HOUSEHOLD DEBT
and what it means

How types of debt differ, recent trends, and how states stack up

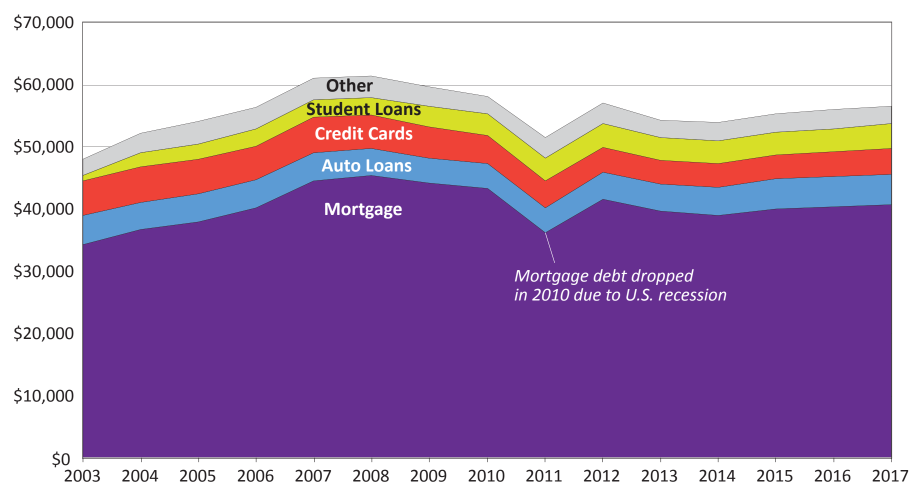
By **TIFFANY WADEL and DAN ROBINSON**

Debt often has a bad connotation, but it's a financial tool that's neither positive nor negative on its face. Taking on debt can represent anything from a sound long-term investment to current consumption at the expense of future financial options.

The Federal Reserve Bank of New York produces data on household debt by type and state by examining a random sample of Equifax credit report information. This article examines those data to determine what they say about how Alaska's household debt has changed over time and how we compare with other states.

1 Alaska's Per Capita Household Debt

Adjusted for inflation, 2003 to 2017



Source: State Level Household Debt Statistics 2003-2017, Federal Reserve Bank of New York, February 2018

It's important to note that all household debt in this article is per capita, so it shouldn't be compared to a person's specific debt. (See the sidebar on page 7 for more on per capita household debt's uses and limitations.)

