2004–05

MacroMonitor

PRODUCTS AND SERVICES ANALYSIS VOLUME

Interim Report
Credit

SRI CONSULTING BUSINESS INTELLIGENCE

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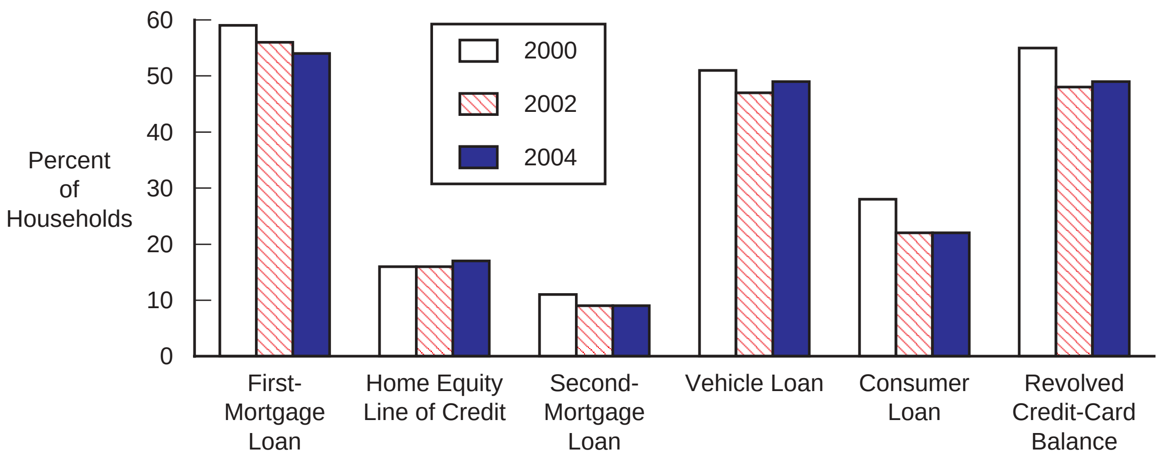
CREDIT

Summary

Financial innovation and monetary policies have enabled U.S. consumers to use credit as they never have before. A variety of lending programs now allow home buyers to purchase houses that would otherwise be unaffordable, involving ever-higher leverage and little or no down payment. Long-term mortgage rates have remained surprisingly low, even as short-term rates are rising, encouraging many homeowners to extract their home equity to finance other household expenditures.

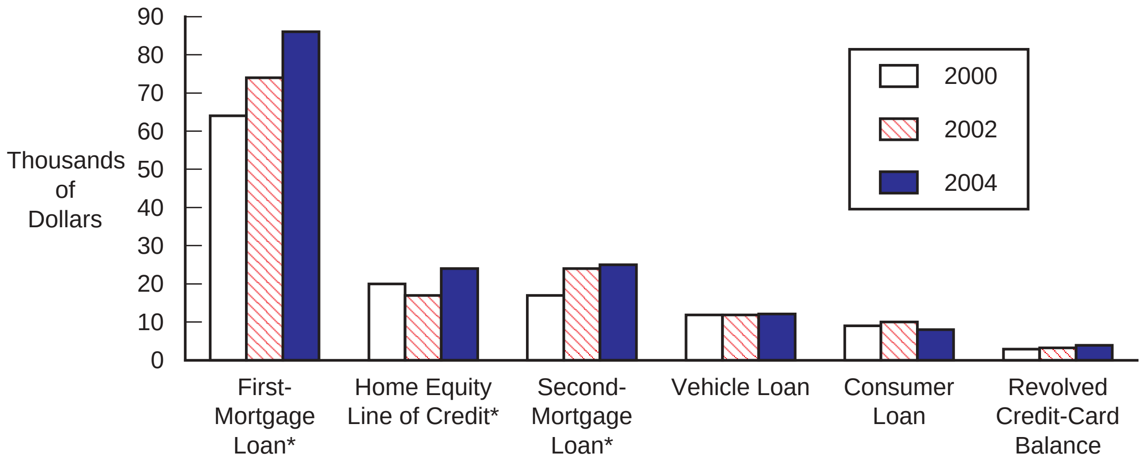
The **2004–05 MacroMonitor**'s report on household credit trends highlights the precarious state of American consumers' financial well-being. Although overall incidences of having various types of credit products remained steady during the 2002–04 period, balances outstanding among people with debt, particularly mortgage debt, have increased considerably. In addition, more older households—the preretired and retired households—are incurring ever-larger debt amounts (see the key findings on page 2). At the same time, average household savings continue to decline and financial and investable assets have not increased. (See also the *Balance Sheets* section.) As Federal Reserve Chairman Alan Greenspan recently noted, home equity extraction, rather than income and other assets, financed much of consumer expenditures in the past decade. Rising interest rates and a possible cooling of house prices thus expose many borrowers to unprecedented financial risk. In the post–bull-market era of the 1990s, U.S. consumers appear to have shifted their risk tolerance away from the stock market and into the housing market. (See the *Savings and Investment* section for discussion of investment behavior and less tolerance for risk in the financial market.)

