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Auto Loans and Credit Card Balances Expand

MOODY'S ANALYTICS
EQUIFAX

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First Take

Total U.S. household borrowing growth decelerated to 1% y/y in November from 2.5% in October. Total auto loan and bankcard borrowing increased strongly by 10.5% and 4% y/y, respectively, but this is partially offset by a 0.4% y/y decline in the first-mortgage segment. Borrowing accelerated in all revolving loan segments except home equity lines of credit, but even in this segment, balances are declining more slowly. The total delinquency rate surged by 20 basis points to 3.6%, partly because of a rapid increase in delinquency rates in the first-mortgage segment. Annualized write-offs and bankruptcies declined to 1.5%.

The Numbers

- Total first-mortgage balances declined by a net $12 billion in November, partly because of seasonal factors, but mortgage borrowing has been weak since the rate shock in mid-2013. Total outstanding balances increased only $20 billion since then.
- Mortgage prepayments ran about $130 billion per month in the first half of 2013 but declined to $50 billion right after the rate shock. Repayments recovered only slightly, to $70 billion, since then.
- Auto loans continued to grow strongly. Banks added a net $3.2 billion to their portfolios. U.S. banks' auto loan portfolios reached an all-time high of $465 billion, $125 billion more than before the recession. Finance companies' auto loan portfolio holdings rose $2 billion in November and increased to an all-time high of $481 billion.
- Revolving credit is rebounding. The total outstanding balance of bankcards increased by 4% year over year and reached $560 billion. Banks issued a net 3 million new cards in the first two months of the fourth quarter.
- Home equity loan balances are still falling but more slowly, dropping 3% year over year. The decline is faster in installment loans than in revolving loans.
- Dollar delinquencies in first mortgage loans surged, while those in all other segments remained essentially flat. The increase in the total delinquency rate was caused by a rapid rise in the early delinquency segment. The share of loans that are delinquent by fewer than 60 days increased by 30 basis points.
- The sum of annualized write-offs and bankruptcies on bankcards declined from 3.7% to 3.4%. Annualized losses on auto loans declined to 2.7%. The total share of troubled mortgage loans, those either delinquent more than 90 days or somewhere in the foreclosure pipeline, declined slightly by volume to 2.6%, the lowest level since the start of Great Recession.

Behind the Numbers

U.S. household debt increased in November as borrowing in most major loan segments accelerated. However, the growth rate decelerated to 1% year over year as the first-mortgage loan segment turned negative. Households are borrowing in first mortgages, auto loans and credit cards as the economy's fundamentals are strengthening and expansion is now self-sustaining. The housing recovery has not been able to move into higher gear; however, with strong payroll growth, the recovery will soon accelerate as wages grow faster and add to consumer sentiment. Declining oil prices have improved households' purchasing power. Consumers will accelerate borrowing, particularly in revolving credit.

Economic growth has accelerated in the second half despite weakness in the housing market. House price growth accelerated slightly in the third quarter after retreating in the first half, but the strength in house prices is mainly a result of low supply. Existing-home sales have barely offset the gap created by the pullback of potential homebuyers in summer 2013. Nevertheless, the better job market improves the prospects for a revival in the housing recovery. Mortgage credit is still tight, but it is slowly easing as policymakers work to bring down regulatory impediments to more first-mortgage lending. Mortgage borrowing will accelerate further when first-time buyers become more confident in their future income.

Creditforecast.com Monthly Report on Household Credit

	Nov 14	Oct 14	Sep 14	Aug 14	Jul 14	Jun 14	May 14	Apr 14
Credit growth, % change yr ago								
All Lines	1.0	2.5	1.3	1.3	1.6	1.3	1.6	2.9
Auto	10.5	11.2	10.3	10.8	10.3	10.5	10.8	10.8
Bankcard	4.0	3.8	3.3	3.2	2.5	2.6	2.1	2.0
Mortgage	-0.7	1.1	-0.2	-0.1	0.2	-0.2	0.3	1.9
Delinquency rates, % of balances								
All Lines	3.62	3.41	3.71	3.69	3.47	3.65	3.47	3.74
Auto	3.18	3.13	3.22	3.16	2.94	2.91	2.67	2.72
Bankcard	2.57	2.56	2.45	2.41	2.41	2.35	2.39	2.48
Mortgage	3.57	3.31	3.66	3.65	3.39	3.65	3.43	3.77
Balances terminated through default or bankruptcy, % of balances								
All Lines	0.12	0.14	0.11	0.13	0.14	0.13	0.13	0.15
Auto	0.22	0.24	0.20	0.21	0.19	0.18	0.18	0.19
Bankcard	0.28	0.31	0.28	0.27	0.33	0.31	0.31	0.38
Mortgage	0.09	0.10	0.08	0.10	0.11	0.10	0.10	0.11

	14Q2	14Q1	13Q4	13Q3	13Q2	13Q1	12Q4	12Q3
New origination volume*, $ bil								
All Lines	512.0	404.9	485.4	686.4	763.5	664.8	718.6	744.1
Auto	131.0	116.9	112.8	124.1	121.5	107.3	101.6	108.6
Bankcard	14.7	14.0	14.1	13.3	12.2	11.5	11.5	11.2
Mortgage	323.8	237.9	316.4	474.2	602.8	518.2	569.5	543.9
Percent of originations with credit score < 620								
All Lines	10.5%	12.3%	10.1%	9.8%	7.6%	7.6%	6.6%	8.1%

*Note: New origination volume is subject to revision due to reporting lags.

Sources: Equifax and Moody's Analytics

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