Types of household debt

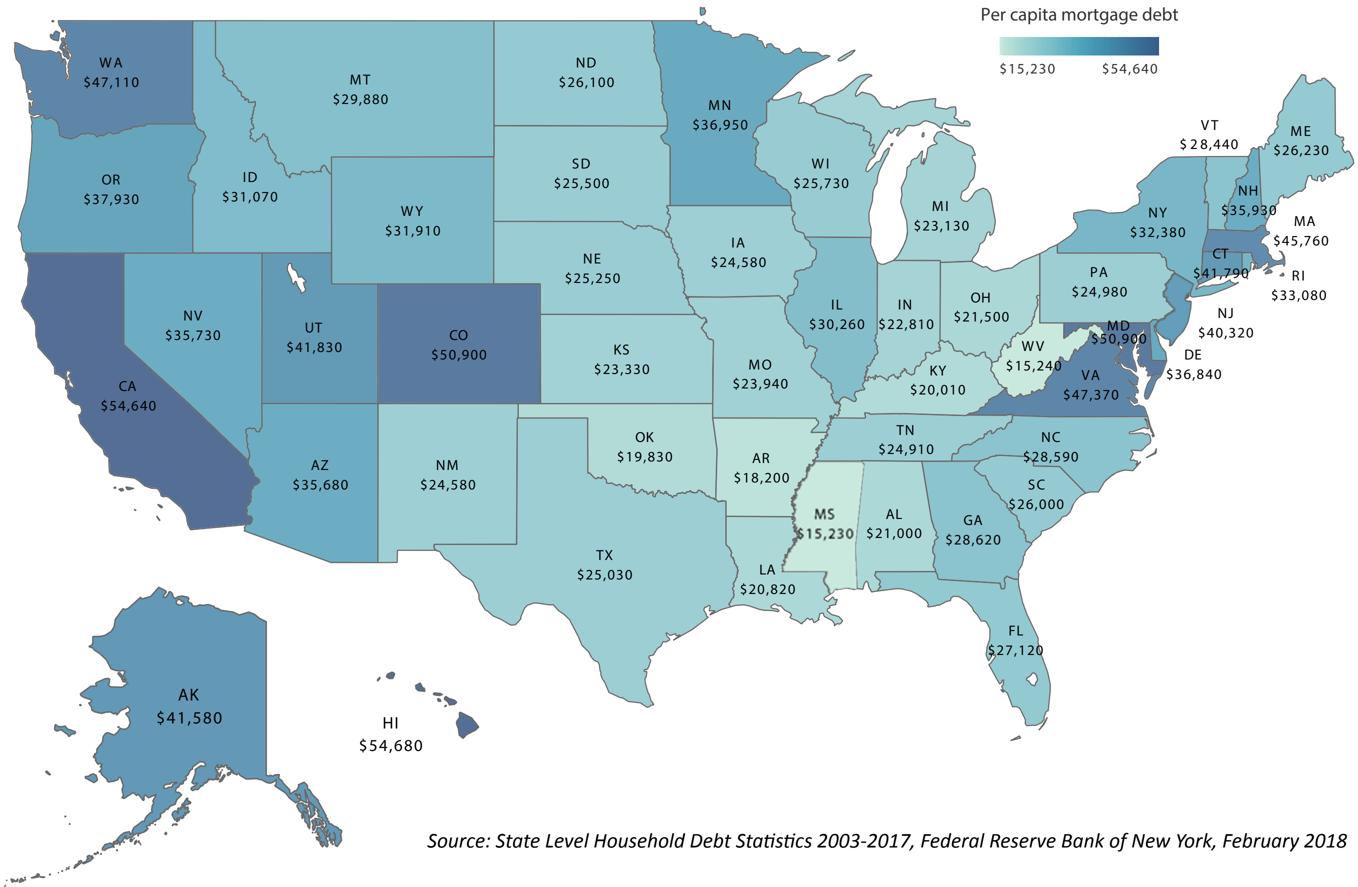
Mortgage debt the largest category

Alaskans' household debt per capita was $57,850 in the fourth quarter of 2017, and $41,580 of that was mortgage debt. (See Exhibit 1.) The next largest category was auto loans at $5,010, followed by credit card debt at $4,270 and student loans at $4,070.

Debt categorized as "other" equaled $2,920 and, according to the Federal Reserve Bank of New York's notes, consisted primarily of consumer finance debt (sales financing and personal loans) and retail debt such as clothing, groceries, home furnishings, and gasoline.

2 Per Capita Mortgage Debt by State

2017



Source: State Level Household Debt Statistics 2003-2017, Federal Reserve Bank of New York, February 2018

Alaska's mortgage debt trends

Whether debt is increasing over time in a meaningful way depends on what's happening with inflation. When adjusted for inflation, Alaska's per capita mortgage debt shows three relatively distinct phases between 2003 and 2017.

First, from 2003 to 2008, mortgage debt rose 29 percent during a period of low interest rates, loose lending practices nationwide, and rapidly increasing home prices. Though lenders in Alaska were less reckless than in other parts of the country and the state's housing prices rose less dramatically, those national factors' effects are visible in the Alaska data.

The national housing meltdown, which played a major role in the deep 2007-09 U.S. recession, triggered a 20 percent decline in Alaska mortgage debt from 2008 to 2011. Alaska's economy and housing market were less affected than in most states, but the banking system is more nationalized than state-specific, so tighter lending standards and renewed down payment requirements drove mortgage debt down in nearly every state.

In the third phase, mortgage debt remained mostly flat between 2012 and 2017. That relative stability is noteworthy given the state's significant job loss over the last two years, which along with other data reinforces that unlike the state's severe 1980s recession, the current downturn has had surprisingly little effect on the housing market, at least through 2017.

Auto loan debt

Unlike mortgage debt, the amount Alaskans owe for auto loans has been anything but stable in recent years. From just 2011 to 2017, Alaska's inflation-adjusted auto debt climbed 22 percent, which was similar to increases in other states.

Auto loan terms became more accommodative over that period, with low interest rates and loan periods extending from the previous standard of five or six years to as long as eight. Lenders, especially auto financing companies, also extended lending to subprime borrowers, expanding the number of potential auto loans.

