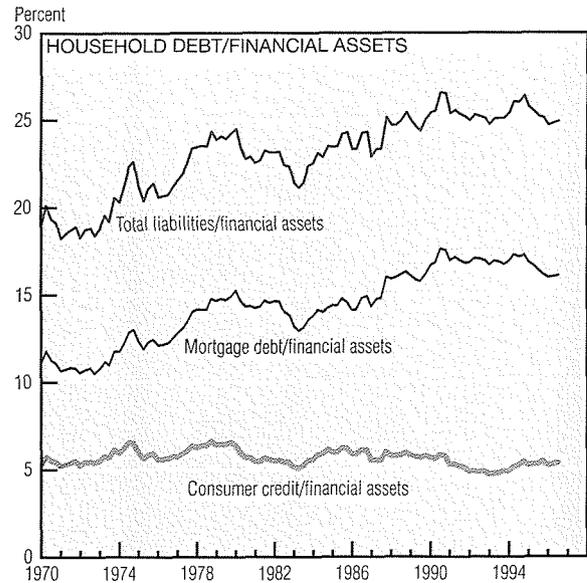
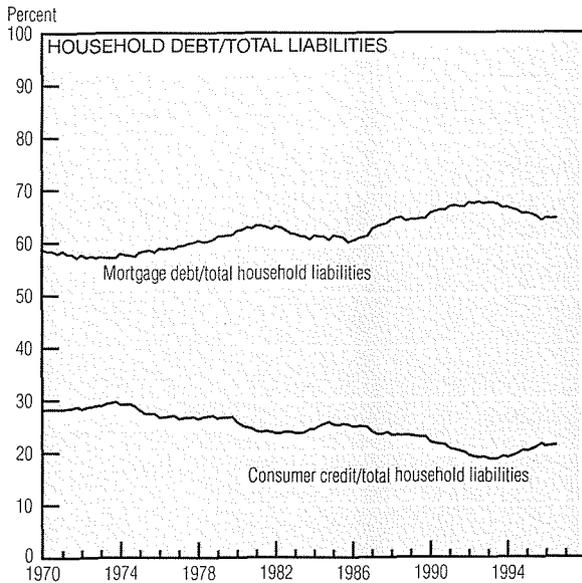
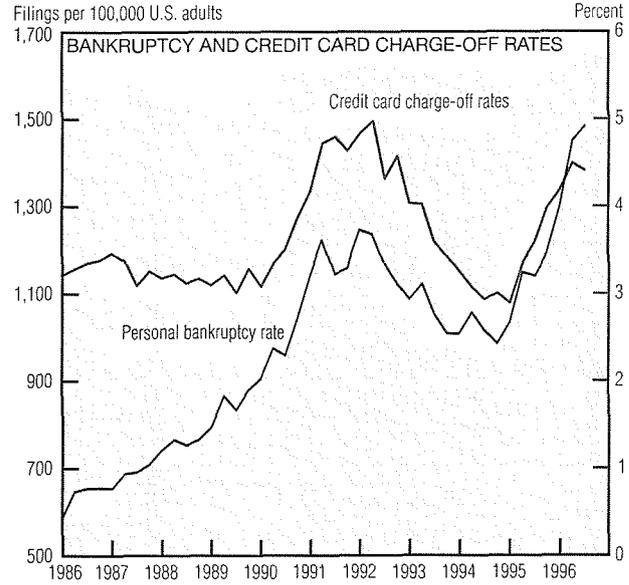
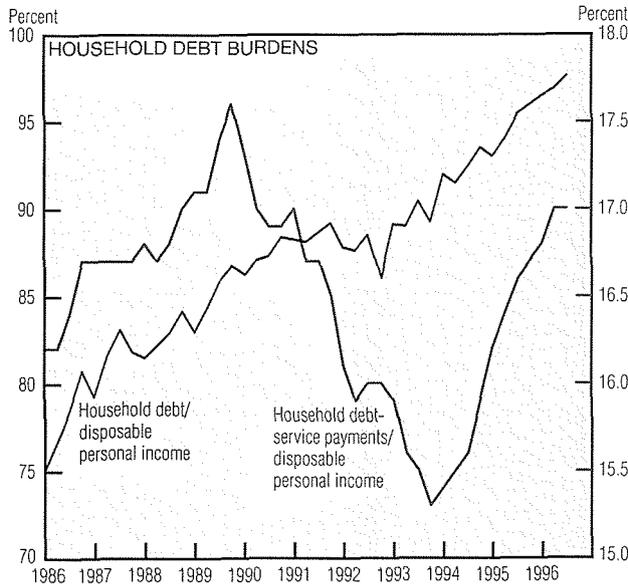


Household Debt and Delinquencies



SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; American Bankruptcy Institute; and FDIC Statistics Branch.

Over the last few years, the ratio of household debt to disposable personal income has reached historically high levels, raising concerns about the financial stability of U.S. households. The record number of personal bankruptcy filings (1996:IIIQ alone saw more than 290,000), along with increases in credit card charge-offs (which reached 4.49% of total credit card debt outstanding in 1996:IIQ), has further heightened this concern.

