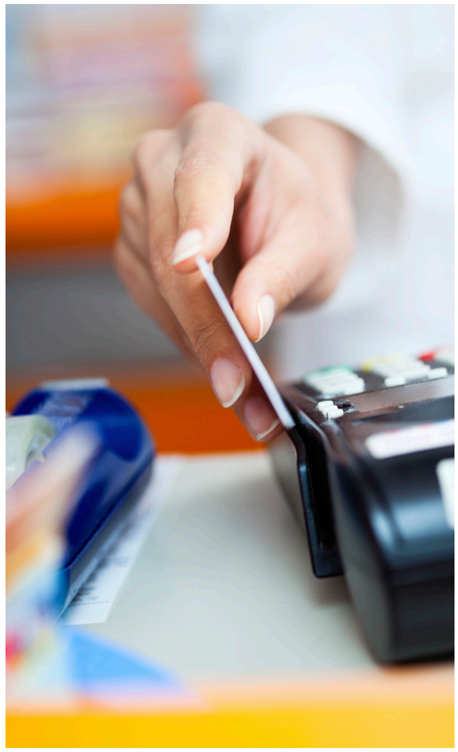
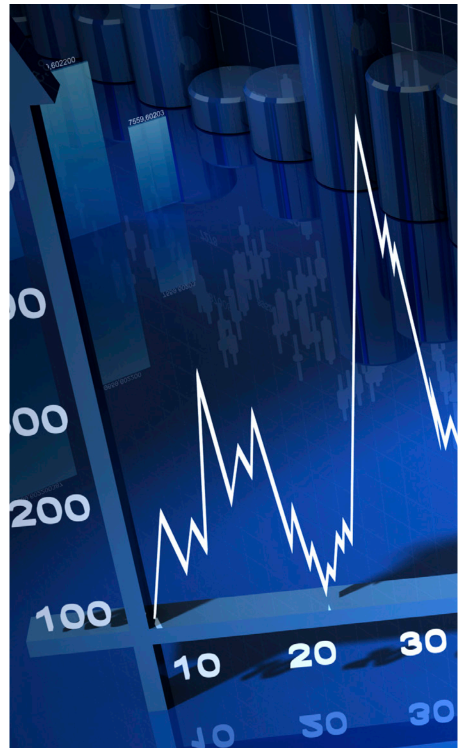




Consumer Credit Conditions

June 2016

Prepared by the

Federal Reserve Bank of Dallas
Community Development

Consumer Credit Conditions, June 2016: Auto and Retail Loans Blemish Improved Delinquency Report

The Consumer Credit Conditions update for the Eleventh Federal Reserve District presents maps and charts showing consumer loan balances and delinquencies by county, state, loan type and risk score. The data are drawn from the Federal Reserve Bank of New York Consumer Credit Panel/Equifax. While the Eleventh District includes Texas, northern Louisiana and southern New Mexico, portions of the update present data for all of Louisiana and New Mexico.

Overview

At an aggregate amount of $842.5 billion, total consumer debt in the Eleventh Federal Reserve District[1] increased 6.8 percent from June 2015 to June 2016. This is a jump from last year's rise of 5.7 percent. However, the number of people with a credit report rose just 2 percent compared with last year's increase of almost 3 percent. This means that growth in borrowing is responsible for the majority of this climb.

Within this aggregate increase, consumer finance loans—personal loans, including those provided by alternative financial services—rose the most, up 13.9 percent from June 2015. Auto loans were a close second, climbing 10.2 percent in this time period. Home equity installment loans—lump-sum loans borrowed against the equity in one's house—were the only decrease, down 1.6 percent. Bankcard debt, or typical credit card accounts, grew 7 percent, far outpacing the national rate of 3.8 percent. The growth rate in the district was also higher for student loans (7.5 percent versus 6 percent). Mortgages increased 6 percent compared with just 3.4 percent last year.

Though their aggregate balance increased, the share of mortgages in the total debt portfolio continued its downward trend, dropping to 58.4 percent from 58.8 percent and 59.8 percent in 2015 and 2014, respectively. Still, it represents the majority of debt for consumers in the Eleventh District.

Texas is the only state in the nation to have home equity loan regulations, capping the amount borrowed at 80 percent of the market value of the home; 20 percent equity must always remain in the home. This helps keep the debt balances low for the state. In fact, researchers suggest these regulations helped keep Texas' serious delinquency rates for subprime loans—those made to consumers with credit scores typically below 620—10 percentage points lower than the nation's during the Great Recession.[2]

Delinquencies: A Tale of Two Loans

With regard to delinquencies, the rates of late or outstanding payments dropped for many loans. For all loans in the district, delinquencies decreased from 6.03 percent in 2015 to 5.65 percent in 2016. Student loan delinquencies dropped nearly 2 percentage points in Texas and the district, and serious delinquencies also declined 1.66 and 1.77 percentage points, respectively. Mortgage delinquencies fell by over 1 percentage point across the country and about 0.43 percentage points in Texas. This is the lowest that mortgage delinquencies have been since June 2006.

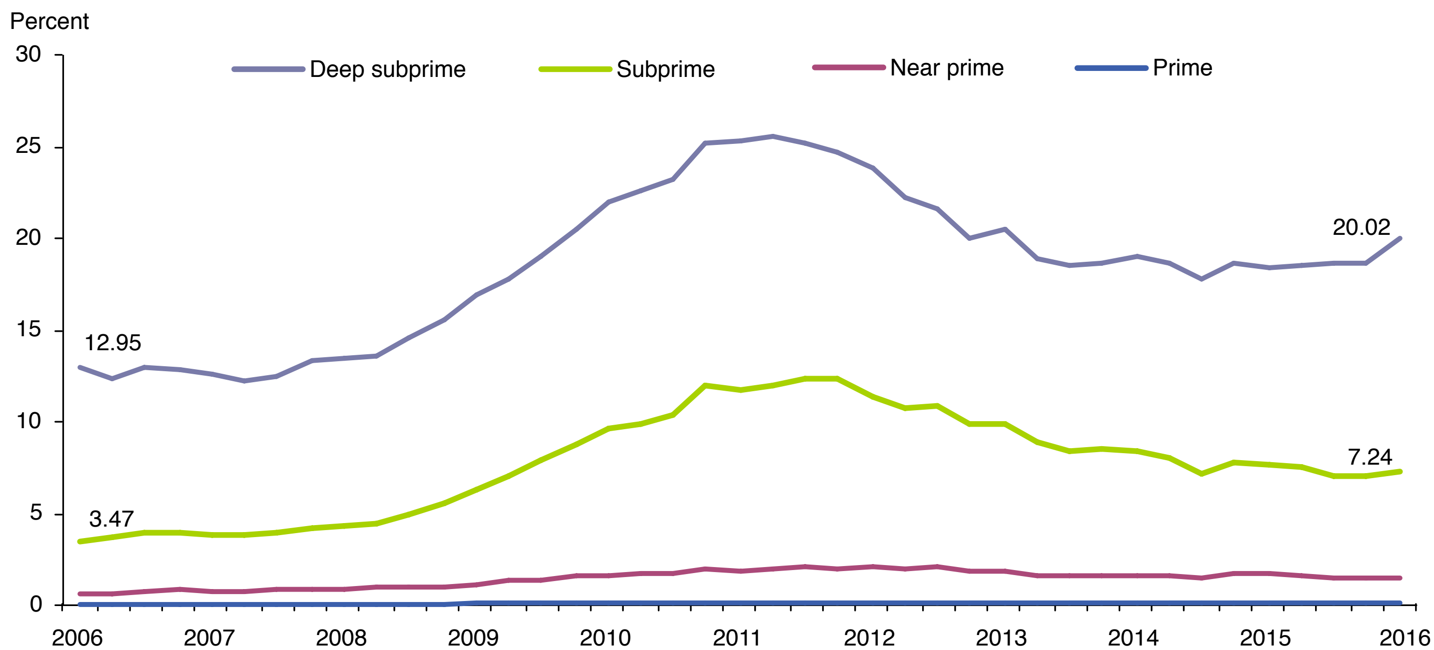
But the downward trend is not true for every loan. Increasing rates of loan volume growth coupled with increasing delinquencies can be a cause of concern for the economy. In the national and Texas subprime markets, this is true for two loans: auto and retail. Yet, concerns about the long-term impact of these trends differ for the two loans.

Retail loans, which include department store, electronic and home furnishing loans, have historically had higher rates of delinquencies than others such as mortgages, bankcards, home equity or auto. Much of this is likely due to the relative ease of getting approved and the higher interest rates charged.[3] In the subprime market, at least a third of these loans are past due. And although aggregate retail debt has increased for all credit scores in the past five years, since 2014, the rate of growth in the subprime market has been about triple that of the prime market. Much of this is likely demand-driven—the increase is correlated to a growth in retail sales—and related to the accessibility of retail credit over bankcard credit for those with low credit scores. However, the total volume of retail loans as well as their share in the total debt portfolio is small. In Texas, for example, retail loans represent 1 percent of the per capita loan portfolio, while in the United States, they represent just 0.7 percent. Therefore, the impact on the aggregate portfolio is minimized, despite the higher rates of delinquencies.

In contrast, auto loans, which have received a lot of attention in the past year, represent a substantial and growing share of the total loan portfolio for consumers both in the Eleventh District and the United States. Across the nation, auto debt surpassed $1 trillion dollars in 2016. The volume of auto debt per capita has grown by more than 18 percent in Texas since 2014, now representing more than 16 percent of an average consumer's debt portfolio. This is the highest share of any loan type, with the exception of mortgages. In fact, when one excludes mortgages (which constitute the majority of portfolios in Texas), auto loans now represent about 40 percent of the remaining loan balance per capita. By contrast, retail loans represent 2 percent.

Rates of delinquencies in the subprime market have risen in the past few quarters. In fact, the share of deep subprime loans that are seriously delinquent is at its highest since 2012, at more than 20 percent (*Chart 1*). Furthermore, the overall subprime balance in Texas has grown 28.5 percent in two years. This growth rate is the eighth highest in the nation.

Chart 1
Subprime Auto Debt Serious Deliquencies on the Rise in Texas



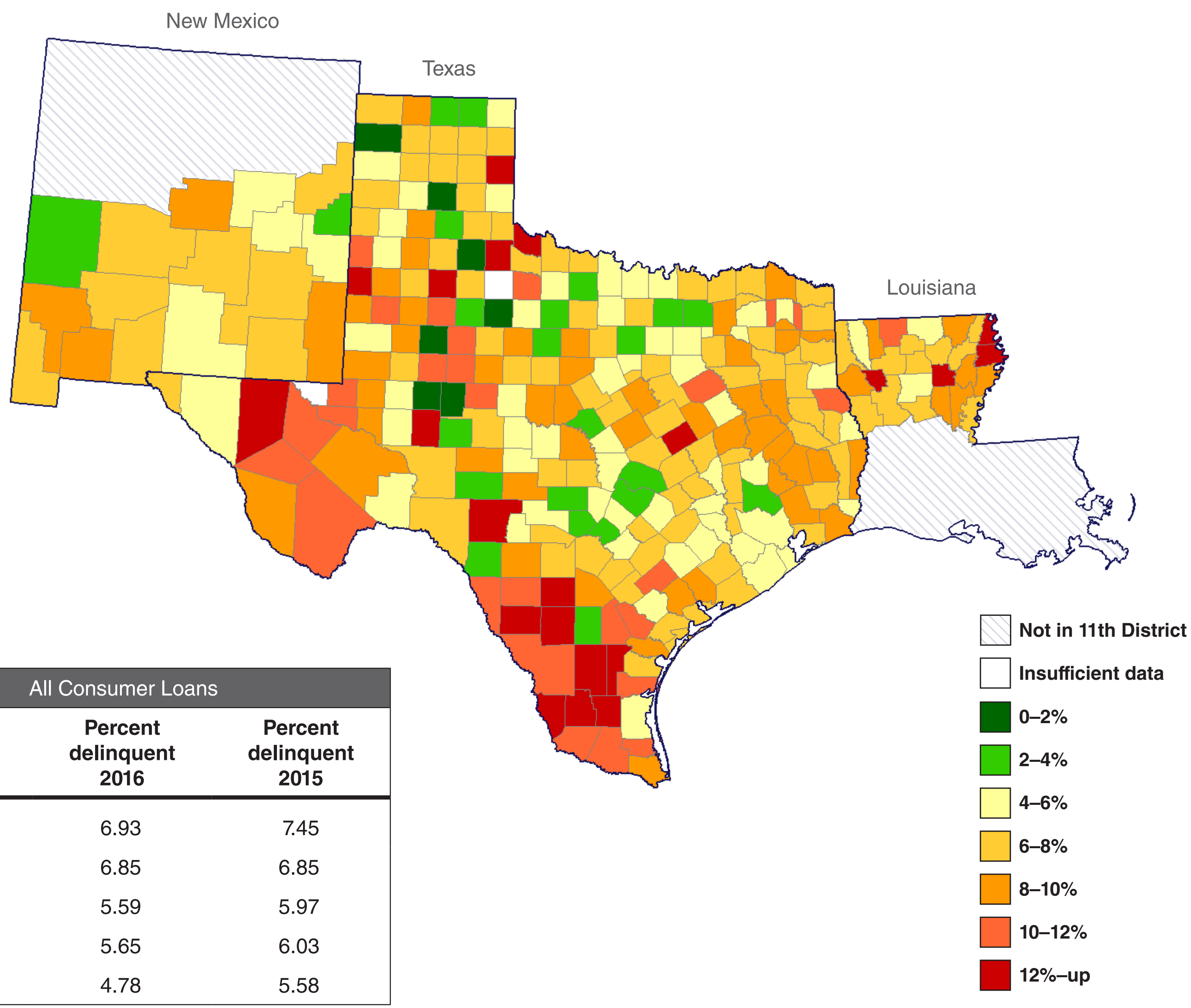
With rates of serious delinquencies for all retail borrowers reaching nearly 10 percent, retail loans can have a substantial negative impact on the financial well-being of an affected borrower. However, due to the low volume, the size of the impact on borrowers as well as the economic health of the state and country is minimized. In contrast, with auto loans representing 16 percent of the total outstanding debt per capita in Texas—much higher than the nation's 9 percent—there are concerns about the size and length of consequences for borrowers as well as the overall economy. This is why auto loans have garnered growing attention from economists and the media over the past year. As delinquencies and defaults rise within the subprime market, with volume also increasing, auto finance companies, lenders, borrowers and local economies could be affected. The *New York Times* notes that in the case of an uptick in car repossessions, the economy could take a "stinging hit."[4]

