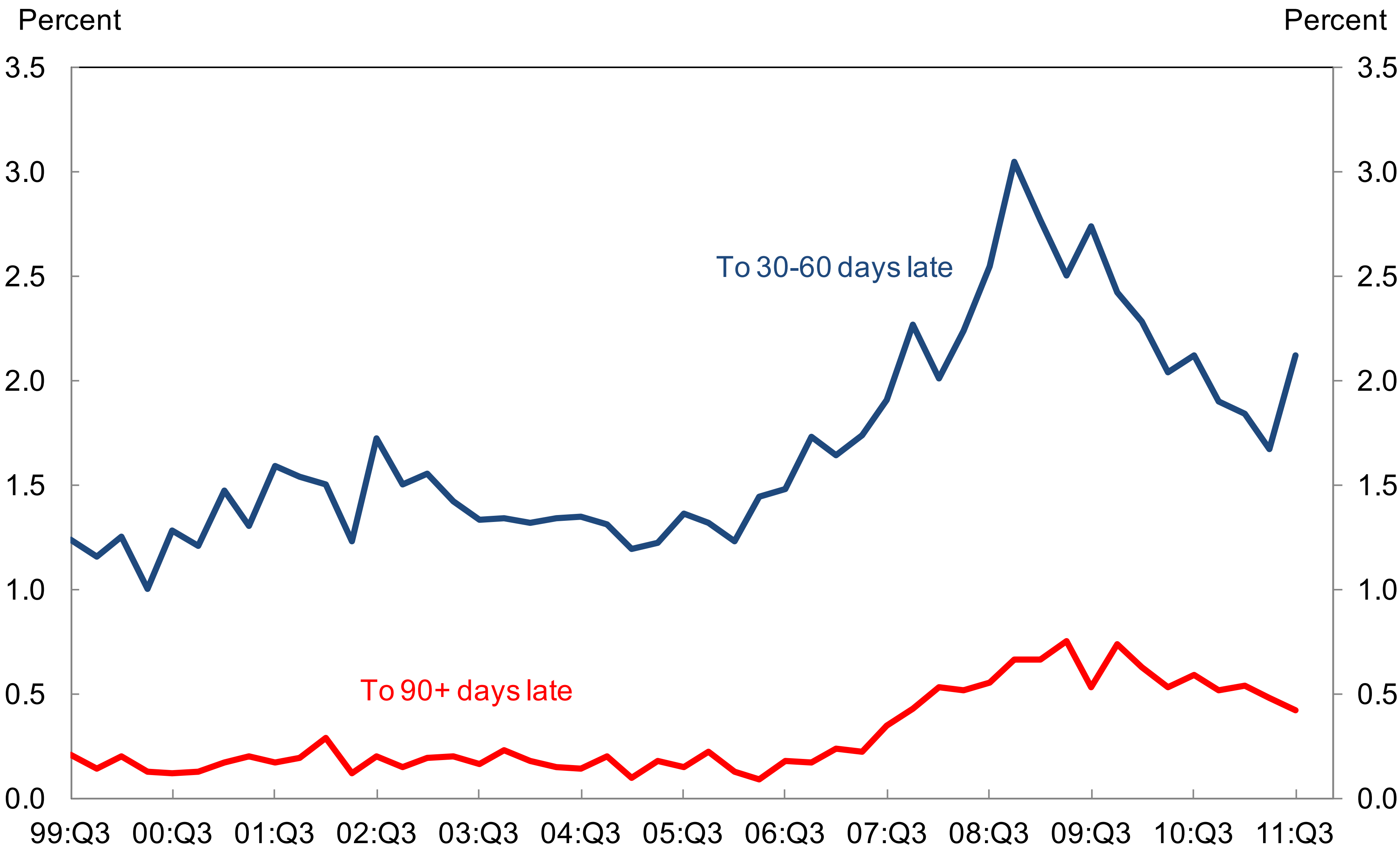
New Seriously Delinquent Balances by Loan Type



