More Americans fall behind on debts: Equifax

Wed Oct 14, 2009 3:31pm EDT

By Nick Zieminski

NEW YORK (Reuters) - U.S. consumers are increasingly late paying off loans on their primary home, as the highest unemployment in a quarter of a century pushes up delinquency rates on home loans and most other types of loans, according to a monthly report by the Equifax credit bureau.

"Every major consumer product line, in terms of delinquency, is up again, except for (credit) cards," said Dann Adams, president of U.S. Information Systems.

Among U.S. homeowners with mortgages, a record 7.65 percent were at least 30 days late on payments in September, up from 7.58 percent the previous month. The rate of delinquencies is more than double the 3.55 percent rate in September 2007, according to Equifax (EFX.N).

The rate of subprime mortgage delinquencies rose slightly to 41.36 percent. Early-stage delinquencies are an initial warning sign of potential future defaults, which in turn drive home foreclosures. The large supply of bank-owned homes reaching the market has helped prevent a strong recovery in prices.

Home equity and auto loan delinquencies also rose, both sequentially and from a year ago, but delinquencies on student loans have held steady during the recession.

Demand for student loans is soaring, up 15 percent from a year ago, as more people stay in school longer or go back to school to improve their job prospects. It is the only area where credit is expanding.

"We've never seen this dramatic growth before," Adams said about student loans.

BORROWERS FALL BEHIND

Data for the credit trends report is based on Equifax's more than 200 million files of U.S. consumers using credit.

A notable characteristic of the current economic downturn is that, unlike in past recessions, borrowers are more likely to fall behind on multiple types of credit, rather than just one or two.

Many households are staying current on credit cards and auto loans rather than on other types of loans, because cards carry higher interest rates and are a last resort pay for necessities.

For some, the burden is too much. Personal bankruptcies continue to rise, up 40 percent from a year ago. Filings of 1 million so far this year are approaching 2008's total of 1.1 million.

Meanwhile, the U.S. jobless rate -- at 9.8 percent, the highest since 1983 -- is both causing consumers to seek out less credit, and lenders to offer fewer loans to limit risk.

NERVOUSNESS OVER JOBS, HOME PRICES

Consumers have become so leery of debt that total consumer debt has fallen by more than $440 billion, or 3.8 percent, from its peak in the third quarter of 2008, to about $11 trillion.

Consumers do not yet feel confident about job prospects and remain nervous about home values, and they are saving more. The estimated savings rate, at 3.71 percent in the third quarter, is well above the 1.30 percent rate a year ago or 0.20 percent in the first quarter of 2008.

And while many consumers are not seeking new debt, neither are lenders eager to provide it.

New credit cards issued are down by half from July 2008. The proportion of cards going to consumers with the best credit scores has almost doubled. The card industry was among the first areas of consumer credit to tighten underwriting standards, according to Equifax.

Top credit card issuers include JPMorgan Chase & Co (JPM.N), American Express Co (AXP.N), Discover Financial Services (DFS.N), Bank of America Corp (BAC.N) and Citigroup Inc (C.N).

For current trends to reverse, consumers need to feel more confident about jobs prospects and see rising, or at least stable, home values.

"It's a Catch-22," Adams said. "We won't see a growing economy until consumers start spending, but consumers aren't spending because they don't feel good about the economy."

(Editing by Steve Orlofsky)

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