Although this is concerning, this news should not sound the alarm for a repeat of the mortgage crisis: trillions of dollars of mortgage credit were inextricably linked to investments and the economy at large prior to the Great Recession. Auto debt, however, is far smaller and less entangled in the overall financial system: mortgages are securitized at much higher rates, while the terms of auto loans are far shorter, and repossessions are far easier.

Notes

[1] The Eleventh Federal Reserve District consists of Texas, northern Louisiana and southern New Mexico. See map of counties here: www.dallasfed.org/fed/counties.
[2] "Did Home Equity Restrictions Help Keep Texas Mortgages from Going Underwater?" by Anil Kumar and Edward C. Skelton, Federal Reserve Bank of Dallas *Southwest Economy*, Third Quarter 2013, www.dallasfed.org/research/swe.
[3] "Think at Least Twice Before Opening a Store Credit Card," by Theresa Agovino, CBS MoneyWatch, Nov. 17, 2016, www.cbsnews.com/news/think-at-least-twice-before-opening-a-store-credit-card/ and "5 Things You Need to Know About Store Credit Cards," by Geoff Williams, *U.S. News & World Report*, Sept. 20, 2016, http://money.usnews.com/money/personal-finance/articles/2016-09-20/5-things-you-need-to-know-about-store-credit-cards.
[4] "As Auto Lending Rises, So Do Delinquencies," by Michael Corkery, NYTimes.com, Nov. 30, 2016, www.nytimes.com/2016/11/30/business/dealbook/as-auto-lending-rises-so-do-delinquencies.html?_r=0.

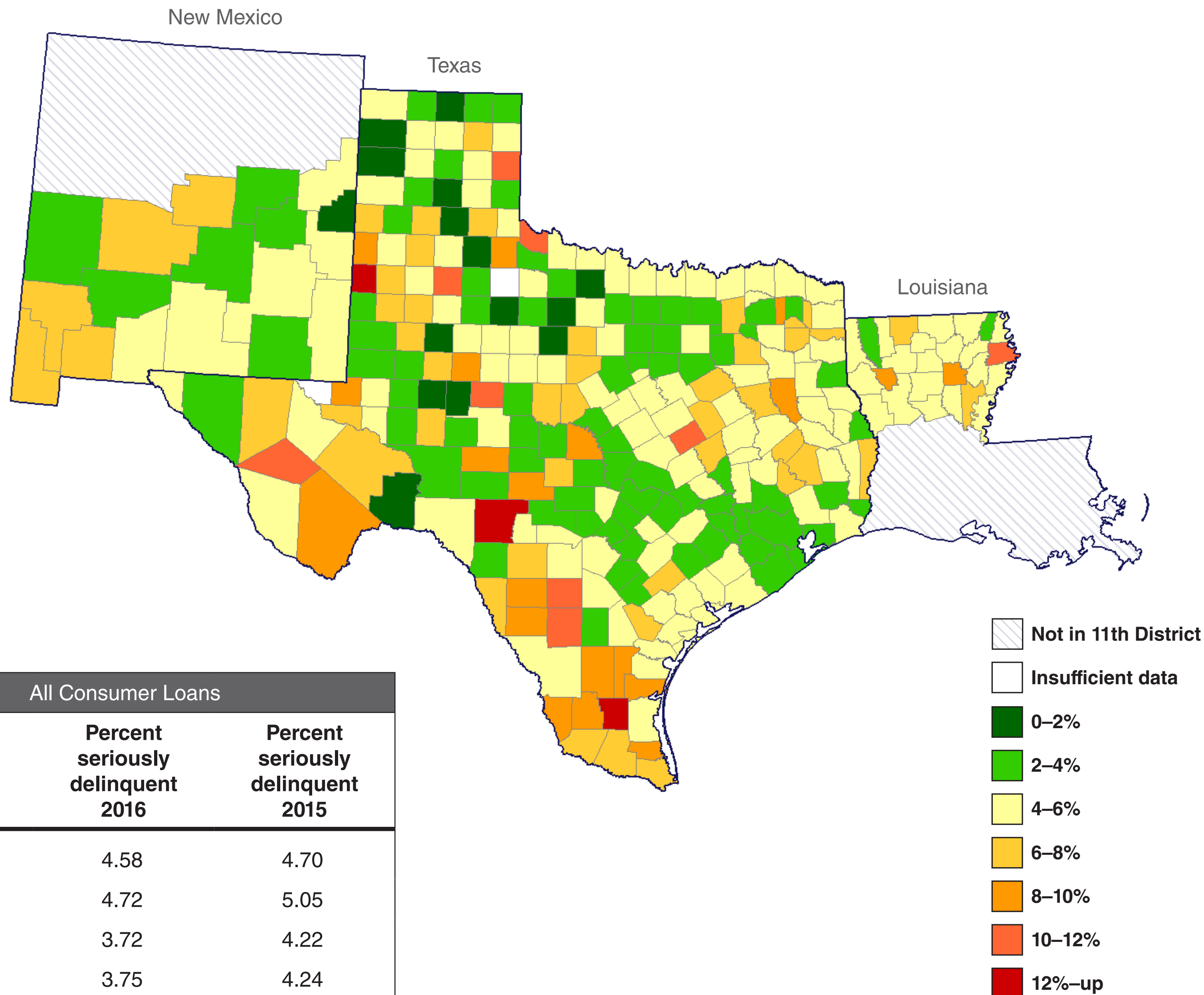
Delinquent All Consumer Loans in the Eleventh Federal Reserve District, June 2016



All Consumer Loans	Percent delinquent 2016	Percent delinquent 2015
Louisiana	6.93	7.45
New Mexico	6.85	6.85
Texas	5.59	5.97
11th District	5.65	6.03
U.S.	4.78	5.58

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

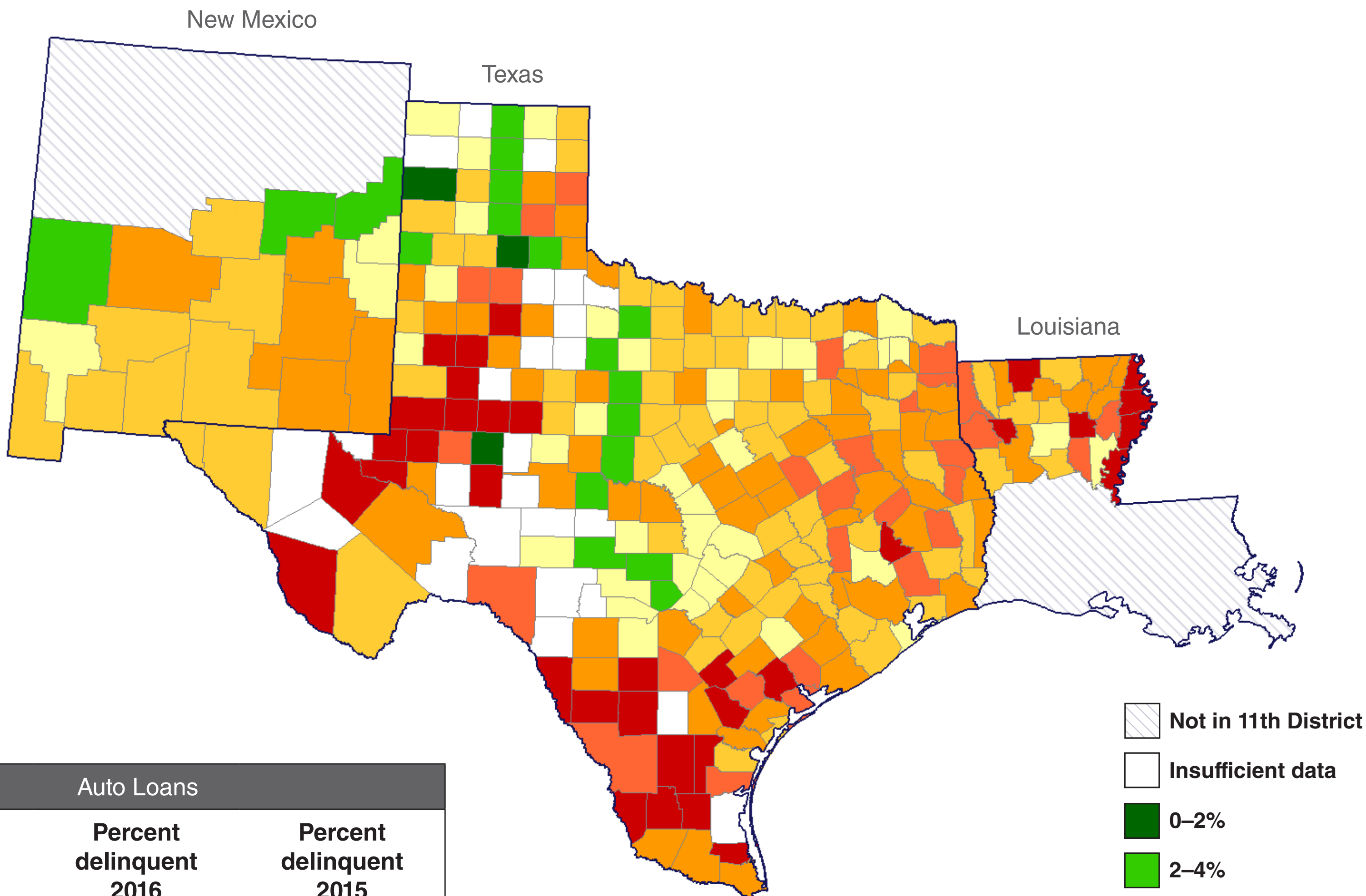
Seriously Delinquent All Consumer Loans in the Eleventh Federal Reserve District, June 2016



All Consumer Loans	Percent seriously delinquent 2016	Percent seriously delinquent 2015
Louisiana	4.58	4.70
New Mexico	4.72	5.05
Texas	3.72	4.22
11th District	3.75	4.24
U.S.	2.67	3.98