Credit card debt

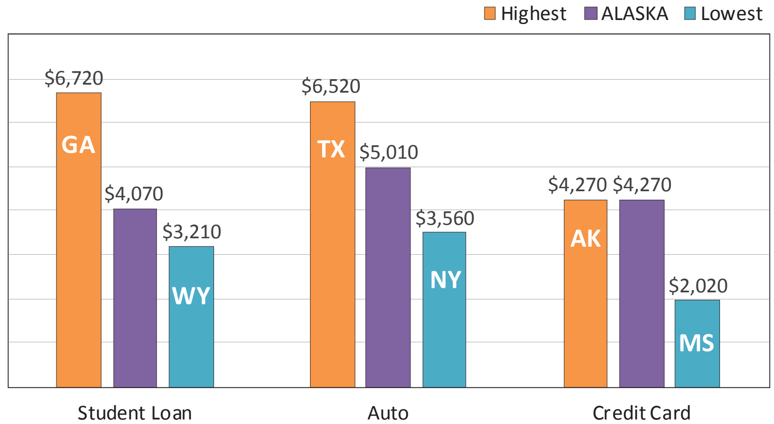
Per capita Alaska credit card debt was relatively flat from 2003 to 2008 before falling 31 percent from 2008 to 2014. It has since risen about 10 percent, to $4,270.

It may be tempting to conclude that the state's economic downturn had something to do with that increase, but nearly all states have recorded similar increases in credit card debt since hitting lows in 2013 or 2014, showing again how integrated the nation's lending systems are.

3

Student Loan, Auto, and Credit Card

HIGHEST AND LOWEST DEBT PER CAPITA, 4TH QUARTER 2017



Source: State Level Household Debt Statistics 2003-2017, Federal Reserve Bank of New York, February 2018

Student loan debt

Student loan debt has soared in the last decade or so, in Alaska and in other states. Since 2005, per capita Alaska student loan debt has risen 69 percent, when adjusted for inflation. In 2005, student loan debt was less than half that of credit cards, but by 2017 they were nearly equal.

Rising tuition costs and a decline in federal educational grants are among the likely reasons for the jump in student loan debt. Student loans, like auto loans, have also become more available to borrowers with poor credit, and more students are taking out loans rather than paying for their education as they go.

Other contributing factors are the growing percentage of the population seeking postsecondary education or training, and repayment plans that are contingent on income and can extend the debt period to 25 years or longer.

How Alaska's mortgage debt compares to other states

Alaska's per capita mortgage debt was 10th highest among states in 2017. (See Exhibit 2.) Hawaii's was highest, followed closely by California, both states with especially expensive housing. Costly housing means more debt, but that isn't necessarily bad. A home's value and the rate at which it's increasing — or in unusual situations, decreasing — are key to understanding whether higher-than-average mortgage debt is positive or negative.

A low-interest mortgage on a house that is appreciating in value benefits the local and state economies as well as the borrower, because home equity is accumulating and wealth is growing. On the other hand, high-interest mortgages or mortgages a borrower can't repay on a house that's losing value disrupt the borrower, the bank holding the mortgage, and potentially the broader housing market and economy. These were major factors in the national recession a decade ago.

Another factor that can lead to higher-than-average mortgage debt is a robust economy characterized by rapid population, employment, and housing growth. Examples are Colorado and Utah, which have higher mortgage debt per capita than states that have more expensive housing, such as Alaska.