Source: FRBNY Consumer Credit Panel/Equifax

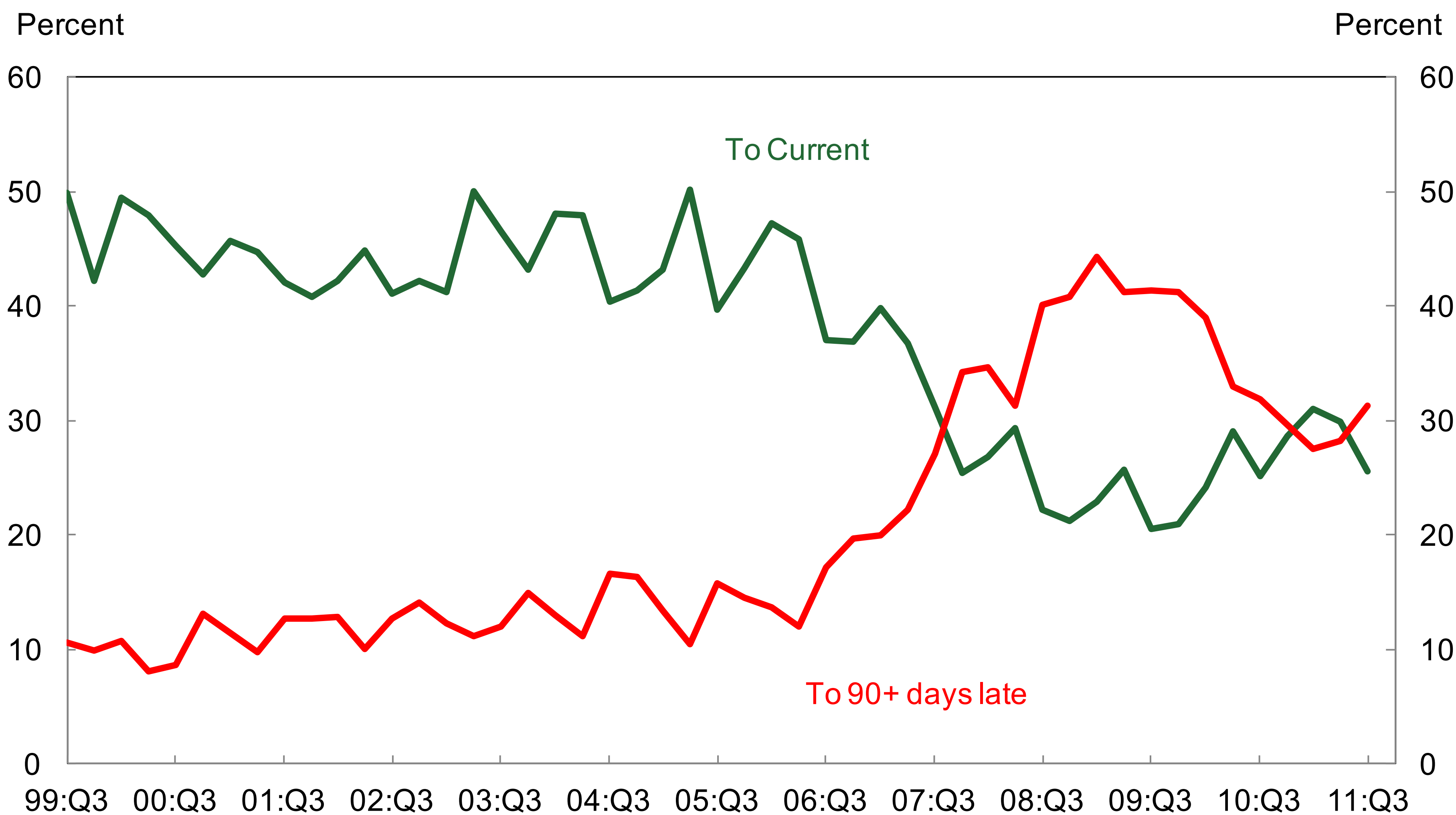
Note: Data Exclude Student Loans

Quarterly Transition Rates for Mortgage Accounts



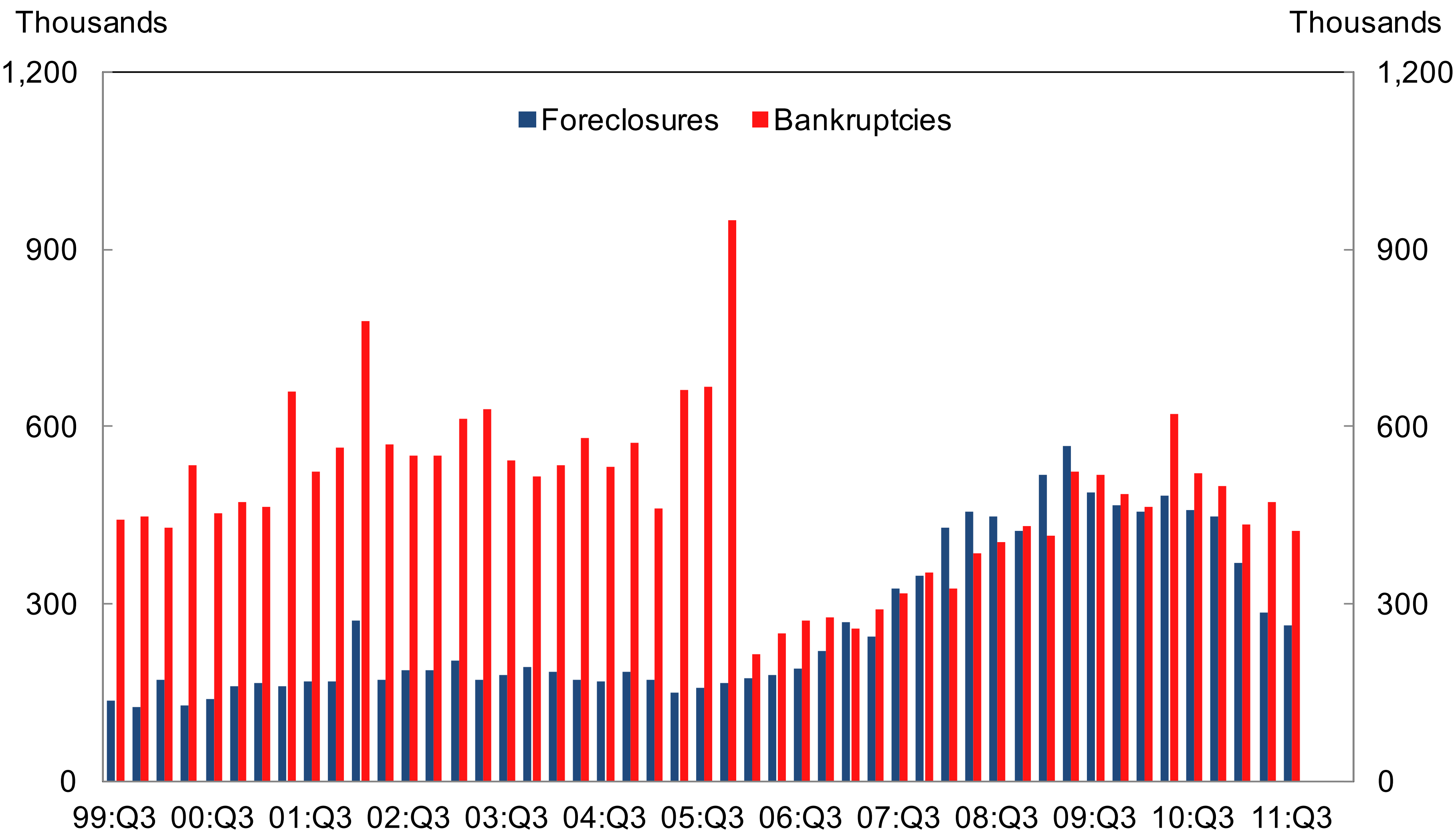
Source: FRBNY Consumer Credit Panel/Equifax

Quarterly Transition Rates for 30-60 Day Late Mortgage Accounts



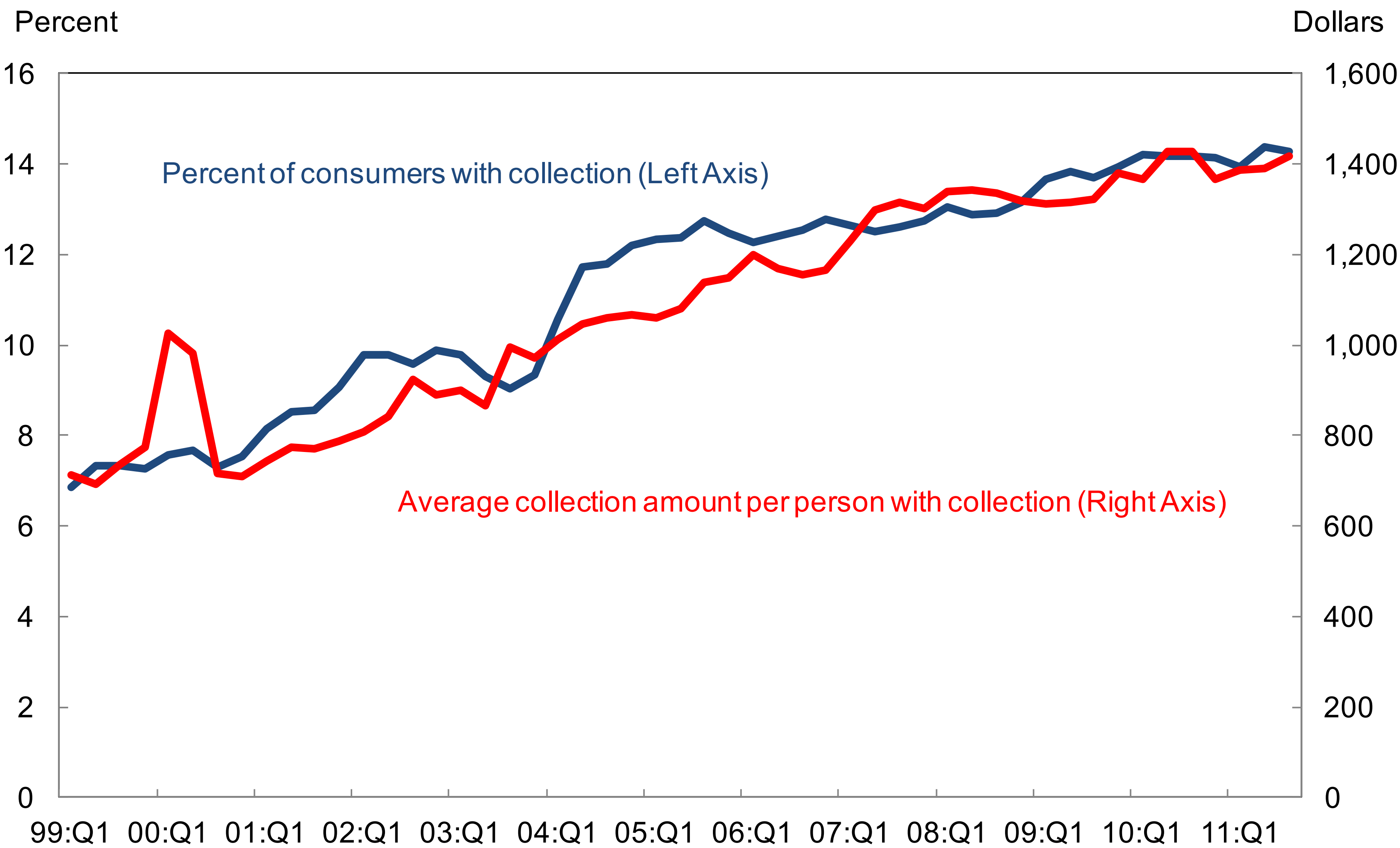
Source: FRBNY Consumer Credit Panel/Equifax