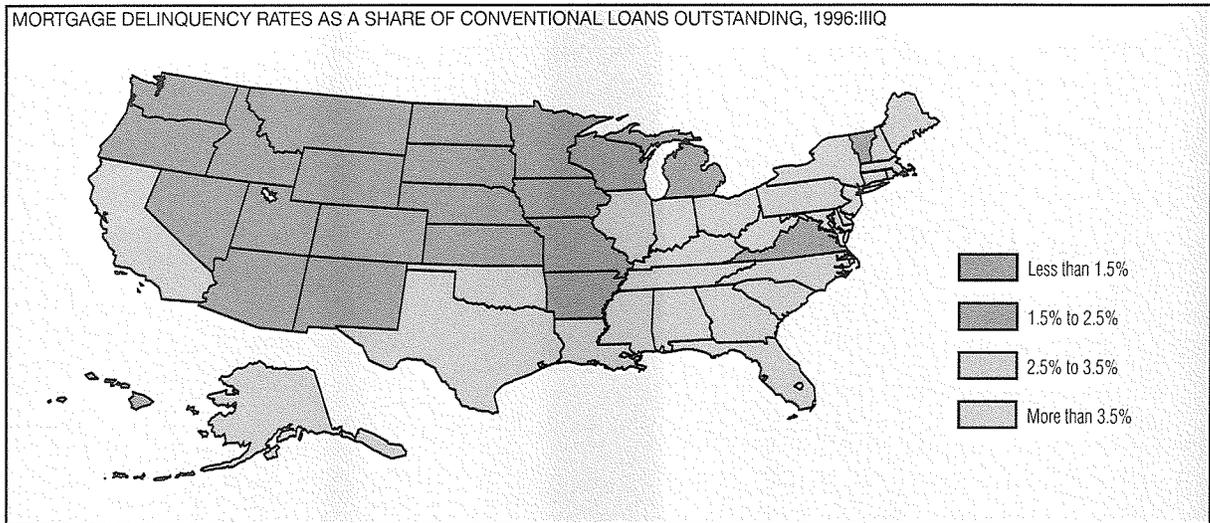
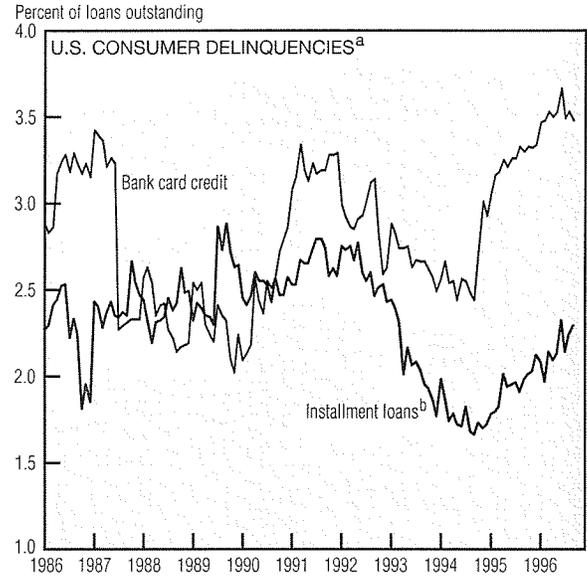
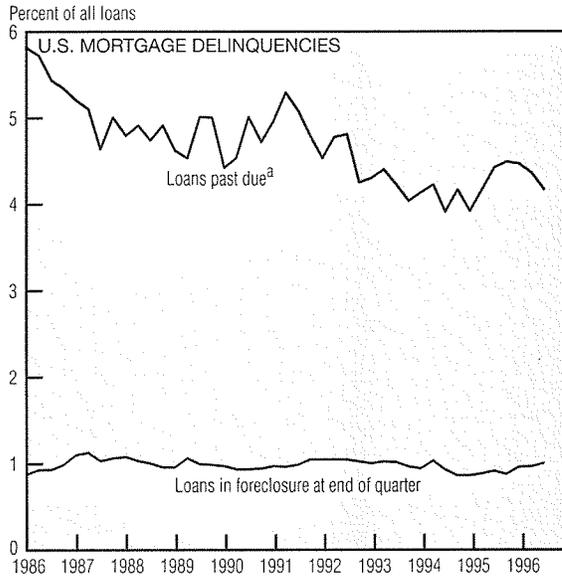
A better indicator of households' true financial health is the proportion of disposable personal income that must be used to service this debt. After all, the general decline in interest rates during the 1990s has made it much easier for households to manage greater debt levels. As a fraction of disposable personal income, estimated debt-service payments have been rising over the last few years, but their level is still consistent with that of the late 1980s

and is well below its 17.6% high of 1989:IVQ.

To understand households' financial well-being, it is also important to notice that the composition of household debt has been changing since the mid-1970s, with home mortgages accounting for a larger share of total household liabilities and consumer debt becoming relatively less important. In contrast, there has been a relative increase in

(continued on next page)

Household Debt and Delinquencies (cont.)



a. Seasonally adjusted data.
 b. Based on the "summary of accounts (closed-end only)" data reported in the American Bankers Association's *Consumer Credit Delinquency Bulletin*.
 SOURCES: American Bankers Association, *Consumer Credit Delinquency Bulletin*; and Mortgage Bankers Association of America, National Delinquency Survey.

the importance of consumer debt over the last couple of years. The most recent ratio of consumer credit to total household liabilities (21.3% in 1996:IIIQ), however, is still lower than it was at the beginning of the decade (21.7% in 1990:IIIQ). These trends look much the same when we focus on the ratios of consumer credit and mortgage debt to total financial assets.

Of course, household debts cannot be analyzed in isolation from

the assets that they may support. Indeed, the ratio of total household debt to financial assets has remained relatively constant over the last decade, and has even fallen somewhat in the last two years. Once again, this suggests that fears about overburdened households may be exaggerated.

Finally, it is significant that, while mortgage debt has recently become a more important feature of house-

hold debt, mortgage delinquencies have been trending downward for over a decade. In addition, the fraction of loans in foreclosure has remained relatively constant during the last 10 years. Similarly, although bank card delinquencies recently were at a historically high level, the delinquency rate of other types of consumer installment credit is still below its level in the late 1980s and early 1990s.