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

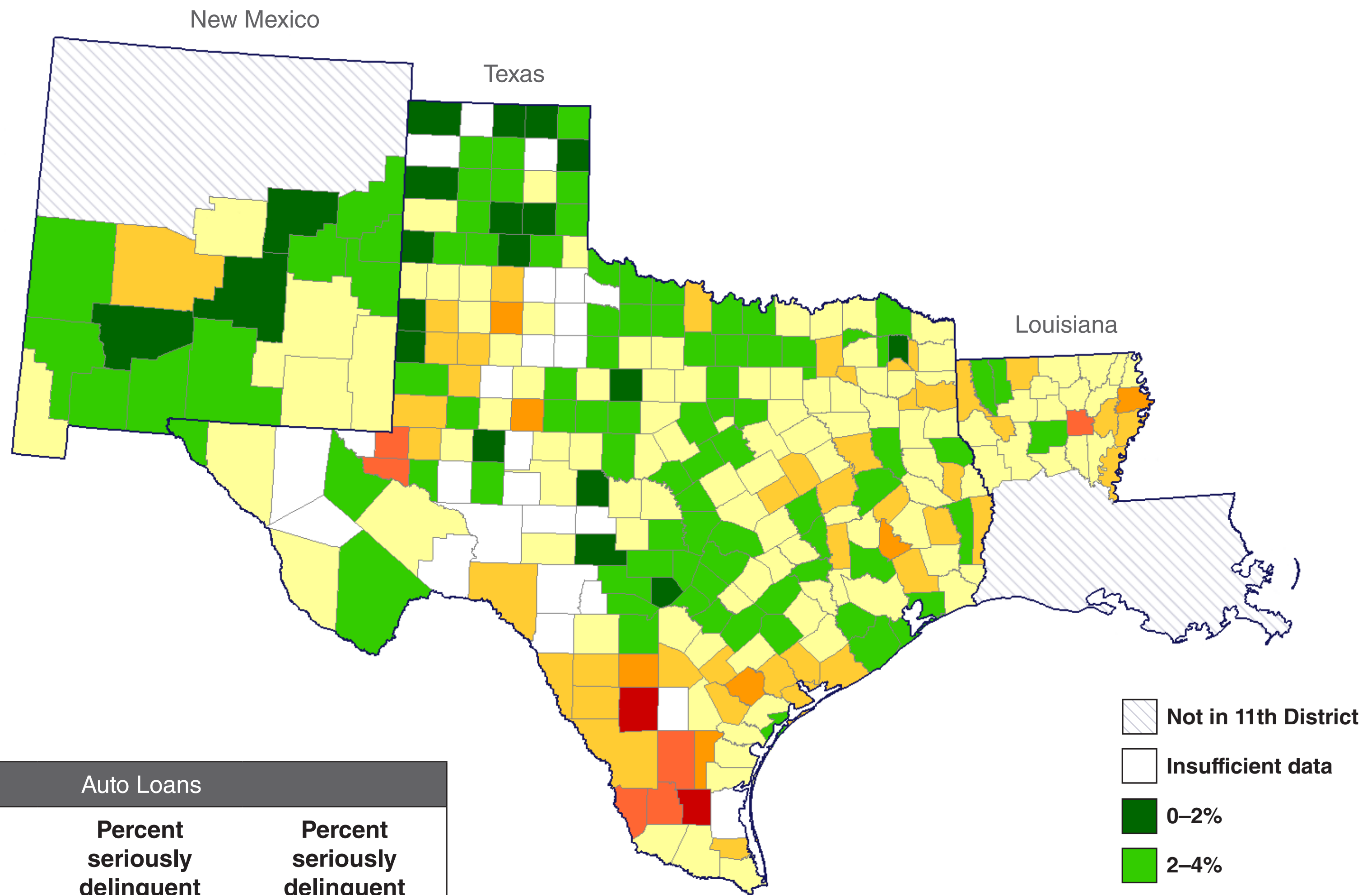
Delinquent Auto Loans in the Eleventh Federal Reserve District, June 2016



Auto Loans		
	Percent delinquent 2016	Percent delinquent 2015
Louisiana	9.55	8.79
New Mexico	7.40	6.59
Texas	7.64	7.01
11th District	7.70	7.05
U.S.	5.92	5.72

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

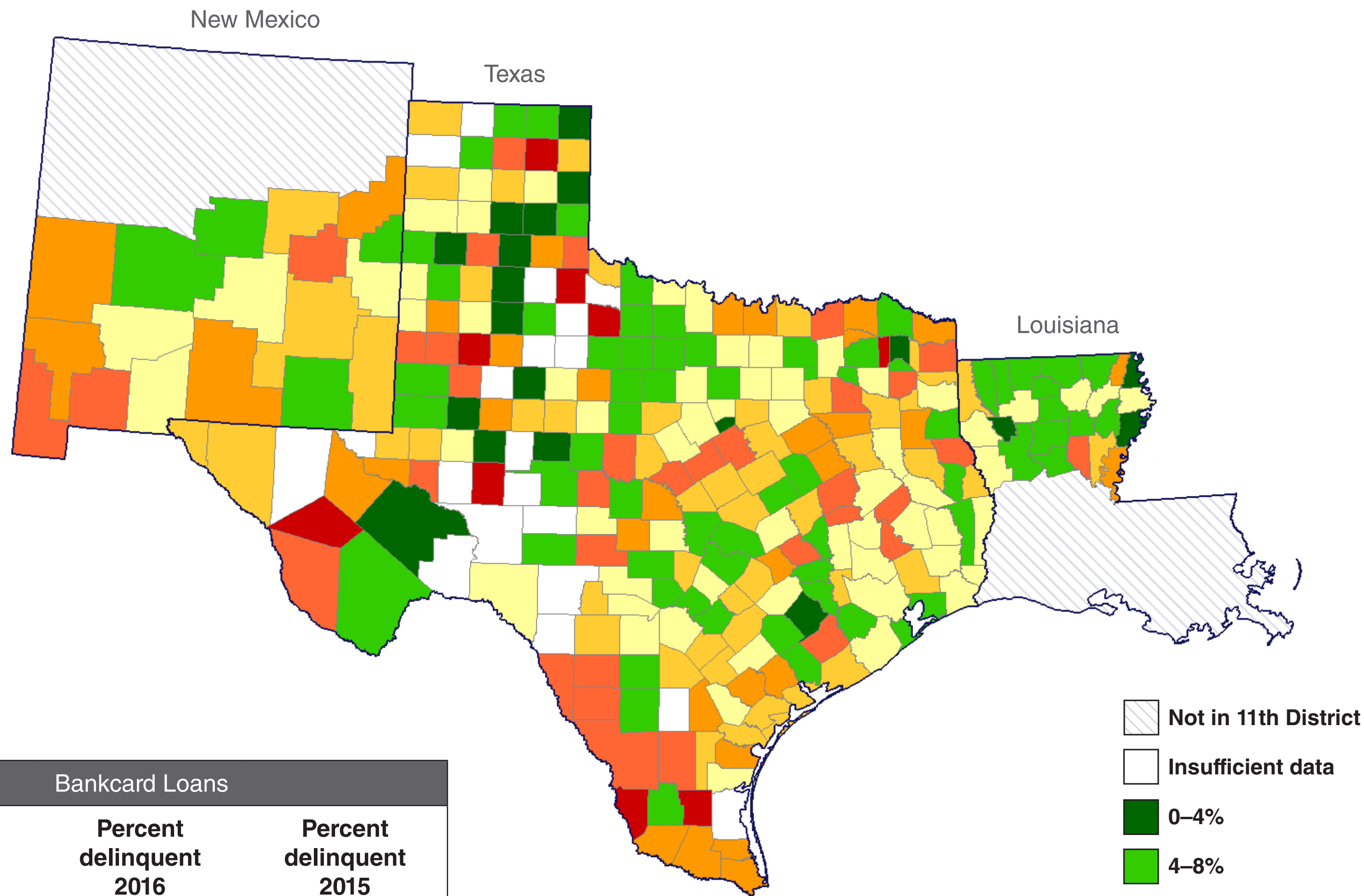
Seriously Delinquent Auto Loans in the Eleventh Federal Reserve District, June 2016



Auto Loans	Percent seriously delinquent 2016	Percent seriously delinquent 2015
Louisiana	5.26	4.85
New Mexico	3.89	3.50
Texas	4.43	3.89
11th District	4.44	3.89
U.S.	3.43	3.38

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

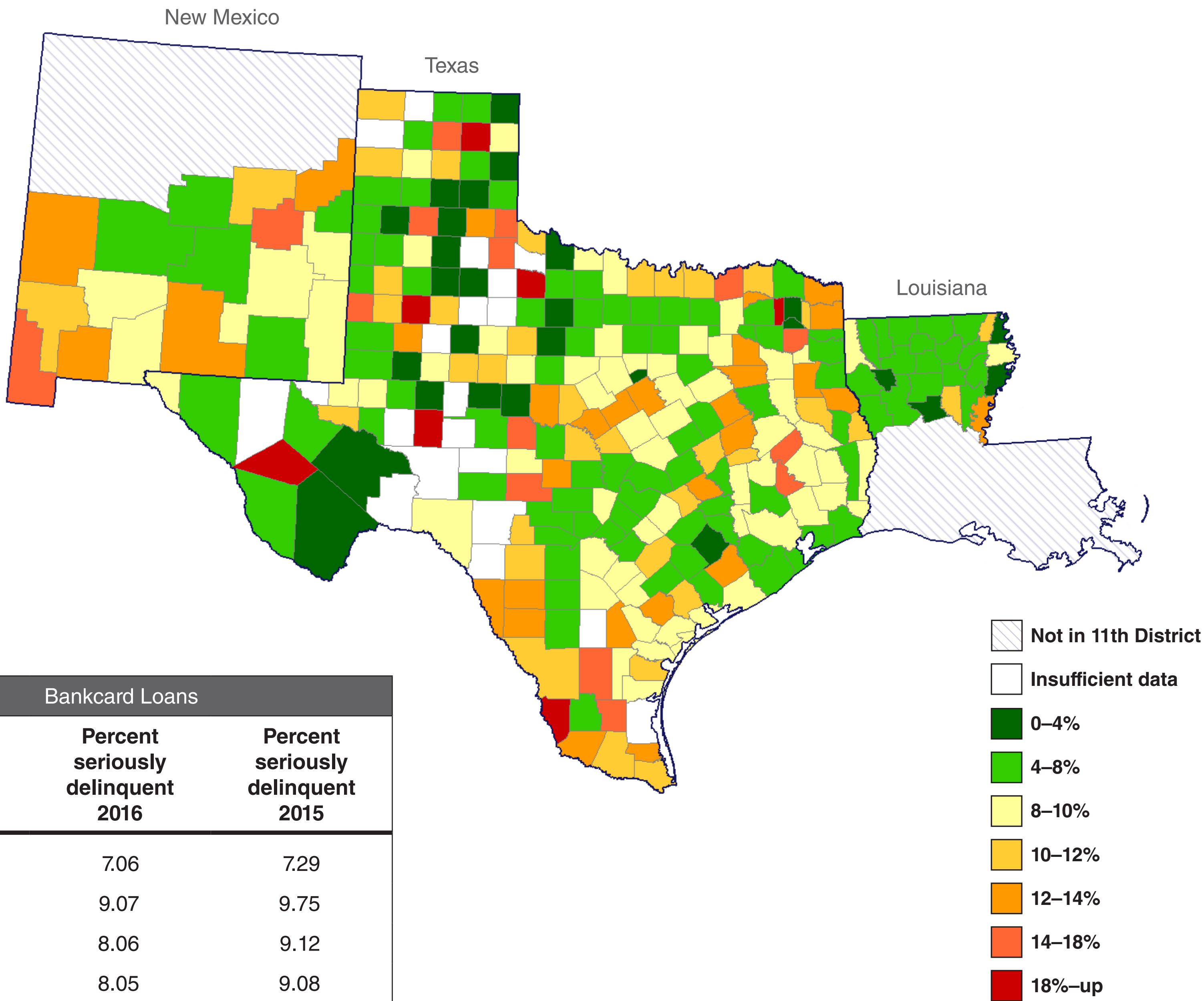
Delinquent Bankcard Loans
in the Eleventh Federal Reserve District, June 2016



Bankcard Loans	Percent delinquent 2016	Percent delinquent 2015
Louisiana	8.41	8.5
New Mexico	10.08	10.84
Texas	9.2	10.22
11th District	9.2	10.19
U.S.	7.63	9.51