Number of Consumers with New Foreclosures and Bankruptcies



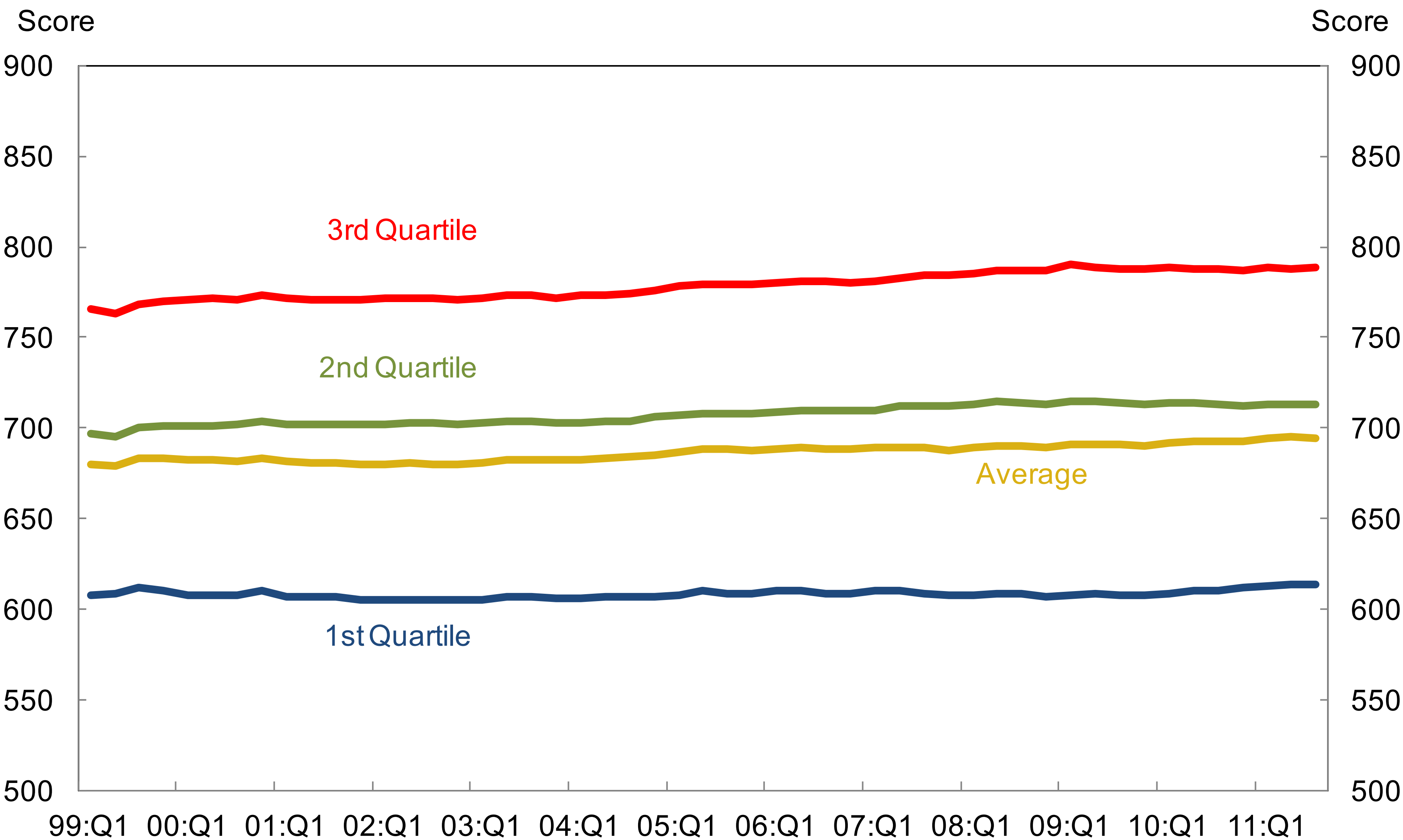
Source: FRBNY Consumer Credit Panel/Equifax

