Delinquency Rates Increasing Among Consumer Loans - Consumer Debt

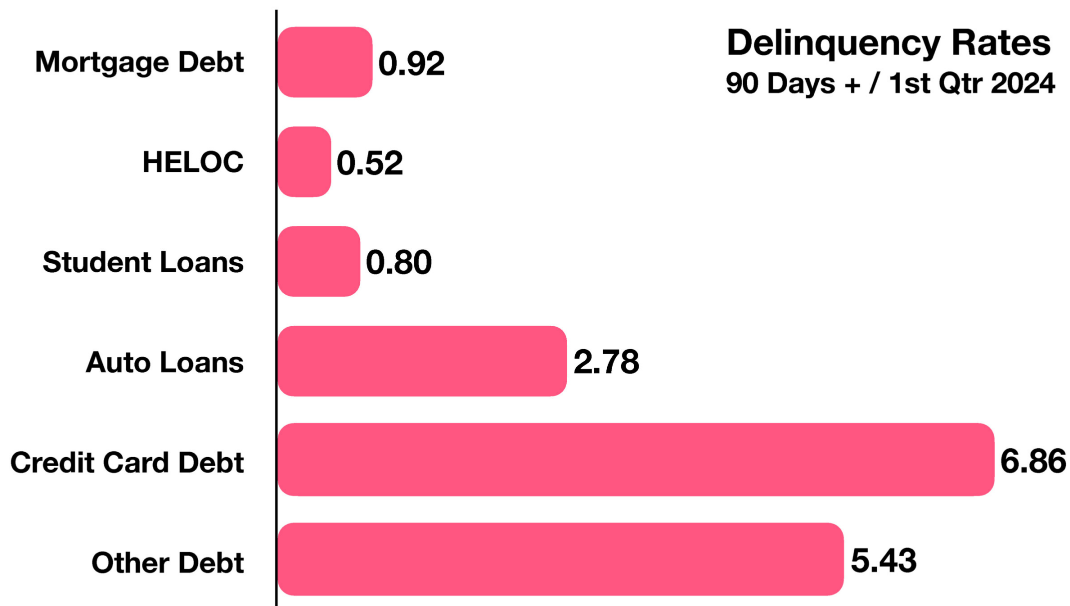
Consumer loan balances are increasing due to a combination of factors, including rising interest rates, inflation, and changes in consumer behavior.

As the Federal Reserve has raised interest rates to combat inflation, higher interest rates have made borrowing more expensive for consumers. This has a direct impact on consumer loan balances, particularly for credit cards and personal loans, which often have variable interest rates. Rising loan rates have placed additional stress on consumers as loan payments have increased, with some leading to delinquencies. Outstanding balances on credit card and auto loans have seen the largest increase in delinquencies as of the first quarter of the year.

Elevated prices on food and everyday goods and products, have enticed consumers to rely more on credit to maintain their purchasing power. This has resulted in higher credit card balances as consumers use credit to cover everyday expenses. The increased cost of living has particularly affected lower-income households, who are more likely to turn to credit cards to manage their budgets.

Lenders have become more selective in approving loans, particularly for consumers with lower credit scores. However, the demand for credit remains high, leading to increased balances among those who can still access credit. The tightening of credit conditions has also led some consumers to seek alternative financing options, such as payday loans, which can further increase their debt burden.

Sources: Federal Reserve Bank of New York, www.newyorkfed.org/newsevents/news/research/2024/20240514



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