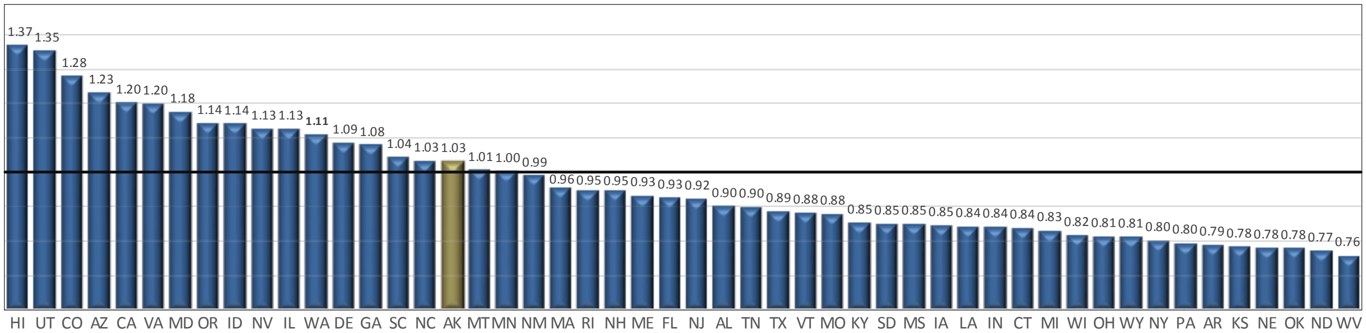
At the other end of the spectrum, Mississippi and West Virginia had the lowest mortgage debt at just over $15,000. Those states, and several others with low mortgage debt, have struggled economically in recent years. More so than with other types of debt, the decision to borrow money to buy a house represents an investment for the borrower and a judgment by the lender that the borrower is likely to repay the debt, which both imply confidence in the local job market and economy.

How Alaska stacks up with other types of debt

Alaska has higher per capita credit card debt than any other state and has been highest every year since at least 2003. Next highest in 2017 was New Jersey, followed by Hawaii. At the low end, Mississippi had the lowest credit card debt per capita, at less than half that

4 Debt-to-Income Ratio by State

2017



Source: Federal Reserve Bank of St. Louis

of Alaska. (See Exhibit 3.)

Alaska ranked 13th for auto loan debt, with Texas at the high end and New York at the low end. A key factor there is that New Yorkers own fewer vehicles per capita than in any other state.

Georgia had the highest per capita student loan debt at $6,720, followed by Maryland. Alaska ranked near the bottom at 45th and Wyoming was lowest at $3,210. Relevant factors in student loan debt include the percentage of the states' population that seeks postsecondary education and the cost of the state's largest colleges and universities.

Considering average income changes state comparisons

Another way to compare debt among states is to look at their debt-to-income ratios, the logic being that states with higher incomes, all other things being equal, are able to support higher debt loads. For example, if a state's per capita debt was $50,000 and its average income was $40,000 per year, its debt-to-income ratio would be 1.25.

Hawaii had the highest debt-to-income ratio in the fourth quarter of 2017 at 1.37 and West Virginia had the lowest at 0.76. (See Exhibit 4.) Alaska tied with North Carolina for 16th with a ratio of 1.03.

Hawaii ranks high because of its especially high housing prices, but the next few states — Utah, Colorado, Arizona, and California — are among the nation's leaders in job growth. Other states with strong job growth include Oregon, Idaho, Nevada, and Washington, which also had relatively high ratios.

West Virginia and North Dakota, the two states with the lowest debt-to-income ratios, were on a short list of states that lost jobs in 2017. Wyoming is another state near the low end that is losing jobs.

All of this suggests, somewhat counterintuitively, that higher debt-to-income ratios are more a signal of economic growth than distress.

Limitations of per capita data

Because per capita debt is simply a measure of total debt divided by a state's total population, readers should be careful not to draw faulty conclusions about how their personal levels of mortgage, student loan, or other debt compare to the data in this article.

The average Alaska mortgage holder will owe significantly more than the roughly $41,580 shown here. That's because some Alaskans don't hold mortgage debt, such as children, renters, and people who have paid off their mortgages. Similarly, the $4,070 in student loan debt per capita for Alaskans is much less than the average owed by people *with* student loan debt.

While other data sets show how a person's student loan debt compares with other students and the average level of mortgage debt among mortgage borrowers, the numbers in this article are not meant for that purpose. Here, the per capita data allow macroeconomic comparisons over time for Alaska as well as between states of varying sizes.