Third Party Collections



Source: FRBNY Consumer Credit Panel/Equifax

Consumer Credit Score Distribution

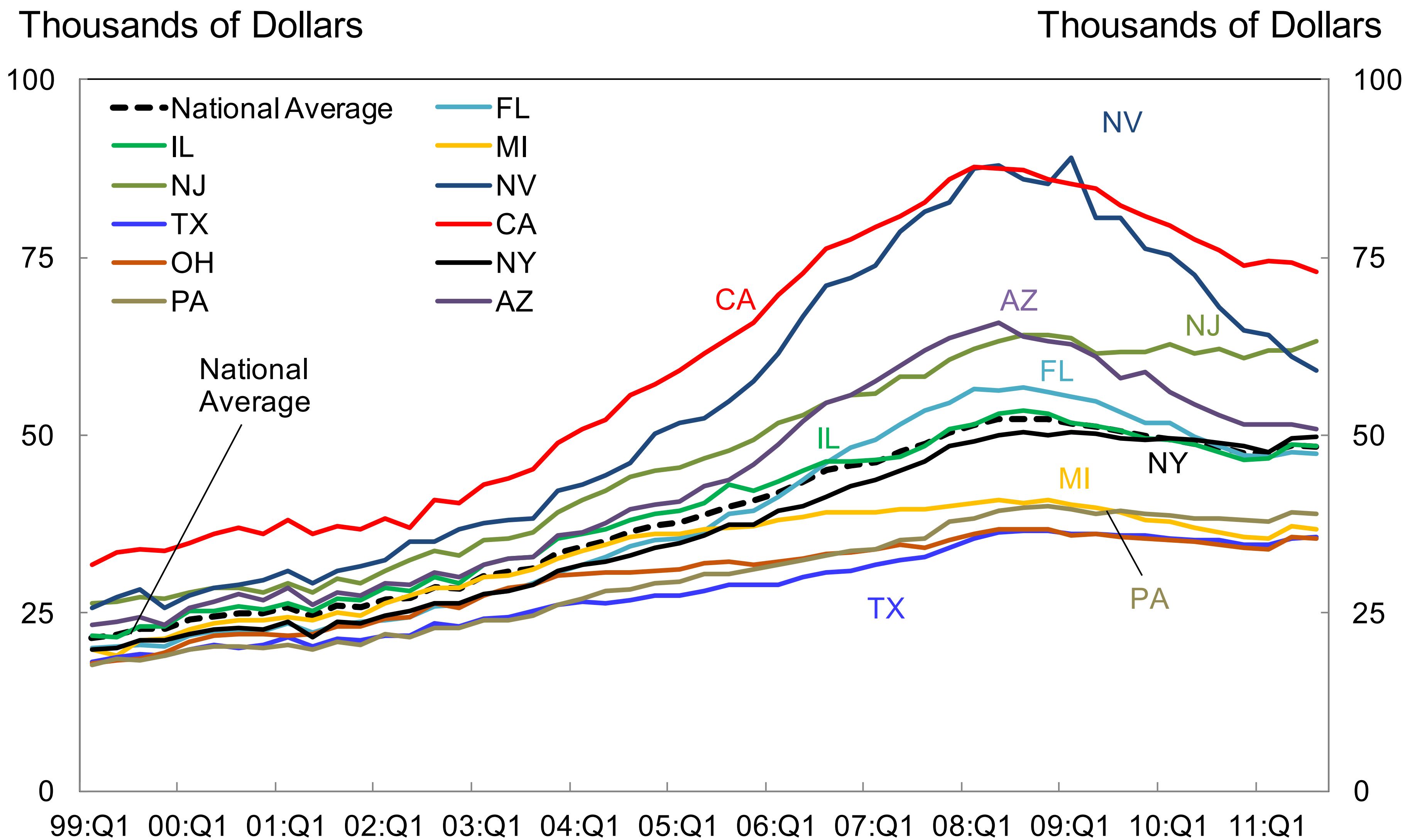


Source: FRBNY Consumer Credit Panel/Equifax

Note: Based on the population with a credit report

CHARTS FOR SELECT STATES

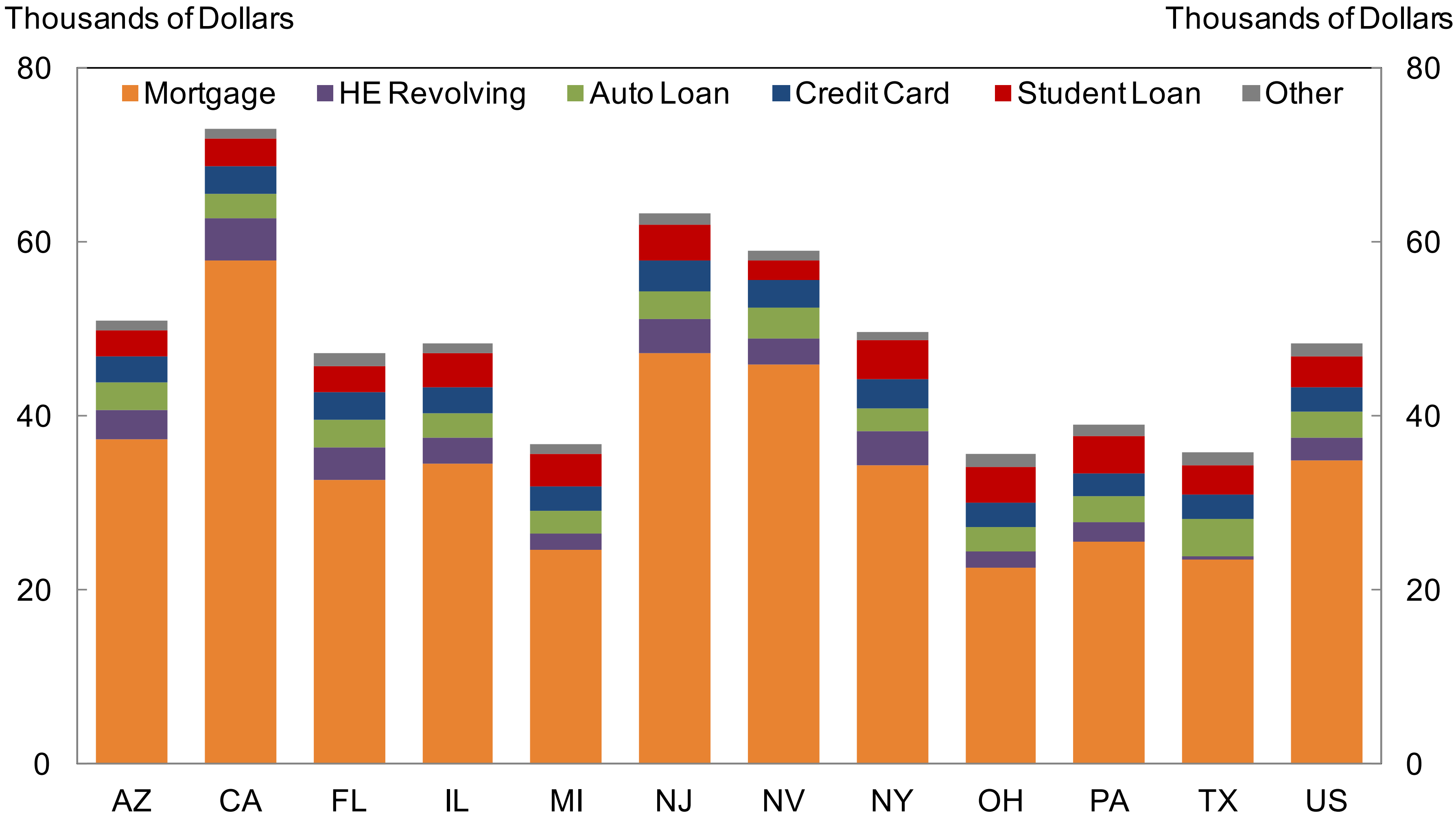
Total Debt Balance per Capita* by State



Source: FRBNY Consumer Credit Panel/Equifax

Note: * Based on Population with Credit Report
Data Prior to 2011 Q2 Subject to Revision

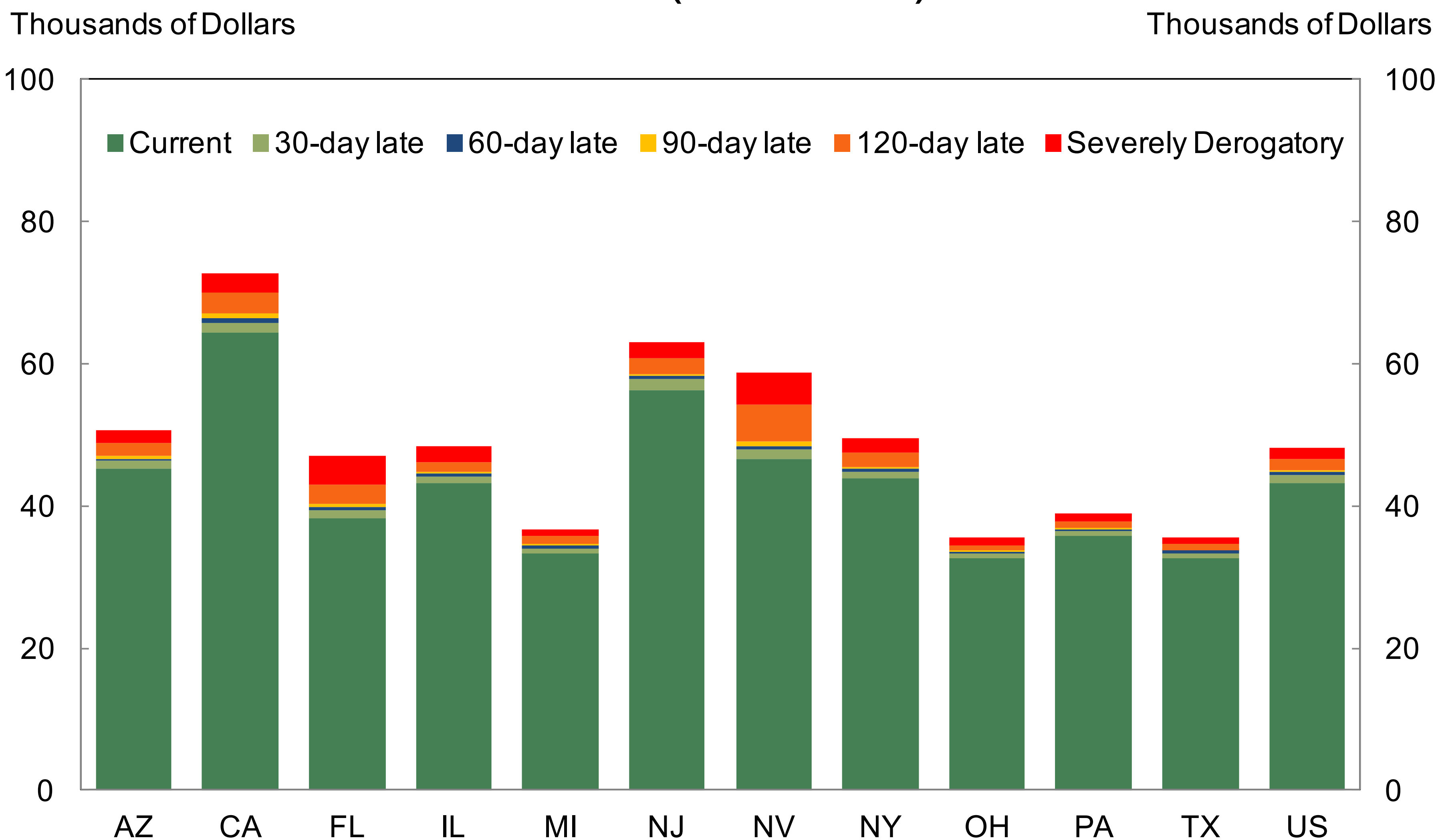
Composition of Debt Balance per Capita* by State (2011 Q3)