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

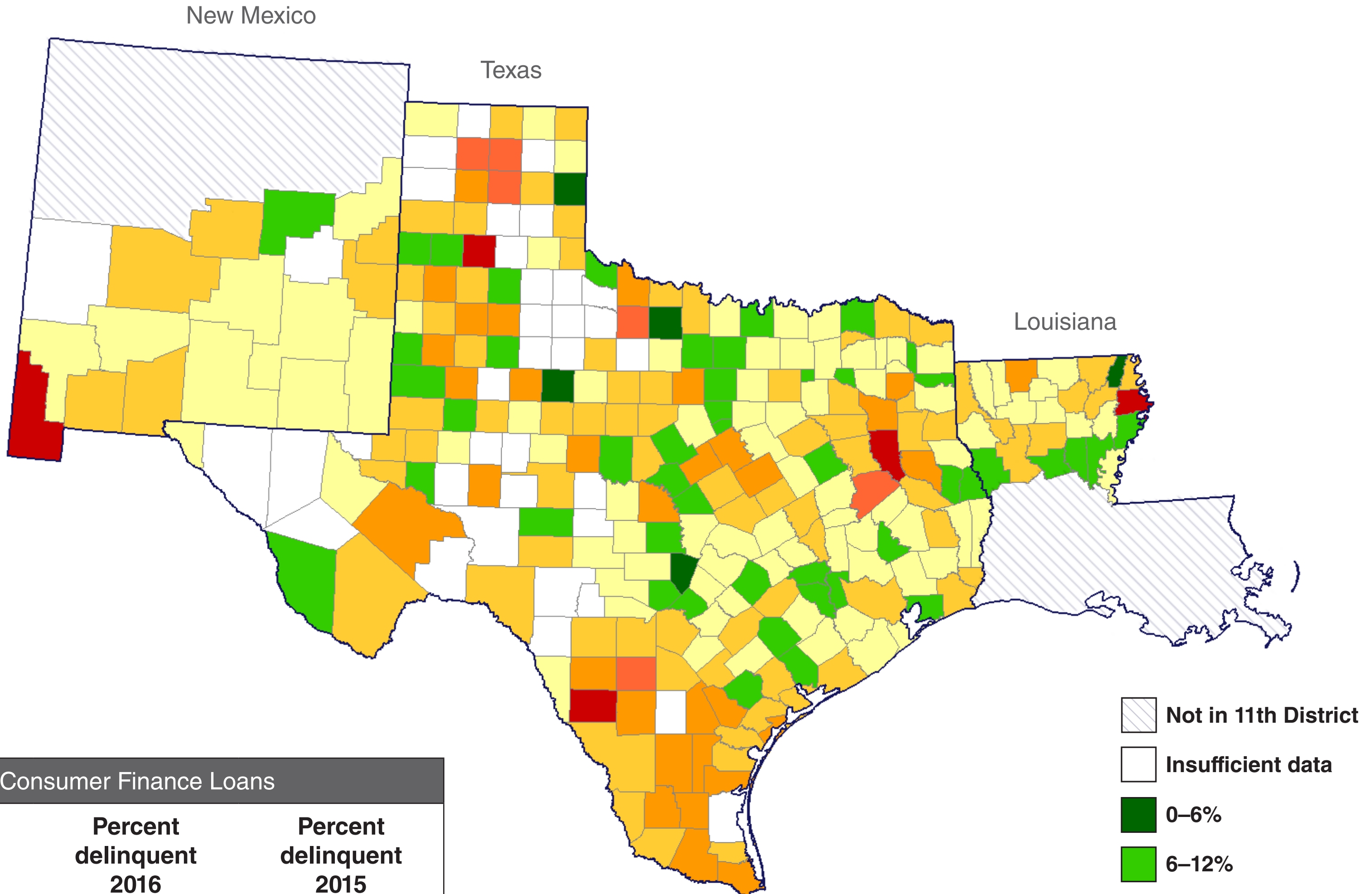
Seriously Delinquent Bankcard Loans in the Eleventh Federal Reserve District, June 2016



Bankcard Loans	Percent seriously delinquent 2016	Percent seriously delinquent 2015
Louisiana	7.06	7.29
New Mexico	9.07	9.75
Texas	8.06	9.12
11th District	8.05	9.08
U.S.	6.79	8.47

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

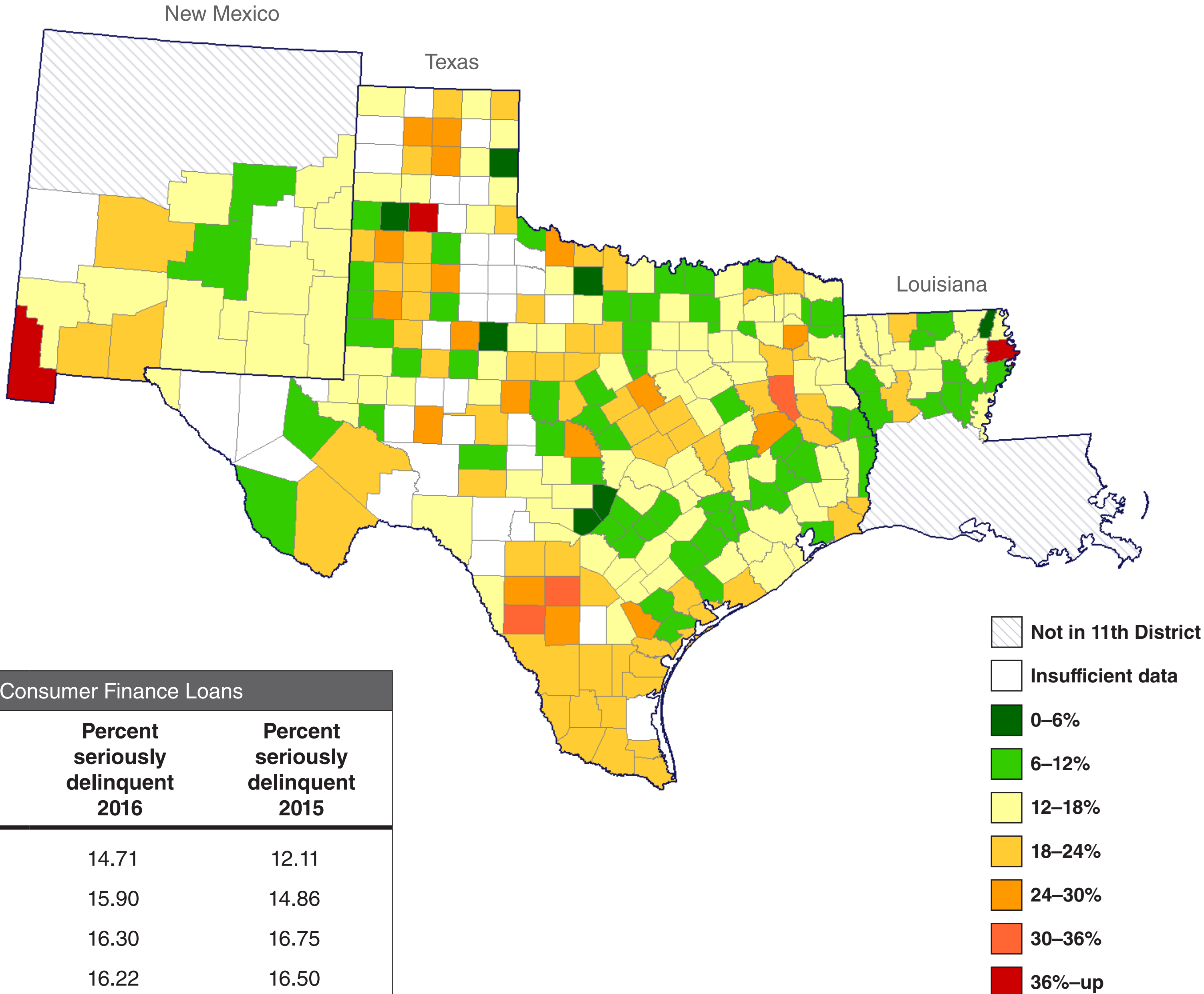
Delinquent Consumer Finance Loans in the Eleventh Federal Reserve District, June 2016



Consumer Finance Loans	Percent delinquent 2016	Percent delinquent 2015
Louisiana	17.38	17.79
New Mexico	18.64	18.04
Texas	18.54	18.96
11th District	18.50	18.75
U.S.	13.61	14.55

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

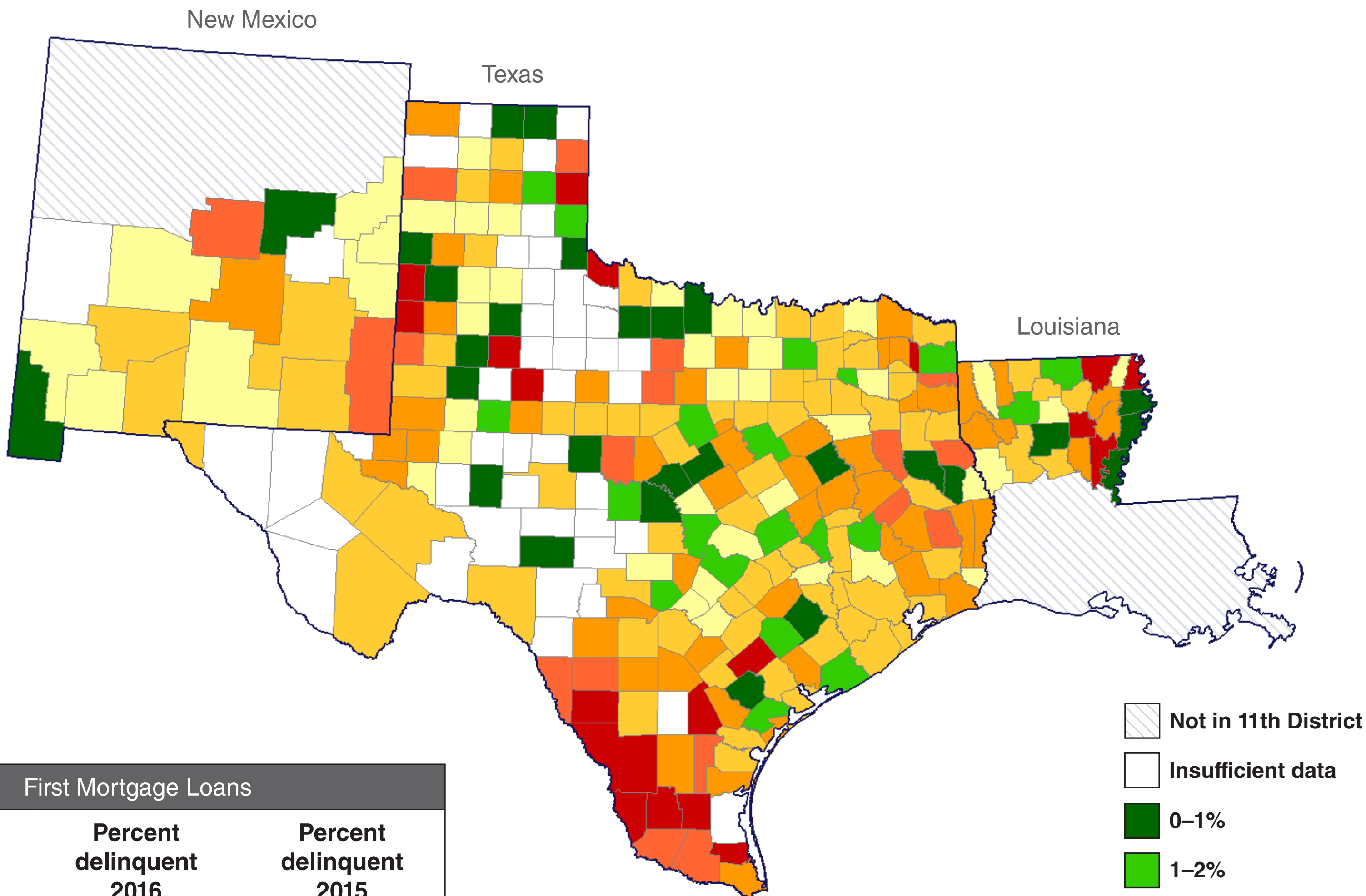
Seriously Delinquent Consumer Finance Loans in the Eleventh Federal Reserve District, June 2016



Consumer Finance Loans	Percent seriously delinquent 2016	Percent seriously delinquent 2015
Louisiana	14.71	12.11
New Mexico	15.90	14.86
Texas	16.30	16.75
11th District	16.22	16.50
U.S.	11.63	12.68

