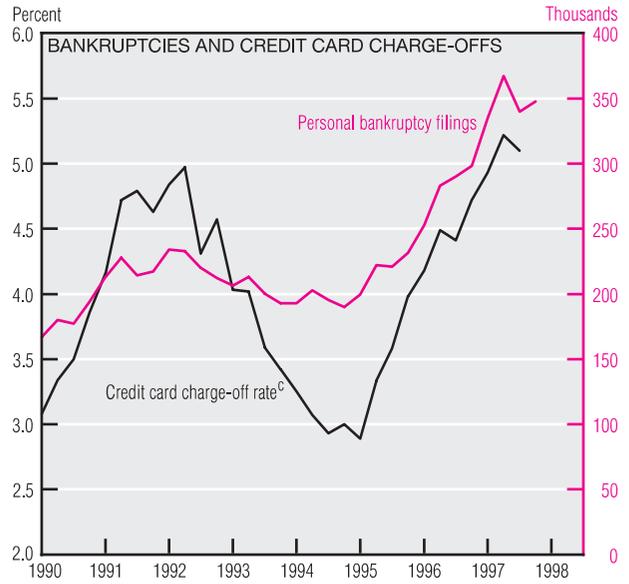
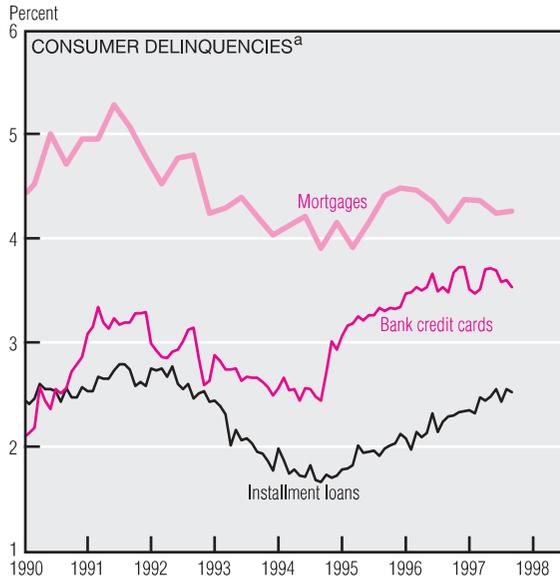
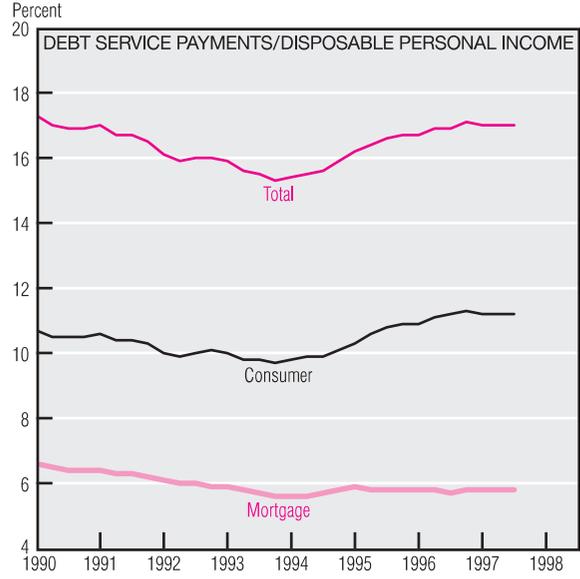
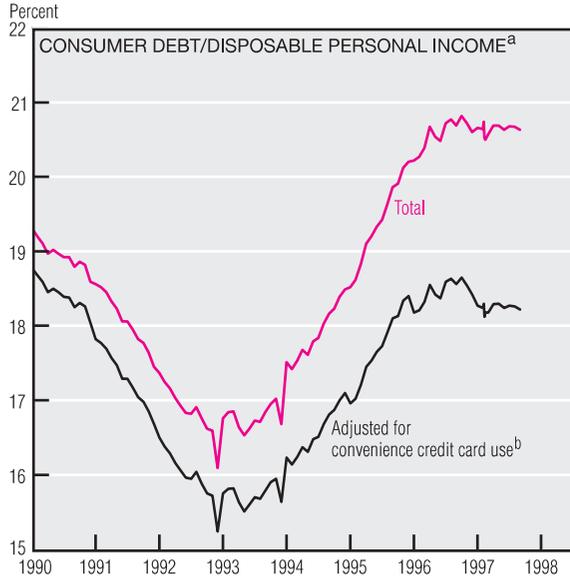


# Household Financial Conditions



a. Seasonally adjusted.  
 b. Adjusted consumer debt includes only the estimated portion of bank card debt accruing finance charges.  
 c. Net charge-off rate is the percentage of total credit card debt that banks remove from their balance sheets because of uncollectibility, less amounts recovered on credit cards previously charged off, expressed as an annual rate.  
 SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; Administrative Office of the U.S. Courts; American Bankers Association, *Consumer Credit Delinquency Bulletin*; Federal Deposit Insurance Corporation, *Quarterly Banking Profile*; Mortgage Bankers Association of America, *National Delinquency Survey*; and Ram Research Group, *Bankcard Update/Bankcard Barometer*.

Over the last few years, many analysts have voiced concern about the ongoing stability of household finances, particularly given the high debt and delinquency levels observed during this time of strong economic growth. Despite such concerns, many indicators of household financial health have improved over the last year.