Source: FRBNY Consumer Credit Panel/Equifax

Note: * Based on Population with Credit Report

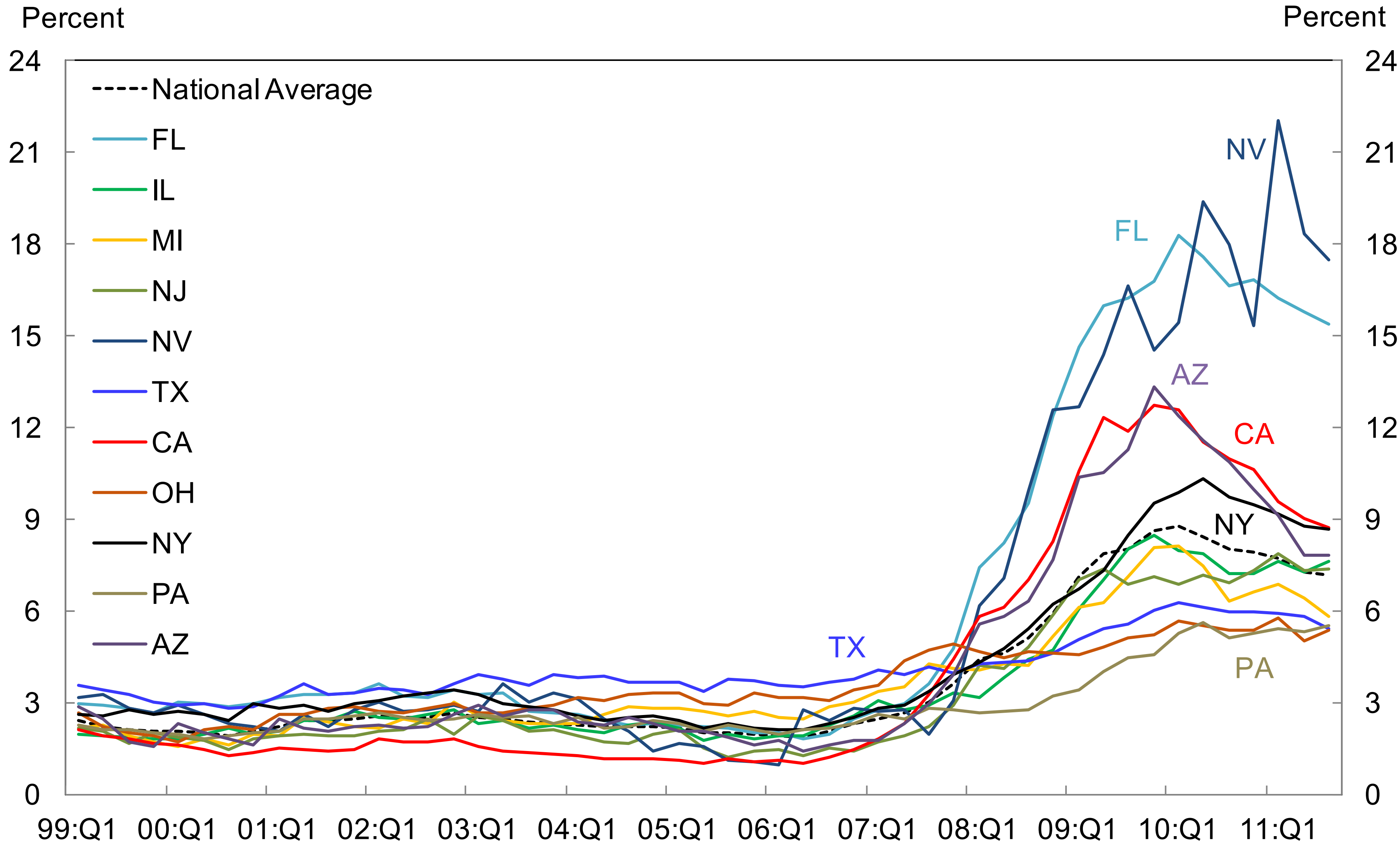
Delinquency Status of Debt Balance per Capita* by State (2011 Q3)



Source: FRBNY Consumer Credit Panel/Equifax

Note: * Based on Population with Credit Report

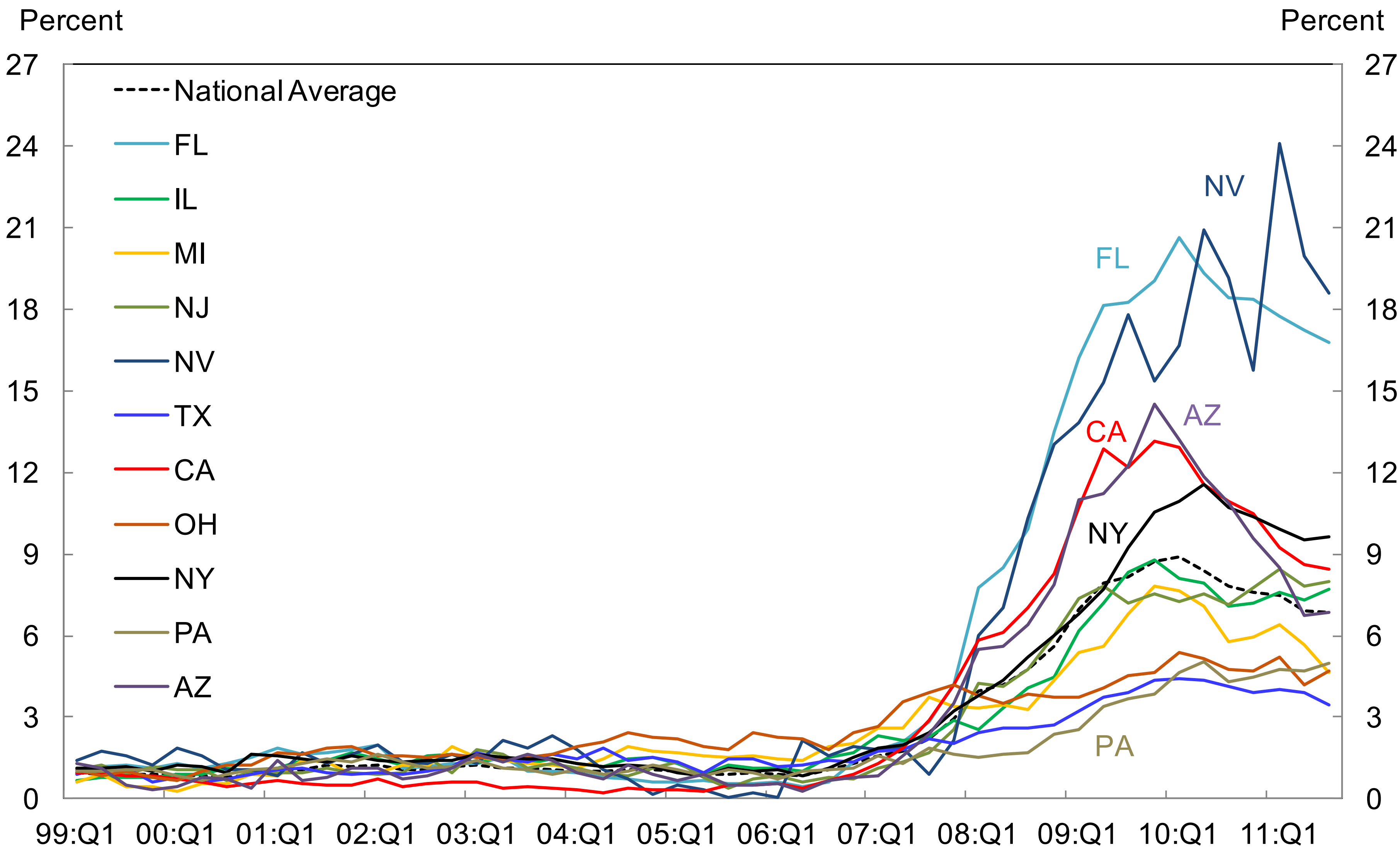
Percent of Balance 90+ Days Late by State