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

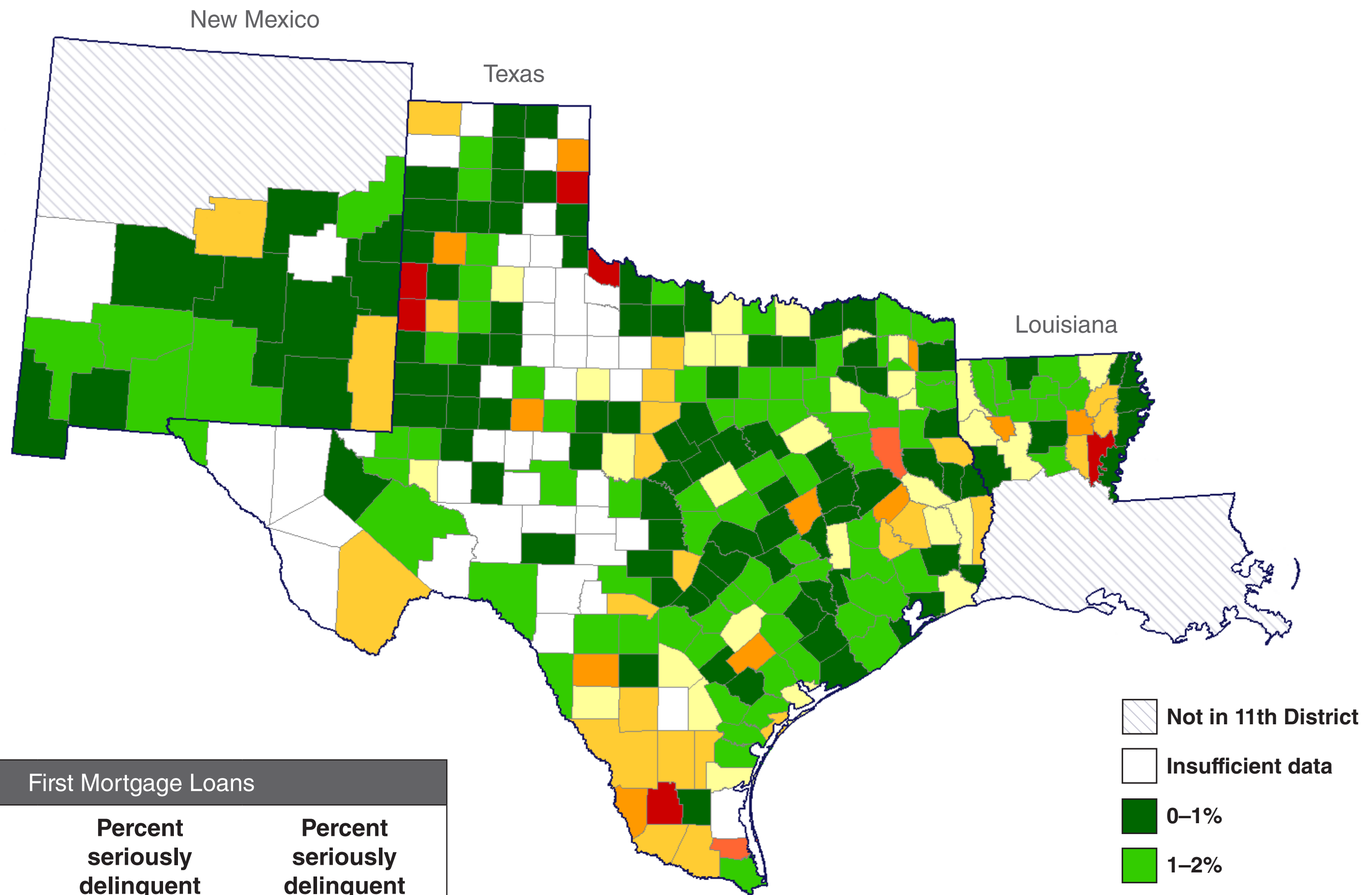
Delinquent First Mortgage Loans in the Eleventh Federal Reserve District, June 2016



First Mortgage Loans		
	Percent delinquent 2016	Percent delinquent 2015
Louisiana	4.33	4.70
New Mexico	3.84	4.18
Texas	3.13	3.56
11th District	3.17	3.60
U.S.	3.26	4.32

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

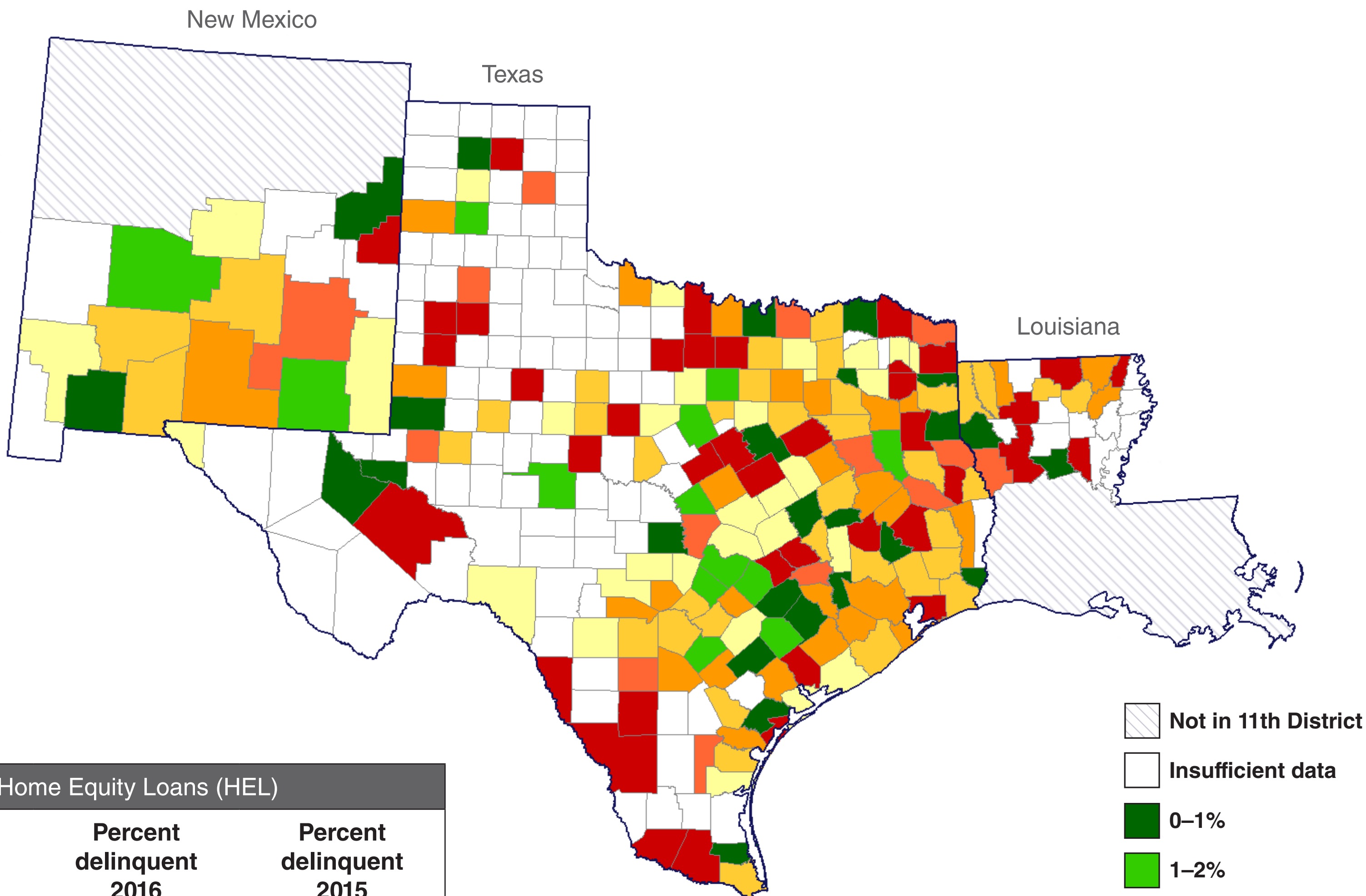
Seriously Delinquent First Mortgage Loans in the Eleventh Federal Reserve District, June 2016



First Mortgage Loans	Percent seriously delinquent 2016	Percent seriously delinquent 2015
Louisiana	1.80	1.90
New Mexico	1.56	2.02
Texas	1.19	1.48
11th District	1.21	1.49
U.S.	1.66	2.51

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

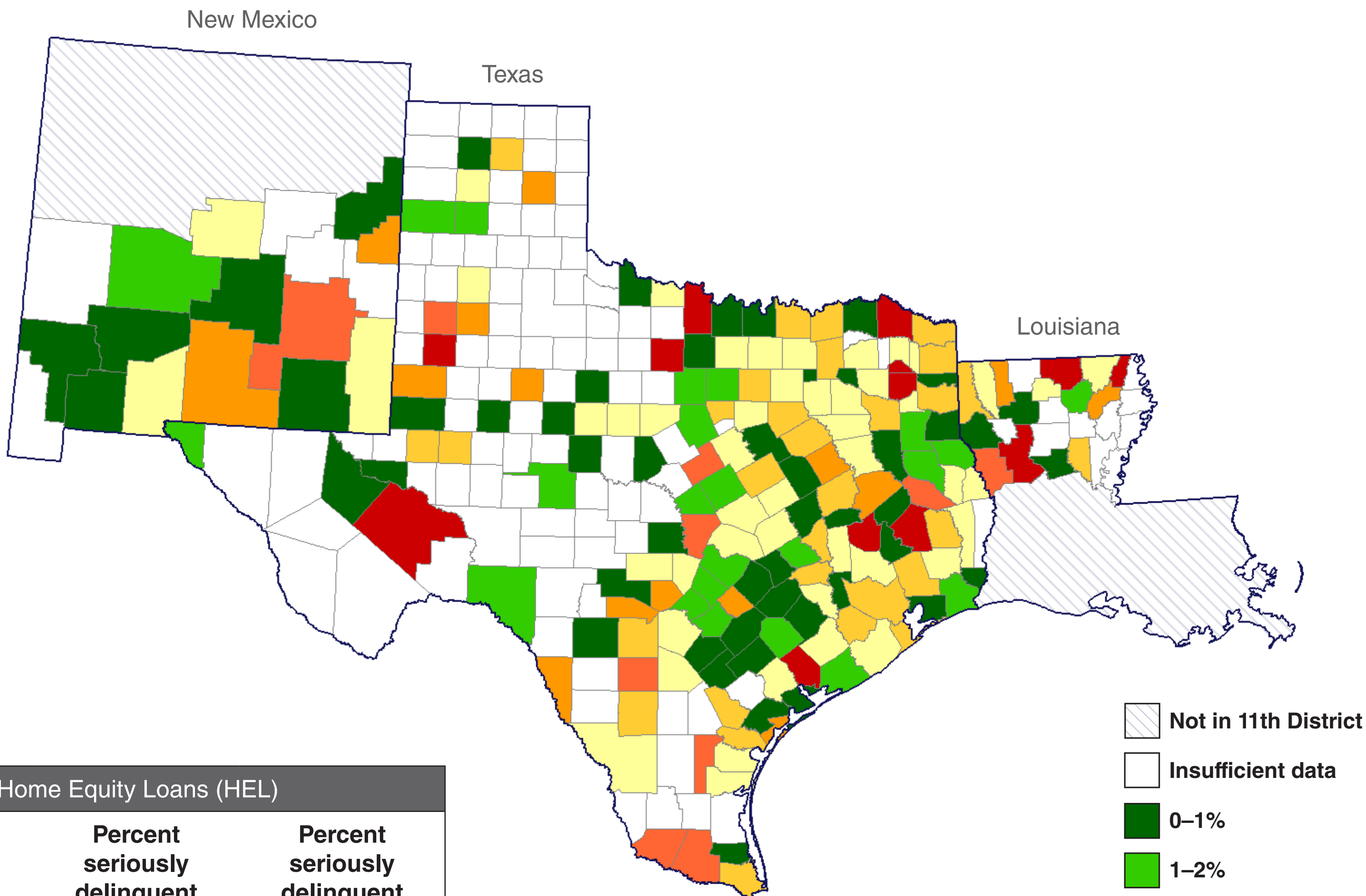
Delinquent Home Equity Loans in the Eleventh Federal Reserve District, June 2016



Home Equity Loans (HEL)		
	Percent delinquent 2016	**Percent delinquent 2015**
Louisiana	6.55	7.84
New Mexico	5.24	6.53
Texas	5.43	5.90
11th District	5.45	5.95
U.S.	5.43	5.89