Figure 1
INCIDENCES OF OWNING CREDIT PRODUCTS



Bases: Mortgage Products: Homeowners; Vehicle Loans: Vehicle Owners; Consumer Loans: All U.S. Households; Revolved Credit-Card Balances: Credit-Card Owners

Figure 2
MEDIAN BALANCE OWED ON VARIOUS CREDIT PRODUCTS



* Own primary residence.

Base: Households That Own Product and Have Outstanding Debt

Key findings from the **2004–05 MacroMonitor** data about credit include the following:

- *Real estate loans on primary residence*. Overall mortgage debt has increased, with Generation X homeowners carrying the highest median debt, rising from $80,000 in 2000 to $108,000 in 2004—a 35% increase. Older households are now more likely to carry mortgage debt on their primary home, with the incidence up by 15% for Older Retirees and by 17% for Younger Retirees in the past two years. These older cohorts are also carrying much larger amounts of debt. The Younger Retirees' 2004 median total debt on primary residence, for example, is almost double what it was four years ago (from $32, 000 in 2000 to $61,000 in 2004). By Life Stage, the median debt among the Preretired segment jumped from $50,000 in 2000 and 2002 to $71,000 in 2004.
- *Other real estate loans*. Suggestive of a speculative environment, the median original loan amount on second or vacation homes and investment real estate jumped by more than 50% in the past four years, from $64,000 in 2000 to $100,000 in 2004. The median balance outstanding and the median monthly premium on other real estate loans have also risen—by 56% for balances (from $50,000 in 2000 to $78,000 in 2004) and by 22% for payments ($576 to $700, respectively). More older households carry other real estate loans as they do home mortgages: The incidence among Younger Retirees has increased by more than 90%, from just 11% in 2000 to 21% in 2004.
- *Consumer credit.* U.S. households appear to be paying down their debt or possibly shifting to home equity–based borrowing. The median balance outstanding on consumer loans other than for real estate, vehicles, or credit cards has dropped to $8,000 in 2004, from $10,000 in 2002 and $9,000 in 2000.
- *Vehicle loans and leases.* Vehicle loan data remained stable for the 2000–04 period. About half of all vehicle owners have an outstanding vehicle loan (49%, or 45.2 million households in 2004). The median balance outstanding on vehicle loans continues to hover around $12,000, as it has for the past three surveys. Vehicle leasing continues on its downward trend, with just more than 2 million households (or 1.8%) leasing a vehicle in 2004.

- *Revolved credit-card debt.* The incidence of credit-card owners who typically do not pay their monthly credit-card bills in full has remained stable in the past two years (49% in 2004) but below the 55% incidence in 2000. More households may be taking advantage of the low-interest-rate environment and transferring their debt out of high-interest credit cards and into their home mortgages, as they do with consumer loans. Nonetheless, the balance owed on revolved credit cards continues to increase, with a median debt of $3,900 in 2004—$1,000 more than the median in 2000.
  - — More Younger Retirees and WWII Generation households revolve their credit card, with incidences increasing by 18% and 9%, respectively, between 2002 and 2004.
  - — Younger retired households (by Age Cohort and Life Stage) owe the highest median amount on revolved credit cards, $5,000 in 2004. The Preretired's debt is almost on par with Younger Retired, $4,900, an increase of 44% and 63% from two and four years ago.
  - — Credit-card debt among the most affluent households is also at an all time high. Their median outstanding balance in 2004 of $6,500 reflects an increase of 30% from 2002 and 2000 levels.