Source: FRBNY Consumer Credit Panel/Equifax

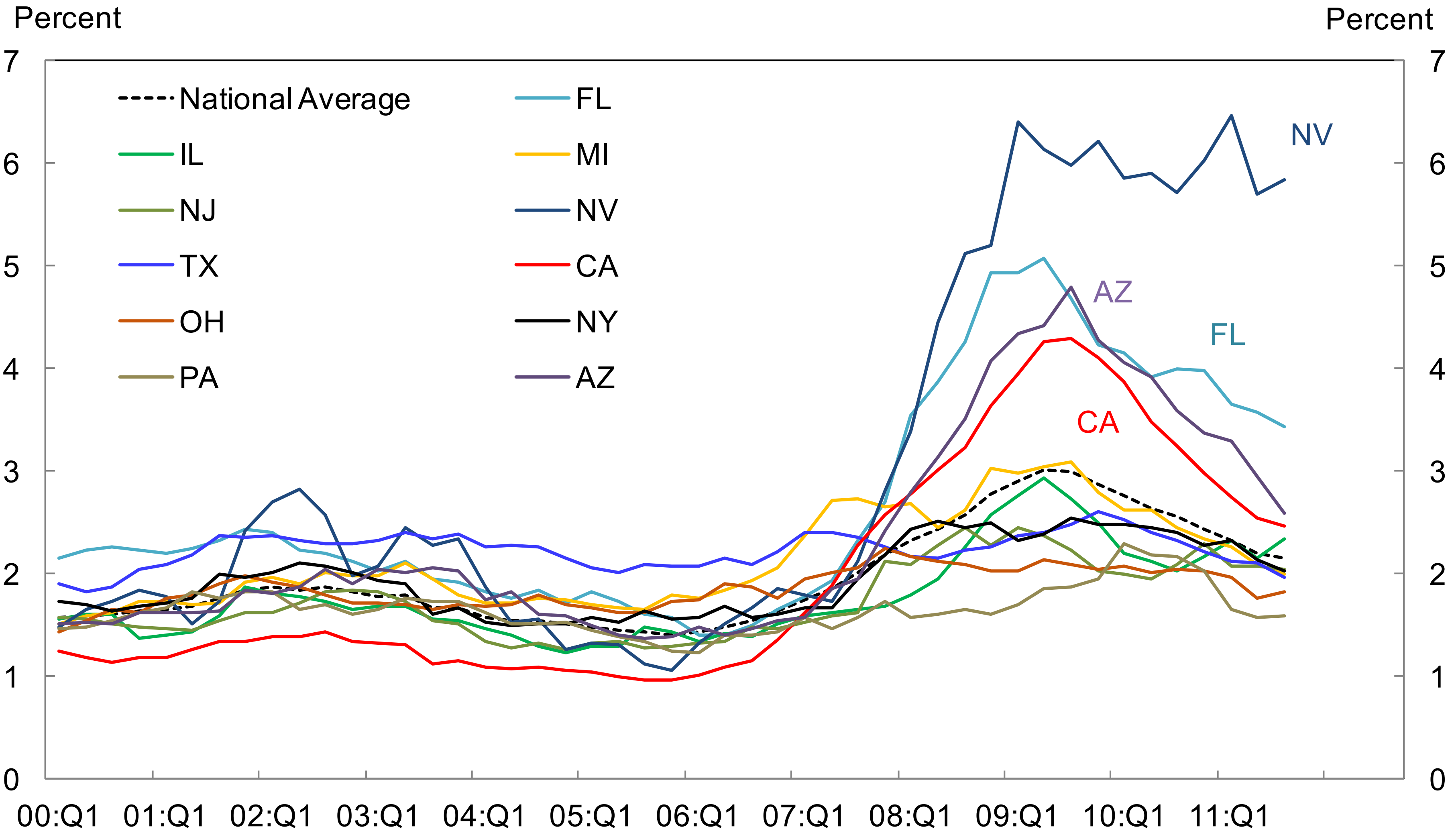
Note: Data prior to 2011 Q2 subject to revision

Percent of Mortgage Debt 90+ Days Late by State



Source: FRBNY Consumer Credit Panel/Equifax

Quarterly Transition Rates into 30+ Days Late by State*

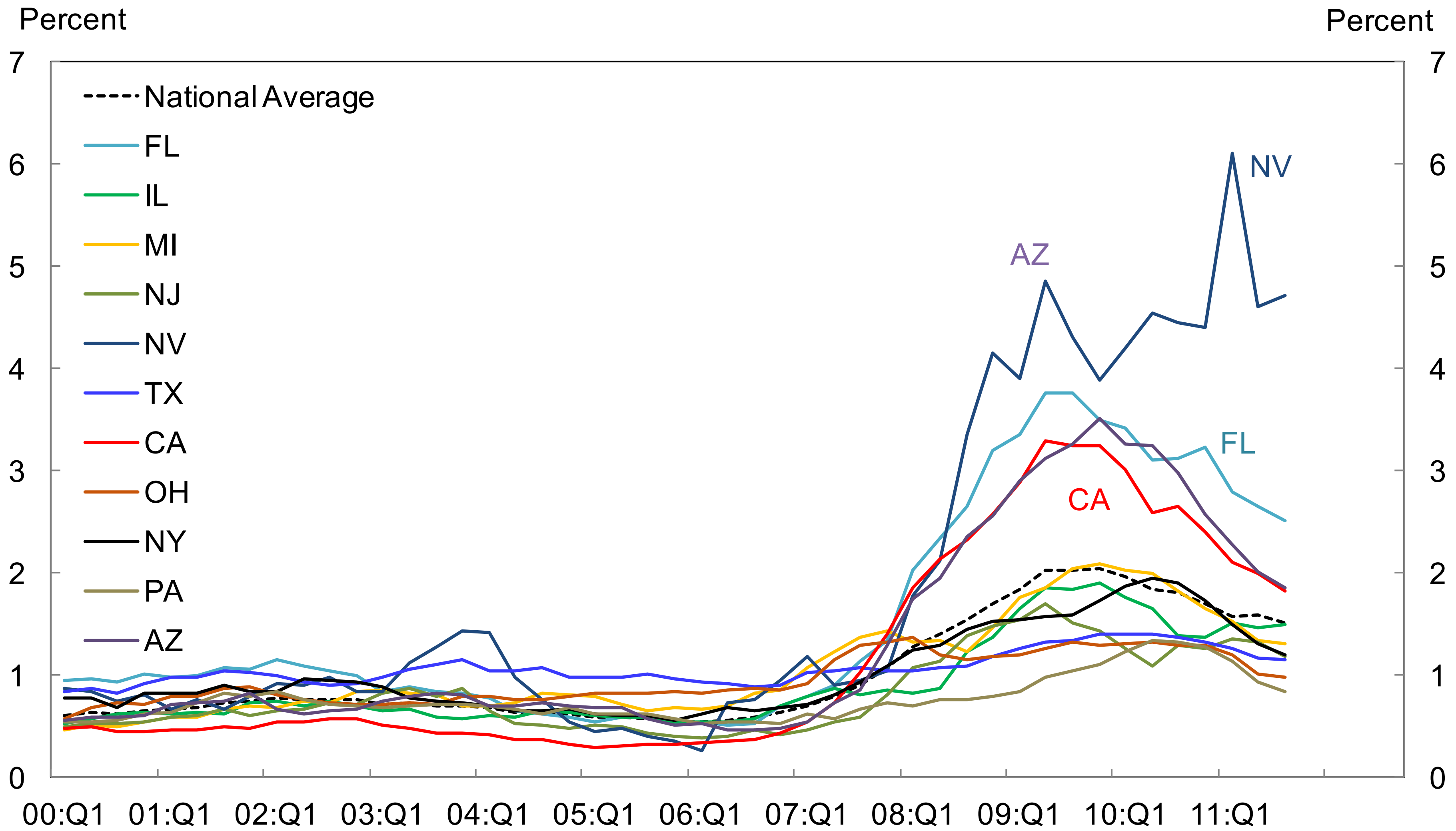


Source: FRBNY Consumer Credit Panel/Equifax

*Four Quarter Moving Average, Rates from Current to 30+ Days Delinquent, All Accounts