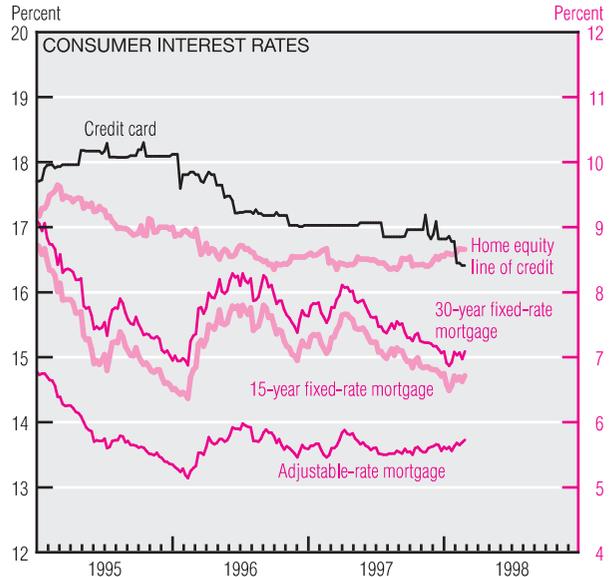
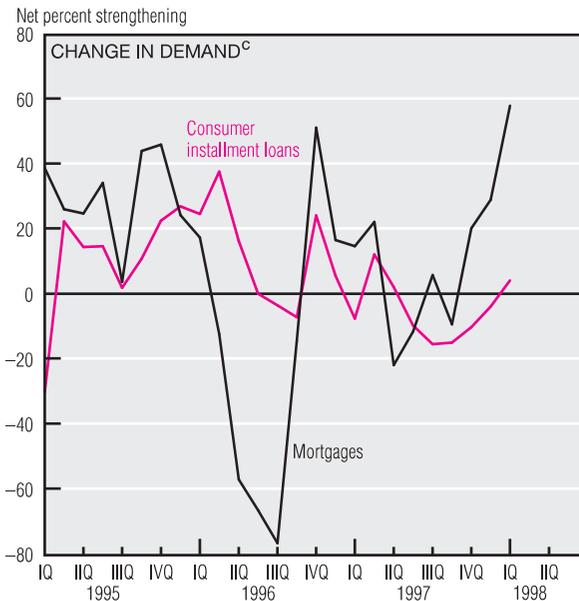
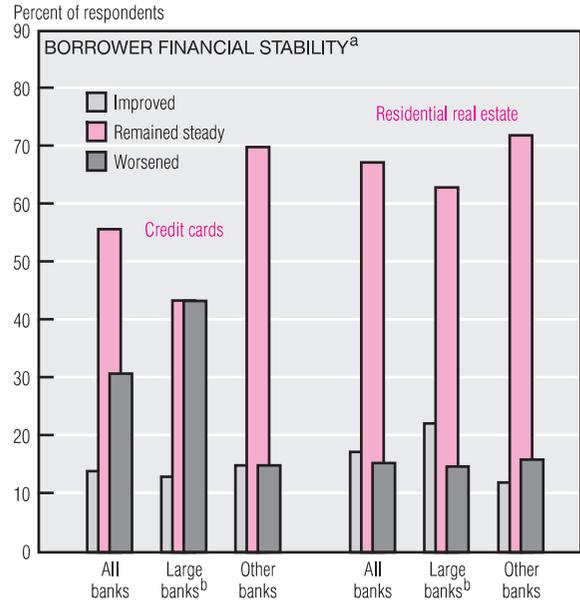
For example, total consumer debt as a share of disposable personal income remained relatively steady at

about 20.6% throughout 1997, while the fraction of income devoted to servicing that debt has stayed at 17% for nearly a year. In addition, the third quarter saw the smallest annual increase in credit card charge-off rates since early 1995, while personal bankruptcy filings fell for the first time in two years. Finally, the recent rise in credit card delinquency rates appears to have slowed. Taken as a whole, current trends in these indicators suggest that fears about households

on the verge of financial ruin may have been overstated.

Of course, to truly grasp what these data have to say about the current financial status of U.S. households requires an understanding of what caused the improvement. The Senior Loan Officer Opinion Survey on Bank Lending Practices, conducted quarterly by the Federal Reserve Board of Governors, can provide some insight. Its results suggest that the recent moderation in credit  
*(continued on next page)*

# Household Financial Conditions (cont.)



a. Response to the survey question, "How has the ability of your borrowers to weather a period of economic weakness, in terms of meeting all of their cash flow obligations, changed over the past two years?"  
 b. Total domestic assets of more than \$15 billion.  
 c. Response to the survey question, "Over the past three months, has demand for mortgages to purchase homes and for consumer loans of all types changed?"  
 SOURCES: Board of Governors of the Federal Reserve System, Senior Loan Officer Opinion Survey on Bank Lending Practices, various issues; and *Bank Rate Monitor*.

card delinquency and charge-off rates may stem partly from banks' decisions to tighten lending standards through 1996 and early 1997. Nevertheless, the current report reveals that banks are still wary of their credit card borrowers, with more than 30% of respondents reporting a worsening of their borrowers' abilities to weather an economic downturn. As such, it is not surprising that we continue to see some tightening in credit card lending standards.

In contrast to unsecured credit card lending, residential mortgage lending appears to be on a strong footing. On net, banks believe that their borrowers' financial health remains stable, and consequently do not appear to be tightening their underwriting standards. It is worth noting, however, that delinquency rates on residential mortgages never experienced the sharp rise seen in other types of consumer debt. Likewise, the percentage of senior loan officers reporting a strengthen-

ing of demand for mortgage loans has risen tremendously over the last year, perhaps in response to the continued decline in long-term mortgage rates. On the other hand, the demand for consumer installment loans has remained more subdued, with nearly as many banks reporting weakening demand as strengthening. Once again, this may be consistent with the view that households are taking a respite from the debt acquisition of recent years.