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

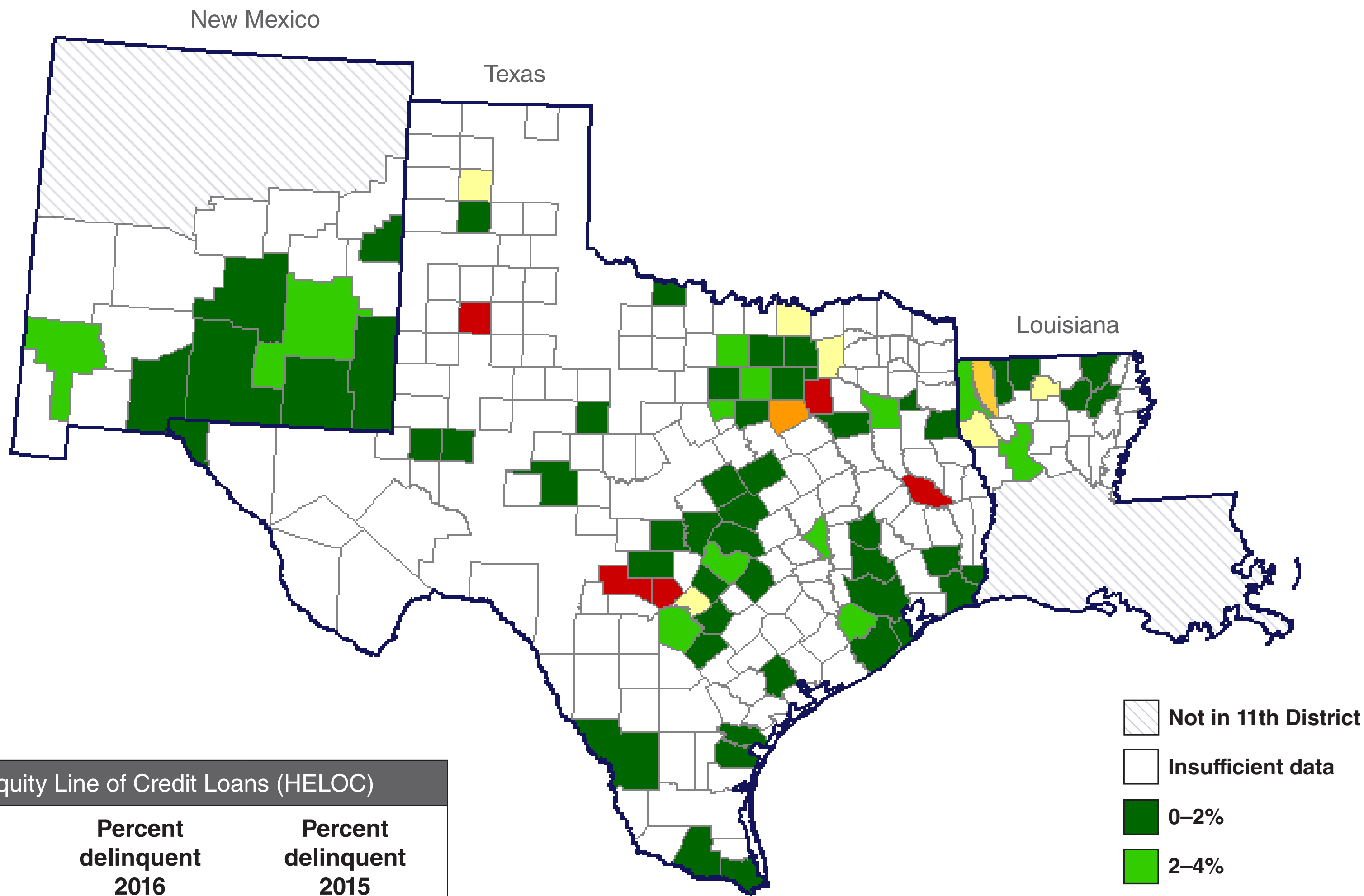
Seriously Delinquent Home Equity Loans in the Eleventh Federal Reserve District, June 2016



Home Equity Loans (HEL)		
	Percent seriously delinquent 2016	**Percent seriously delinquent 2015**
Louisiana	4.48	4.26
New Mexico	3.52	4.01
Texas	3.42	3.93
11th District	3.45	3.95
U.S.	3.69	4.17

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

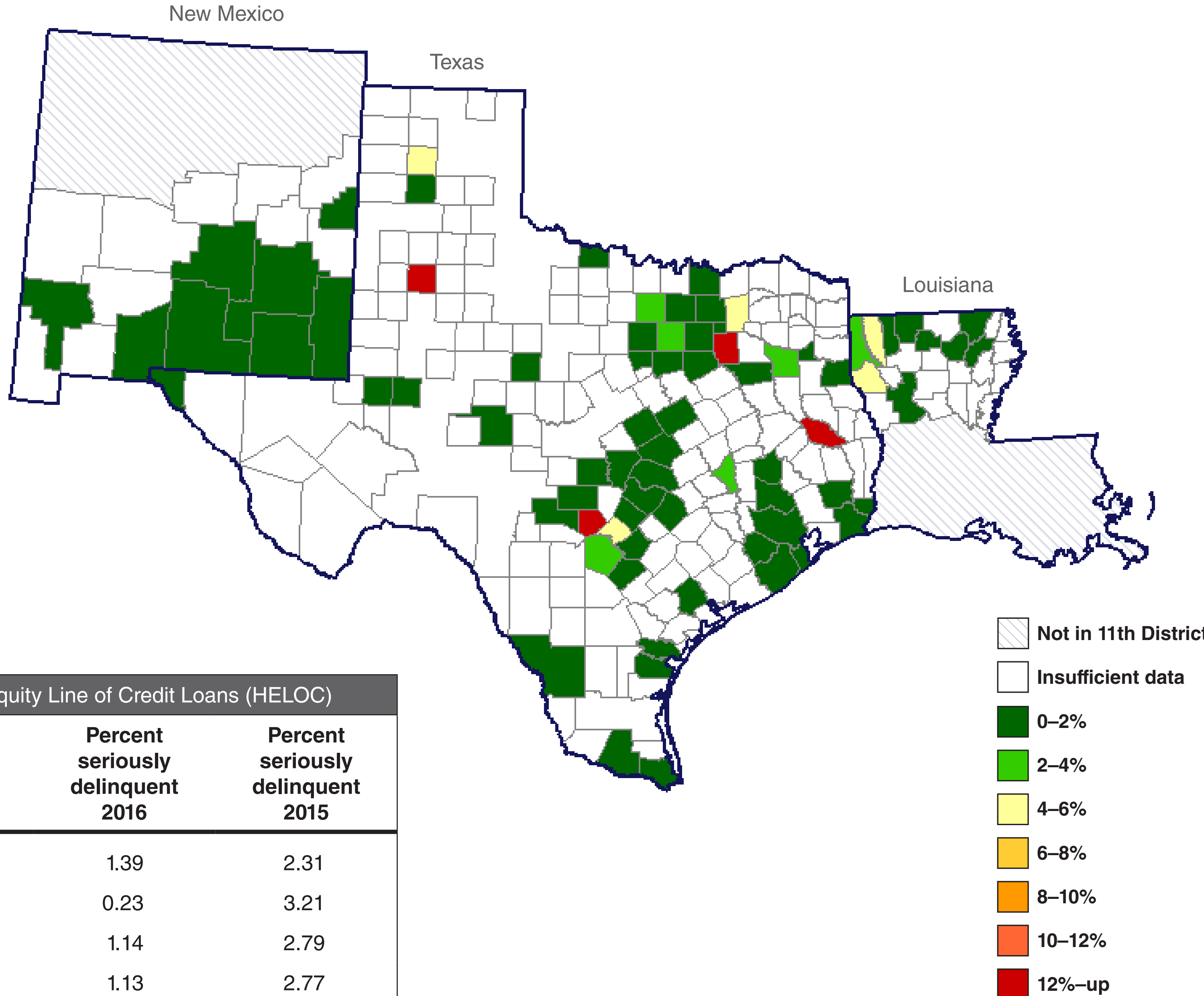
Delinquent Home Equity Line of Credit Loans in the Eleventh Federal Reserve District, June 2016



Home Equity Line of Credit Loans (HELOC)	Percent delinquent 2016	Percent delinquent 2015
Louisiana	1.78	4.12
New Mexico	1.84	4.56
Texas	1.60	3.18
11th District	1.61	3.26
U.S.	2.83	3.85

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

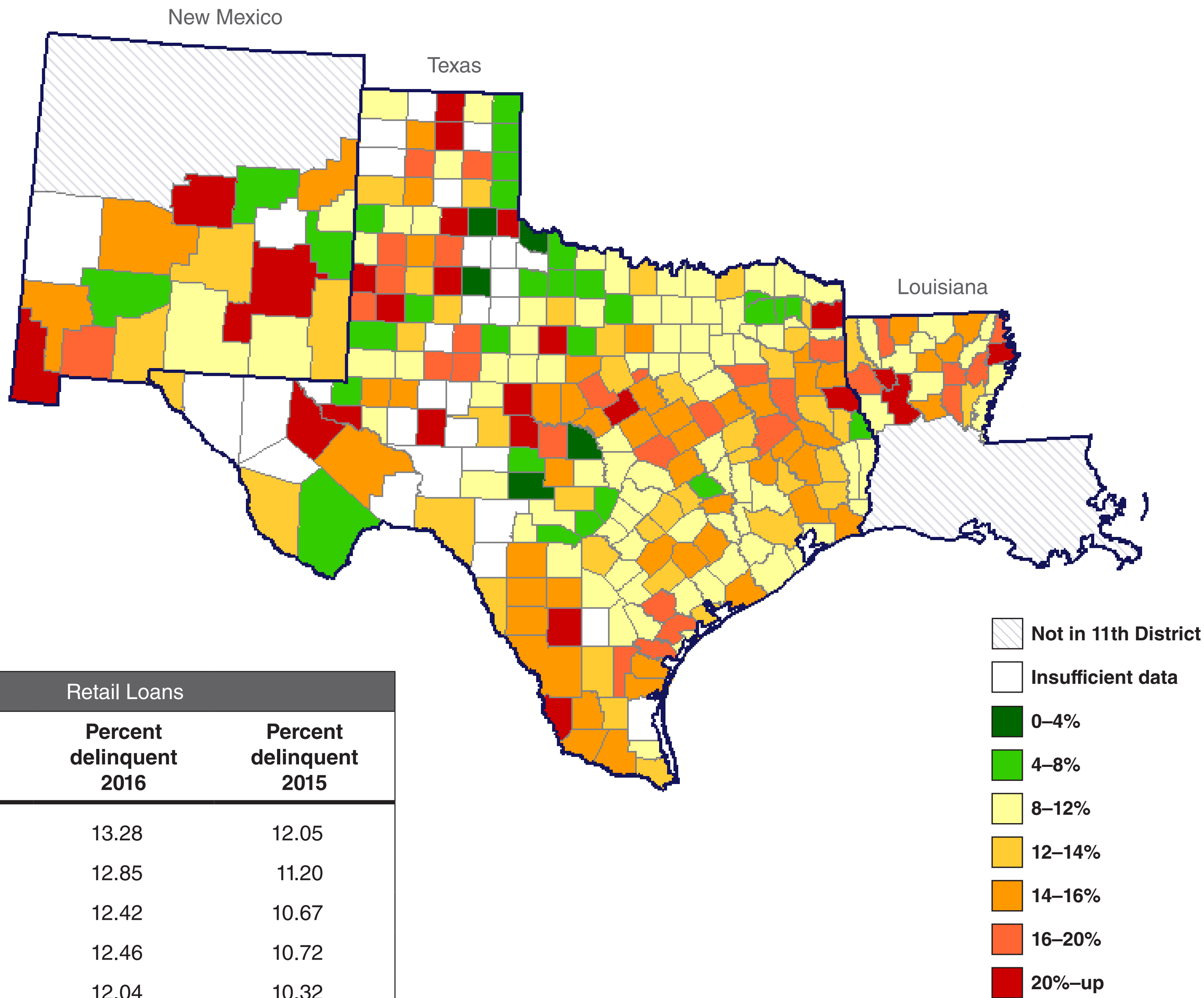
Seriously Delinquent Home Equity Line of Credit Loans in the Eleventh Federal Reserve District, June 2016



Home Equity Line of Credit Loans (HELOC)		
	Percent seriously delinquent 2016	**Percent seriously delinquent 2015**
Louisiana	1.39	2.31
New Mexico	0.23	3.21
Texas	1.14	2.79
11th District	1.13	2.77
U.S.	2.03	3.13