Note: Data prior to 2011 Q2 subject to revision

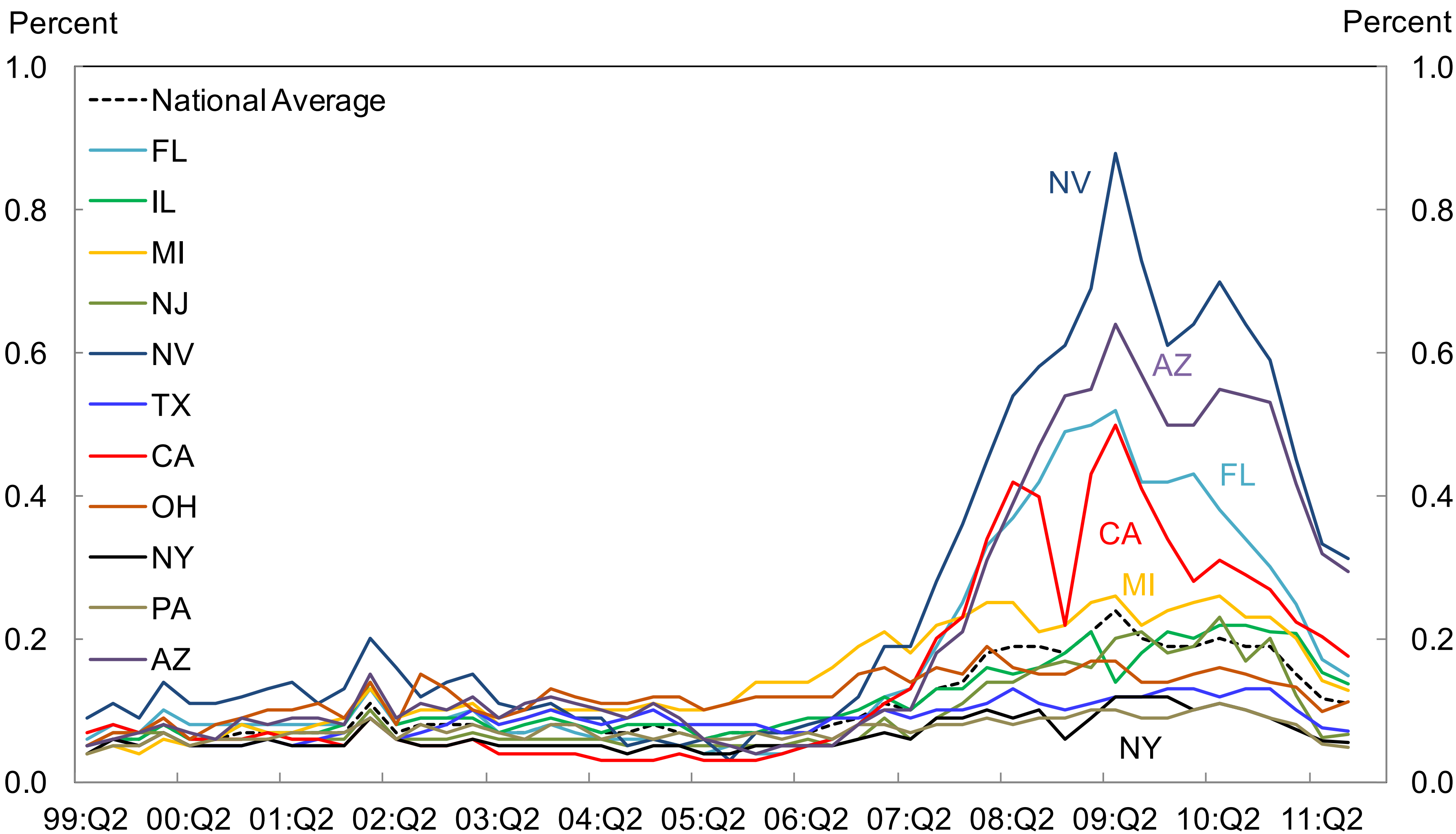
Quarterly Transition Rates into 90+ Days Late by State*



Source: FRBNY Consumer Credit Panel/Equifax
*Four Quarter Moving Average, Rates from not seriously delinquent to seriously delinquent, All Accounts

Note: Data prior to 2011 Q2 subject to revision

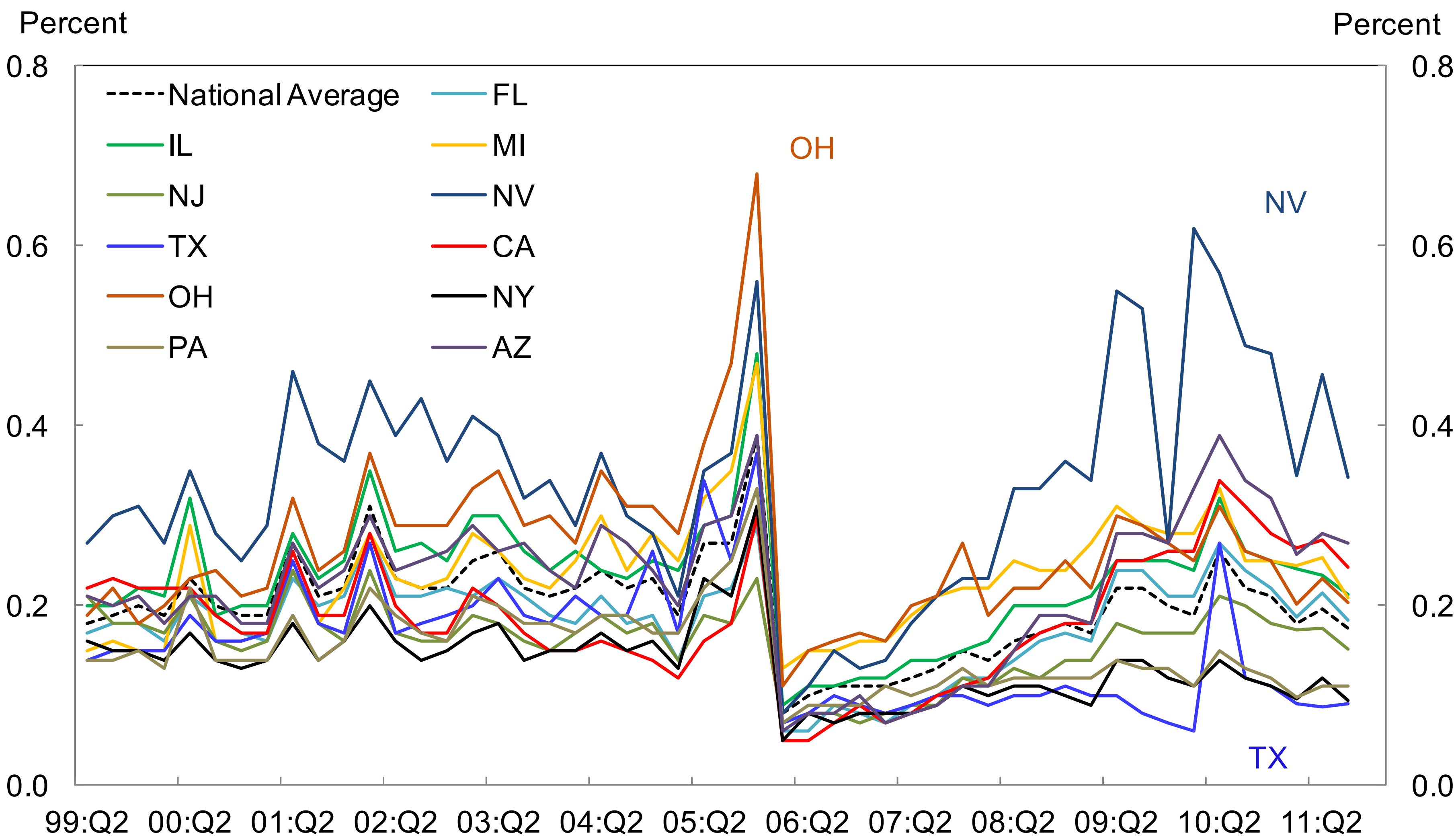
Percent of Consumers* with New Foreclosures by State



Source: FRBNY Consumer Credit Panel/Equifax

Note: * Based on Population with Credit Report

Percent of Consumers* with New Bankruptcies by State



Source: FRBNY Consumer Credit Panel/Equifax

Note: * Based on Population with Credit Report

Data Dictionary

The FRBNY Consumer Credit Panel consists of detailed Equifax credit-report data for a unique longitudinal quarterly panel of individuals and households from 1999 to 2011. The panel is a nationally representative 5% random sample of all individuals with a social security number and a credit report (usually aged 19 and over). We also sampled all other individuals living at the same address as the primary sample members, allowing us to track household-level credit and debt for a random sample of US households. The resulting database includes approximately 40 million individuals in each quarter. More details regarding the sample design can be found in Lee and van der Klaauw (2010).[1] A comprehensive overview of the specific content of consumer credit reports is provided in Avery, Calem, Canner and Bostic (2003).[2]

The credit report data in our panel primarily include information on accounts that have been reported by the creditor within 3 months of the date that the credit records were drawn each quarter. Thus, accounts that are not currently reported on are excluded. Such accounts may be closed accounts with zero balances, dormant or inactive accounts with no balance, or accounts that when last reported had a positive balance. The latter accounts include accounts that were either subsequently sold, transferred, or paid off as well as accounts, particularly derogatory accounts, that are still outstanding but on which the lender has ceased reporting. According to Avery et al (2003), the latter group of noncurrently reporting accounts, with positive balances when last reported, accounted for approximately 8% of all credit accounts in their sample. For the vast majority of these accounts, and particularly for mortgage and installment loans, additional analysis suggested they had been closed (with zero balance) or transferred.[3] Our exclusion of the latter accounts is comparable to some 'stale account rules' used by credit reporting companies, which treat noncurrently reporting revolving and nonrevolving accounts with positive balances as closed and with zero balance.