States' delinquency rate trends

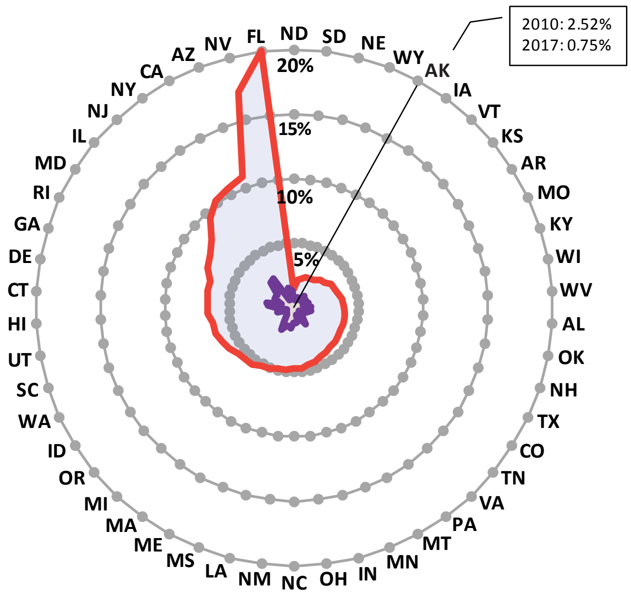
Mortgage delinquency way down since worst of U.S. recession

Another product of the Federal Reserve of New York's

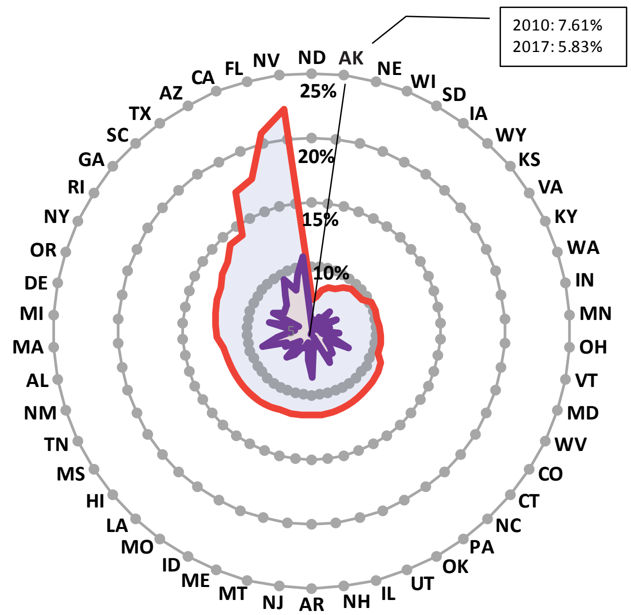
5 Loan Delinquency Rates, U.S. Recession vs. Now

By state and loan type, 2010 and 2017

Mortgage Debt Delinquency Rates

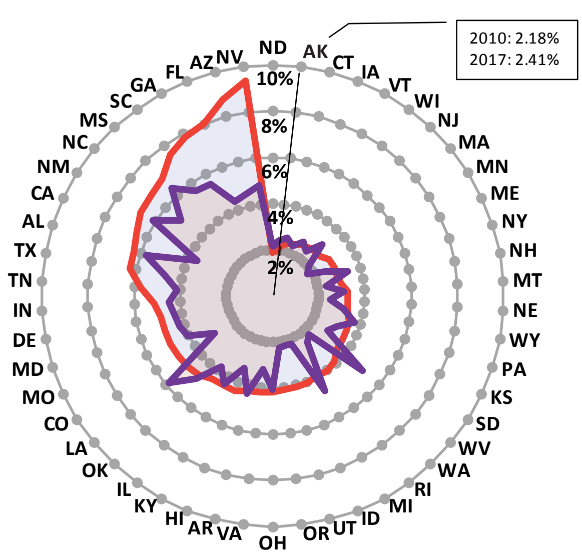


Credit Card Debt Delinquency Rates

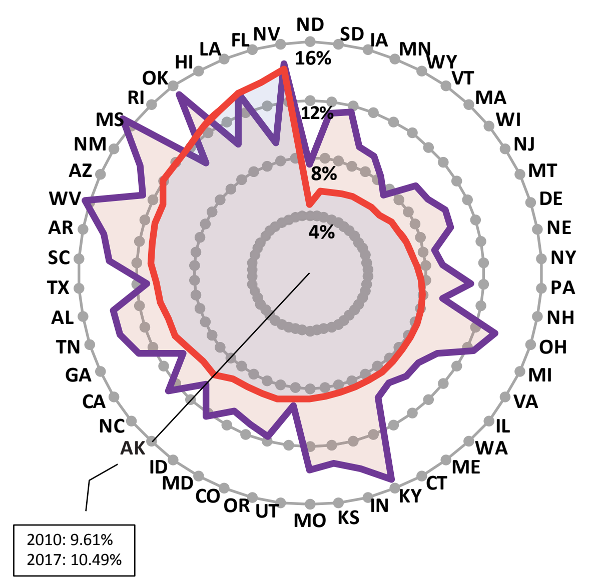


2010 2017

Auto Loan Debt Delinquency Rates



Student Loan Delinquency Rates



Source: State Level Household Debt Statistics 2003-2017, Federal Reserve Bank of New York, February 2018 debt data is delinquency rates by type and state. This article defines delinquency as at least 90 days overdue, or a loan on which the borrower has missed at least three consecutive payments.