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

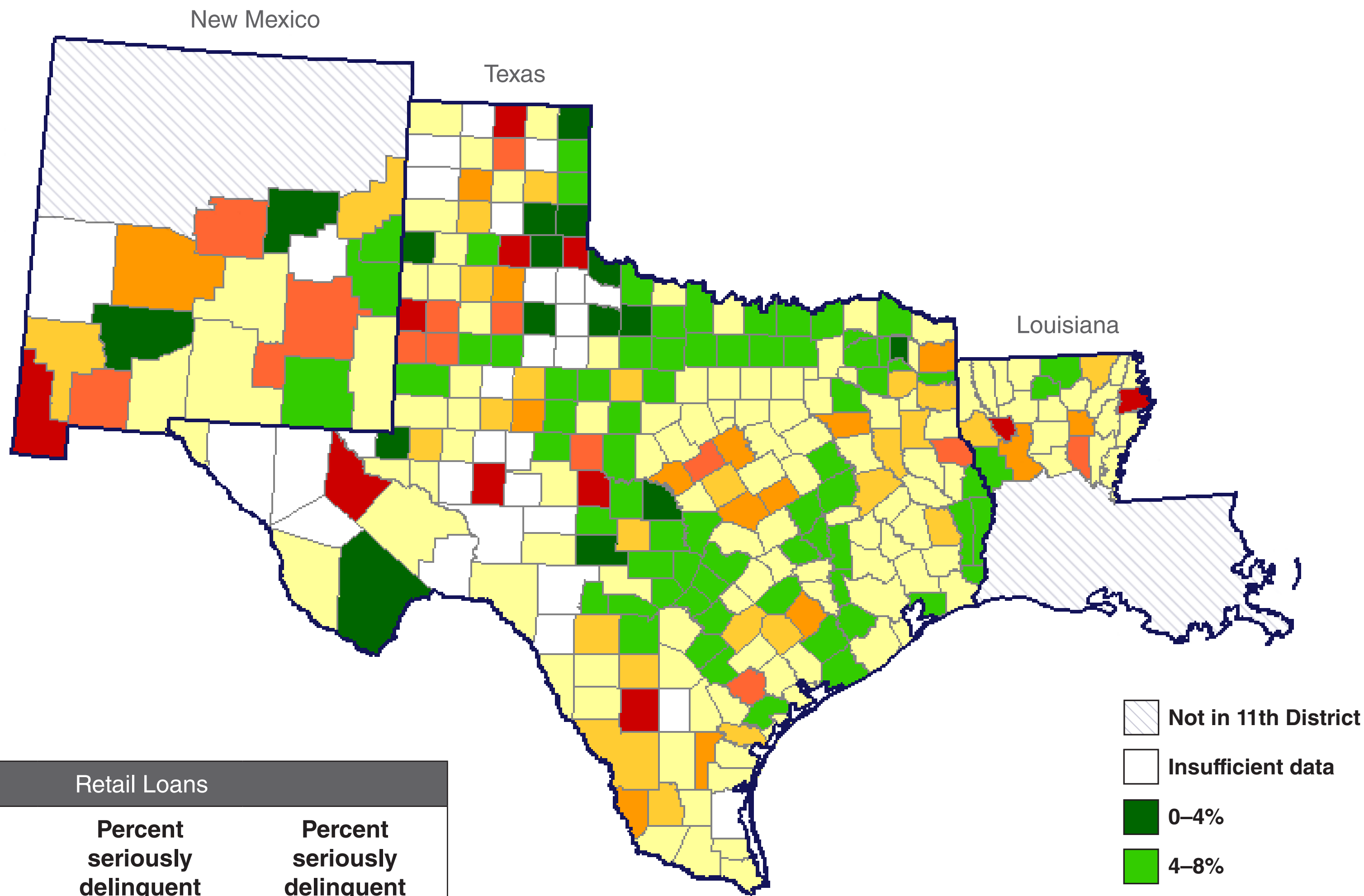
Delinquent Retail Loans
in the Eleventh Federal Reserve District, June 2016



Retail Loans	Percent delinquent 2016	Percent delinquent 2015
Louisiana	13.28	12.05
New Mexico	12.85	11.20
Texas	12.42	10.67
11th District	12.46	10.72
U.S.	12.04	10.32

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

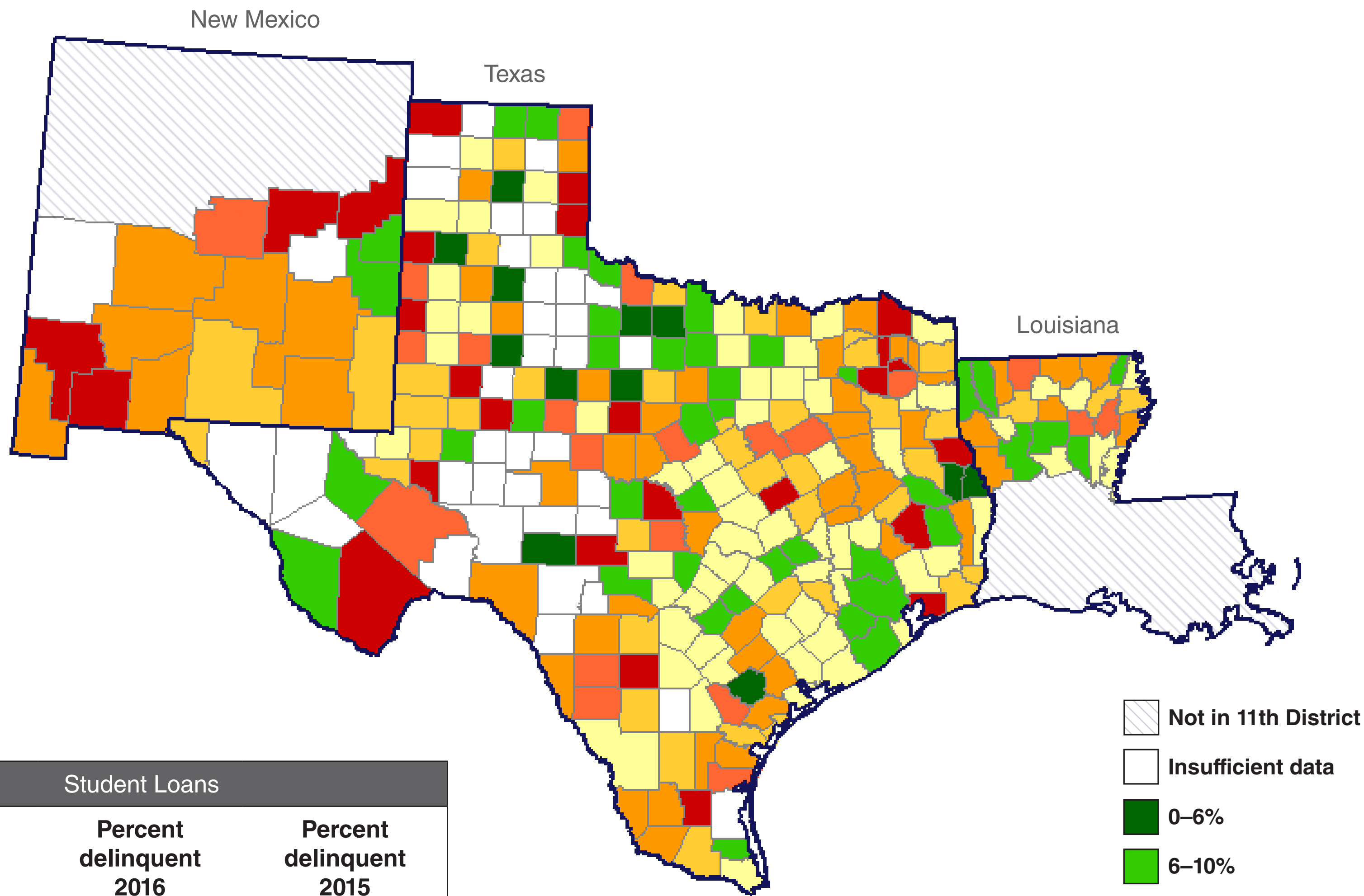
Seriously Delinquent Retail Loans in the Eleventh Federal Reserve District, June 2016



Retail Loans	Percent seriously delinquent 2016	Percent seriously delinquent 2015
Louisiana	9.87	8.96
New Mexico	10.38	8.70
Texas	9.82	8.38
11th District	9.83	8.41
U.S.	9.45	7.89

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

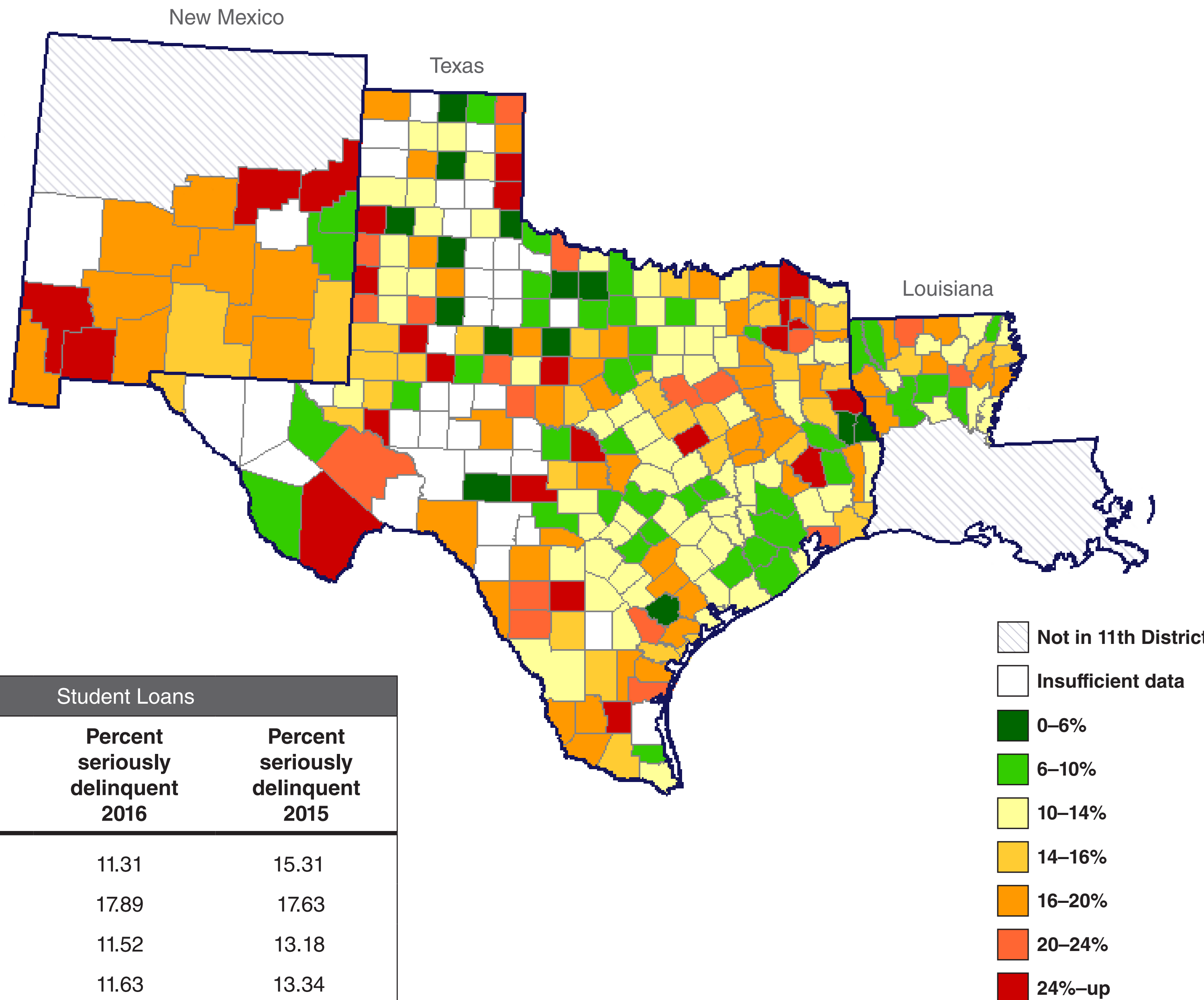
Delinquent Student Loans
in the Eleventh Federal Reserve District, June 2016



Student Loans		
	Percent delinquent 2016	Percent delinquent 2015
Louisiana	11.46	15.41
New Mexico	18.13	18.05
Texas	11.75	13.49
11th District	11.85	13.65
U.S.	11.17	11.62