All figures shown in the tables and graphs are based on the 5% random sample of individuals. To reduce processing costs, we drew a 2% random subsample of these individuals, meaning that the results presented here are for a 0.1% random sample of individuals with credit reports, or approximately 240,000 individuals as of Q4 2009.[4] In computing several of these statistics, account was taken of the joint or individual nature of various loan accounts. For example to minimize biases due to double counting, in computing individual-level total balances, 50% of the balance associated with each joint account was attributed to that individual. Per-capita figures are computed by dividing totals for our sample by the total number of people in our sample, so these figures apply to the population of individuals who have a credit report.

In comparing aggregate measures of household debt presented in this report to those included in the Board of Governor's Flow Of Funds (FoF) Accounts, there are several important considerations. First, among the different components included in the FoF household debt measure (which also includes debt of nonprofit organizations), our measures are directly comparable to two of its components: home mortgage debt and consumer credit. Total mortgage debt and non-mortgage debt in the third quarter of 2009 were respectively $9.7 and $2.4 trillion, while the comparable amounts in the FoF for the same quarter were $10.3 and $2.5 trillion, respectively.[5] Second, a detailed accounting for the remaining differences between the debt measures from both data sources will require a more detailed breakdown and documentation of the computation of the FoF measures.[6]

[1] Lee, D. and W. van der Klaauw, "An introduction to the FRBNY Consumer Credit Panel", [2010].
[2] Avery, R.B., P.S. Calem, G.B. Canner and R.W. Bostic, "An Overview of Consumer Data and Credit Reporting", Federal Reserve Bulletin, Feb. 2003, pp 47-73.
[3] Avery et al (2003) found that for many nonreported mortgage accounts a new mortgage account appeared around the time the account stopped being reported, suggesting a refinance or that the servicing was sold. Most revolving and open non-revolving accounts with a positive balance require monthly payments if they remain open, suggesting the accounts had been closed. Noncurrently reporting derogatory accounts can remain unchanged without update for a long time when the borrower has stopped paying and the creditor may have stopped trying to collect on the account. Avery et al report that some of these accounts appeared to have been paid off.
[4] Due to relatively low occurrence rates we used the full 5% sample for the computation of new foreclosure and bankruptcy rates. For all other graphs, we found the 0.1% sample to provide a very close representation of the 5% sample.
[5] Flow of Funds Accounts of the United States, Flows and Outstandings, Third Quarter 2009, Board of Governors, Table L.100.
[6] Our debt totals exclude debt held by individuals without social security numbers. Additional information suggests that total debt held by such individuals is relatively small and accounts for little of the difference.

Loan types. In our analysis we distinguish between the following types of accounts: mortgage accounts, home equity revolving accounts, auto loans, bank card accounts, student loans and other loan accounts. *Mortgage accounts* include all mortgage installment loans, including first mortgages and home equity installment loans (HEL), both of which are closed-end loans. *Home Equity Revolving accounts* (aka Home Equity Line of Credit or *HELOC*), unlike home equity installment loans, are home equity loans with a revolving line of credit where the borrower can choose when and how often to borrow up to the credit limit. *Auto Loans* are loans taken out to purchase a car, including Auto Bank loans provided by banking institutions (banks, credit unions, savings and loan associations), and Auto Finance loans, provided by automobile dealers and automobile financing companies. *Bankcard accounts* (or credit card accounts) are revolving accounts for banks, bankcard companies, national credit card companies, credit unions and savings & loan associations. *Student Loans* include loans to finance educational expenses provided by banks, credit unions and other financial institutions as well as federal and state governments. The *Other* category includes Consumer Finance (sales financing, personal loans) and Retail (clothing, grocery, department stores, home furnishings, gas etc) loans.

Our analysis excludes authorized user trades, disputed trades, lost/stolen trades, medical trades, child/family support trades, commercial trades and, as discussed above, inactive trades (accounts not reported on within the last 3 months).

Total debt balance. Total balance across all accounts, excluding those in bankruptcy.

Number of open, new and closed accounts. Total number of open accounts, number of accounts opened within the last 12 months. Number of closed accounts is defined as the difference between the number of open accounts 12 months ago plus the number of accounts opened within the last 12 months, minus the total number of open accounts at the current date.

Inquiries. Number of credit-related consumer-initiated inquiries reported to the credit reporting agency in the past 6 months. Only ‘hard pulls’ are included, which are voluntary inquiries generated when a consumer authorizes lenders to request a copy of their credit report. It excludes inquiries made by creditors about existing accounts (for example to determine whether they want to send the customer pre-approved credit applications or to verify the accuracy of customer-provided information) and inquiries made by consumers themselves. Note that inquiries are credit reporting company specific and not all inquiries associated with credit activities are reported to each credit reporting agency. Moreover, the reporting practices for the credit reporting companies may have changed during the period of analysis.

High credit and balance for credit cards. Total amount of high credit on all credit cards held by the consumer. High credit is either the credit limit, or highest balance ever reported during history of this loan. As reported by Avery et al (2003) the use of the highest-balance measure for credit limits on accounts in which limits are not reported likely understates the actual credit limits available on those accounts.

High credit and balance for HE Revolving. Same as for credit cards, but now applied to HELOCs.

Credit utilization rates (for revolving accounts). Computed as proportion of available credit in use (outstanding balance divided by credit limit), and for reasons discussed above are likely to overestimate actual credit utilization.

Delinquency status. Varies between current (paid as agreed), 30-day late (between 30 and 59 day late; not more than 2 payments past due), 60-day late (between 60 and 89 days late; not more than 3 payments past due), 90-day late (between 90 and 119 days late; not more than 4 payments past due), 120-day late (at least 120 days past due; 5 or more payments past due) or collections, and severely derogatory (any of the previous states combined with reports of a repossession, charge off to bad debt or foreclosure). Not all creditors provide updated information on payment status, especially after accounts have been derogatory for a longer period of time. Thus the payment performance profiles obtained from our data may to some extent reflect reporting practices of creditors.

Percent of balance 90+ days late. Percent of balance that is either 90-day late, 120-day late or severely derogatory. 90+ days late is synonymous to seriously delinquent.

New foreclosures. Number of *individuals* with foreclosures first appearing on their credit report during the past 3 months. Based on foreclosure information provided by lenders (account level foreclosure information) as well as through public records. Note that since borrowers may have multiple real estate loans, this measure is conceptually different from foreclosure rates often reported in the press. For example, a borrower with a mortgage currently in foreclosure would not be counted here if he receives a foreclosure notice on an additional mortgage account. In the case of joint mortgages, both borrowers' reports indicate the presence of a foreclosure notice in the last 3 months, and both are counted here.

New bankruptcies. New bankruptcies first reported during the past 3 months. Based on bankruptcy information provided by lenders (account level bankruptcy information) as well as through public records.

Collections. Number and amount of 3rd party collections (i.e. collections not being handled by original creditor) on file within the last 12 months. Includes both public record and account level 3rd party collections information. As reported by Avery et al (2003), only a small proportion of collections are related to credit accounts with the majority of collection actions being associated with medical bills and utility bills.

Consumer Credit Score. Credit score computed by the credit reporting agency. The score, like the FICO® score, ranges from 300-850, with a higher score being viewed as a better risk than someone with a lower score.

New (seriously) delinquent balances and transition rates. New (seriously) delinquent balance reported in each loan category. It is based on the net increase in the aggregate (seriously) delinquent balance for all accounts of that loan type belonging to an individual. **Transition rates.** The transition rate is the new (seriously) delinquent balance, expressed as a percent of the previous quarter's balance that was not (seriously) delinquent.

Newly originated installment loan balances. We calculate the balance on newly originated mortgage loans as they first appear on an individual's credit report. For auto loans we compare the total balance and number of accounts on an individual credit report in consecutive quarters. New auto loan originations are then defined as increases in the balance accompanied by increases in the number of accounts reported.

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