One clear takeaway from the delinquency data is that households in every state were managing mortgage debt better in 2017 than during the worst of the national housing crisis in 2010. (See Exhibit 5.) Florida and Nevada had especially high delinquency rates in 2010: a staggering 20 and 17 percent, respectively. Seven years later, Florida's mortgage delinquency rate had shrunk to 1.3 percent and Nevada's to 1.6 percent.

Alaska's mortgage delinquency rate was only slightly elevated in 2010, at 2.5 percent — fifth lowest that year — and was down to just 0.75 percent by 2017.

Credit card delinquency rates followed a similar pattern

Credit card delinquency data show a similar but less dramatic pattern of lower delinquency in 2017 than in 2010. Nevada and Florida were again the extreme examples, with Nevada's credit card delinquency rates falling from 22 percent in 2010 to 11 percent in 2017 and Florida's dropping from 21 percent to 9 percent. Alaska's rates, which were never particularly high, dipped from 7.6 percent to 5.8 percent.

Decline less dramatic for auto and student loan delinquency

Auto loan delinquency rates were mostly lower in 2017 than in 2010, but the decline was far less pronounced than for mortgage and credit card delinquency. Alaska's auto loan delinquency rate was the lowest in the country in 2010, just 2.2 percent, and it wasn't much higher in 2017 (2.4 percent).

The general economic distress that delinquency rates signal shows up again in the states hit hardest by the U.S. housing market's turbulence and price collapse. Nevada's auto loan delinquency rate rose to 9.4 percent in 2010, and Arizona wasn't far behind at 8.8 percent. By 2017, they'd fallen back to 4.8 and 4.6 percent, respectively.

The narrative changes with student loan delinquency rates, which were higher in 2017 in almost all states. Alaska was typical, with a delinquency rate rising from 9.6 percent in 2010 to 10.5 percent in 2017.

Note that while there are other measures of student loan debt and delinquency rates, the point here is to compare types of debt and delinquency across states from a reliable source like the New York Federal Reserve, and not necessarily to pinpoint the most precise data for Alaska.

What it all means

Whether debt is good or bad for a household depends on the value of what's purchased. Mortgages and auto loans are called "secured" debt because the house or vehicle provides some protection to the lender if the borrower defaults. The ability to foreclose on an unpaid mortgage or repossess a car is part of what makes banks and other lenders willing to finance them at certain rates.

Generalities are hard to make when it comes to debt, though. Student loan debt can be a smart financial move for people whose completed degree qualifies them for a lifetime of higher earnings. But it can be unwise to take on student loans if they don't result in a marketable degree or credential.

Even credit card debt can sometimes be used to increase a household's net worth, although of the four types of debt, it is most likely to represent a choice to consume now and pay later (and often to pay much more later).

In terms of what to monitor, stability of debt appears to be most telling. Rapidly increasing debt should get our attention because it isn't sustainable and usually leads to contraction or recession as the economy adjusts, often painfully.

That's one lesson of the past few decades for a state or national economy. If debt is rising much faster than inflation, as mortgage debt was in the early part of the 2000s, something will eventually have to give. Student loan debt falls into that category now, although because it's so much smaller as a percentage of households' total debt, it may continue to climb for a while before something gives.

Overall, it's clear that despite the state's economic downturn, Alaskans' household debt and delinquency haven't changed substantially in recent years. National factors, much more than anything state-specific, have driven most of the change over the last 15 years.

Tiffany Wadel is an economist in Juneau. Reach her at (907) 465-4520 or tiffany.wadel@alaska.gov.

Dan Robinson is chief of Research and Analysis in Juneau. Reach him at (907) 465-6040 or dan.robinson@alaska.gov.