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

Seriously Delinquent Student Loans in the Eleventh Federal Reserve District, June 2016



Student Loans	Percent seriously delinquent 2016	Percent seriously delinquent 2015
Louisiana	11.31	15.31
New Mexico	17.89	17.63
Texas	11.52	13.18
11th District	11.63	13.34
U.S.	11.00	11.38

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

Consumer Loan Balances in Eleventh District and U.S., June 2016 and 2015

2016 All Consumer Loans	Total balance (millions of dollars)
Louisiana	23,501
New Mexico	15,382
Texas	803,618
11th District	842,501
U.S.	12,112,384

2015 All Consumer Loans	Total balance (millions of dollars)
Louisiana	22,758
New Mexico	14,935
Texas	751,208
11th District	788,900
U.S.	11,679,555

2016 Auto Loans	Total balance (millions of dollars)
Louisiana	4,187
New Mexico	2,838
Texas	129,646
11th District	136,671
U.S.	1,092,720

2015 Auto Loans	Total balance (millions of dollars)
Louisiana	3,845
New Mexico	2,585
Texas	117,645
11th District	124,074
U.S.	993,189

2016 Bankcard Loans	Total balance (millions of dollars)
Louisiana	1,513
New Mexico	1,099
Texas	57,195
11th District	59,807
U.S.	722,845

2015 Bankcard Loans	Total balance (millions of dollars)
Louisiana	1,418
New Mexico	1,061
Texas	53,403
11th District	55,882
U.S.	696,438

2016 Consumer Finance Loans	Total balance (millions of dollars)
Louisiana	434
New Mexico	248
Texas	10,132
11th District	10,814
U.S.	86,252

2015 Consumer Finance Loans	Total balance (millions of dollars)
Louisiana	417
New Mexico	226
Texas	8,853
11th District	9,496
U.S.	76,343

2016 First Mortgage Loans	Total balance (millions of dollars)
Louisiana	11,948
New Mexico	8,288
Texas	471,548
11th District	491,783
U.S.	8,107,816

2015 First Mortgage Loans	Total balance (millions of dollars)
Louisiana	11,711
New Mexico	8,237
Texas	443,833
11th District	463,781
U.S.	7,873,484

Consumer Loan Balances in Eleventh District and U.S., June 2016 and 2015

2016 Home Equity Loans

	Total balance (millions of dollars)
Louisiana	269
New Mexico	221
Texas	12,305
11th District	12,795
U.S.	128,764

2015 Home Equity Loans

	Total balance (millions of dollars)
Louisiana	281
New Mexico	214
Texas	12,513
11th District	13,008
U.S.	131,936

2016 Home Equity Line of Credit Loans

	Total balance (millions of dollars)
Louisiana	489
New Mexico	156
Texas	7,711
11th District	8,355
U.S.	481,429

2015 Home Equity Line of Credit Loans

	Total balance (millions of dollars)
Louisiana	504
New Mexico	168
Texas	7,380
11th District	8,052
U.S.	497,826

2016 Retail Loans

	Total balance (millions of dollars)
Louisiana	228
New Mexico	151
Texas	7,770
11th District	8,149
U.S.	79,033

2015 Retail Loans

	Total balance (millions of dollars)
Louisiana	221
New Mexico	144
Texas	7,146
11th District	7,511
U.S.	73,460

2016 Student Loans

	Total balance (millions of dollars)
Louisiana	3,488
New Mexico	1,702
Texas	88,501
11th District	93,692
U.S.	1,230,778

2015 Student Loans

	Total balance (millions of dollars)
Louisiana	3,225
New Mexico	1,654
Texas	82,293
11th District	87,171
U.S.	1,160,382

2016 Other Loans

	Total balance (millions of dollars)
Louisiana	945
New Mexico	678
Texas	18,811
11th District	20,434
U.S.	182,746

2015 Other Loans

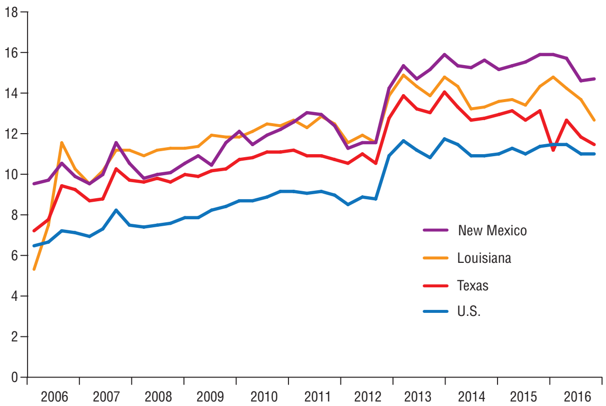
	Total balance (millions of dollars)
Louisiana	1,135
New Mexico	647
Texas	18,143
11th District	19,925
U.S.	176,498

NOTE: Loan balances for Louisiana and New Mexico include only the portions of those states that fall within the Eleventh District of the Federal Reserve.
SOURCE: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

Charts of Consumer Credit Conditions

Seriously Delinquent Student Loans by State

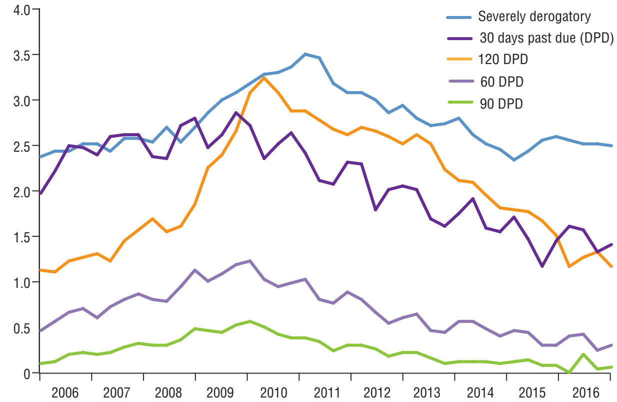
Percent seriously delinquent



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

Texas Consumer Loan Delinquencies by Delinquency Status

Percent delinquent

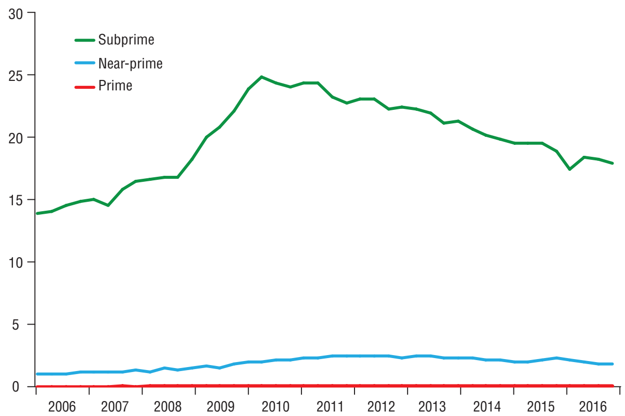


NOTE: Severely derogatory includes those loans with reports of a reposession, charge off to bad debt or foreclosure, at any number of days past due.

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

Seriously Delinquent Loans in Texas by Risk Score

Percent seriously delinquent

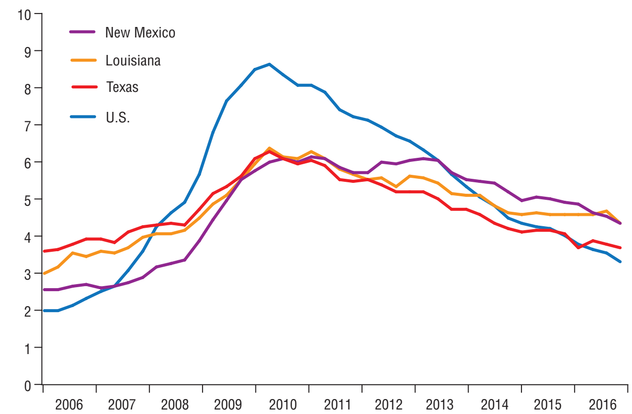


NOTE: Equifax Risk Scores fall into the following categories: prime, 680 and above; near-prime, 620–679; subprime, 619 and below.

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

Seriously Delinquent Loans by State

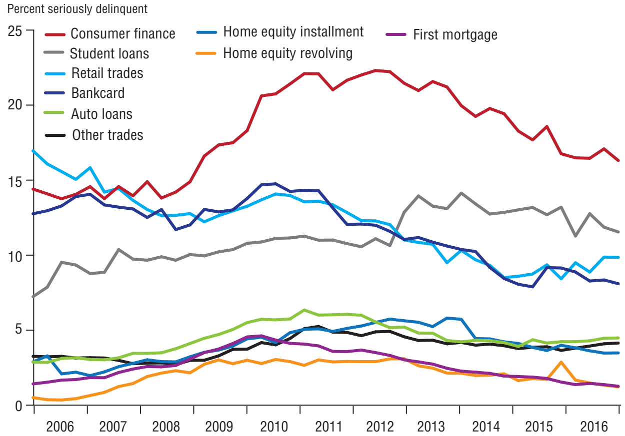
Percent seriously delinquent



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

Seriously Delinquent Loans in Texas by Loan Type

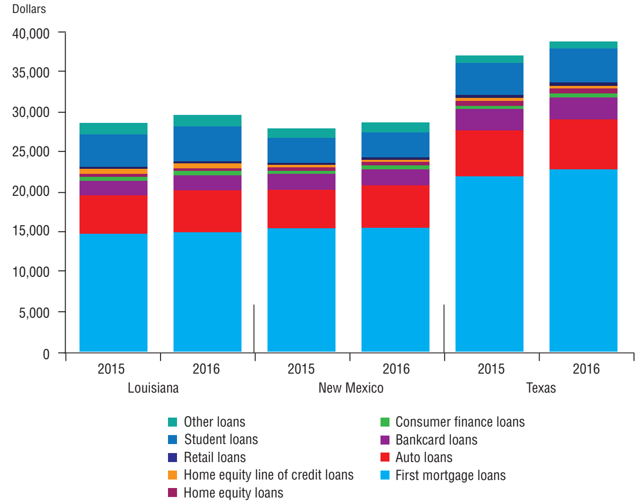
Percent seriously delinquent



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

Composition of Debt Balance Per Capita by State, June 2015 and 2016

Dollars



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

About the Data

The Federal Reserve Bank of New York Consumer Credit Panel/Equifax consists of detailed Equifax credit report data in quarterly increments from 1999 to the present for a unique longitudinal panel of individuals and households. The panel is a nationally representative 5 percent random sample of all individuals with a Social Security number and a credit report; it is also matched to individuals living at the same address as the primary sample members. The resulting database includes approximately 40 million individuals in each quarter.

More technical background about the data is available on the New York Fed website. For conditions nationally, visit the New York Fed's Household Debt and Credit Report webpage.

The Bank's Quarterly Report on Household Debt and Credit provides data and reports on consumer debt for the U.S. and select states (including Texas). The data include bankruptcies, per capita debt levels, total debt levels and composition of debt, new originations of installment loans, total balance by delinquency status, foreclosures and new delinquencies by loan type. The report aims to help community groups, small businesses, state and local government agencies and the public to better understand, monitor and respond to trends in borrowing and indebtedness at the household level.

In the Consumer Credit Conditions update, charged-off and foreclosed loans are accounted for in totals in the Equifax data until they are no longer reported by the lender.

Glossary

- **Delinquency status**
  - Current—Paid as agreed
  - 30 days late—Between 30 and 59 days late; not more than two payments past due
  - 60 days late—Between 60 and 89 days late; not more than three payments past due
  - 90 days late—Between 90 and 119 days late; not more than four payments past due
  - 120 days late—At least 120 days past due; five or more payments past due or collections
  - Severely derogatory—Any of the previous states, combined with reports of 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. Thus, the payment performance profiles obtained from our data may to some extent reflect the reporting practices of creditors.

- **Seriously delinquent loans**
  Loans that are 90 days late, 120 days late or severely derogatory

- **Equifax Risk Score**
  Equifax Risk Score 3.0 was developed by credit scoring agency Equifax and predicts the likelihood of a consumer becoming seriously delinquent (90+ days past due). The score ranges from 300 to 850 (the lower the score, the greater the delinquency risk). In the charts, Equifax Risk Scores fall into the following categories: Prime, 680 and above; near prime, 620–679; and subprime, 619 and below.

- **Loan types**
  The types of accounts in the analysis include mortgage loans, home equity installment loans (HEL), home equity line of credit accounts (HELOC), auto loans, bankcard accounts, student loans, consumer finance loans (sales financing, personal) and retail loans (clothing, grocery, department store, home furnishings, gas, etc.).