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# Consumer-Debt Picture Shows One Sign of Improvement

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Fewer American households appear to be falling behind on their debt payments, according to a new study, but some economists question whether the data reflect a meaningful easing of consumer-credit problems.

"I feel very confident we are at a turning point," said Mark Zandi, chief economist of Moody's Economy.com. "Household credit conditions are set to improve significantly by this time next year," he said. Mr. Zandi attributed the turn to tightening lending standards.

Mr. Zandi's outlook is based largely on his analysis of 7.5 million credit files supplied by [Equifax Inc.](#), the credit-reporting titan based in Atlanta. The files analyzed represent 5% of U.S. consumers. The analysis showed that the number of mortgage, credit-card and other consumer loan payments that were 30 and 60 days past due fell by nearly 1.1 million to 13.9 million at the end of June, on a seasonally adjusted basis, from three months earlier. Nearly two-thirds of the decline came from falling credit-card delinquencies.

The analysis of "early-stage" delinquencies can be key to spotting changing trends. When such data show a slowing, it could indicate that total delinquencies will come down in the next six to 12 months. But the data don't mean the broader credit problems plaguing banks and other lenders will be eliminated anytime soon.

In fact, the total number of seriously delinquent borrowers and those in default will keep rising for some time, as borrowers who are 30, 60 and 90 days delinquent move to the next phase of delinquency. Overall, household liabilities in delinquency and default rose to \$1.15 trillion in June, 10% of total liabilities, according to Mr. Zandi's analysis of the Equifax data. The delinquency and default rate in June was up from 8.96% in March and 8.01% in December.

Still, Mr. Zandi said the reduction in newly delinquent borrowers is a positive sign for the economy, especially coming at a time when "the job market and housing market are still bad and getting worse. Once those markets stabilize, when combined with the tighter underwriting, we will see a dramatic improvement in credit quality."

Susan Sterne, president of Economic Analysis Associates, watches consumer credit trends closely and also sees signs that delinquencies are slowing. "As far as we can tell, this appears to be the most rapid consumer-credit correction we have seen in many cycles," said Ms. Sterne. She added that in most cycles, consumer-credit quality improves after a recession has ended, not during a recession. She credited the improvement to borrowers cutting back and lenders reining in credit for certain borrowers.

But not all analysts are convinced. Some believe that improvements in the data represent little more than temporary blips that will reverse as a new wave of credit problems emerge. The first wave of delinquencies was sparked by

borrowers who took out subprime mortgages and other risky loans that became unaffordable, causing them to fall behind on mortgage, credit-card and other debt payments. But the second wave, say these economists, will be driven by rising unemployment that is moving up the income ladder and starting to affect not just the masses, but more affluent households as well.

"We are going to be overwhelmed by the unemployment problem, which is massive, and the underwater mortgage issue, which is growing bigger every day," said Kenneth Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley.

Ted Jadlos, chief operating officer of LPS Applied Analytics, which collects and analyzes mortgage data, said he saw signs that mortgage delinquencies would worsen. In the past, he said, many borrowers who fell behind were those who periodically missed a payment or two and then became current. But now he is seeing a growing percentage of borrowers who are becoming 30 days past due who have never been late before, indicating that a new wave of borrowers is starting to get into trouble. "The number of loans that hit the 30 day [past due] bucket and move on is accelerating," said Mr. Jadlos.

But the Equifax data analyzed by Mr. Zandi found that the percentage of credit cards that were 30 days past due fell to 0.87% in June from 0.90% in March.

Even delinquencies on mortgages -- which triggered the current economic downturn and credit crisis -- are slowing, according to the Equifax data. The percentage of mortgages that were 30 days past due fell in June to 2.31% from 2.35% in the first quarter, and the number of such mortgages is now running at an annualized pace of 1.15 million, compared with 1.19 million in March and 1.23 million in December.

Some economists suspect that rising loan modifications may be making mortgage delinquencies look better than they might otherwise. When a loan is modified, it becomes current, but 40% or more of borrowers fall at least 60 days behind within six months after their loan is modified. It isn't clear yet what redefault rates will be for the most recent crop of workouts, which are focused on bringing loan payments to more affordable levels.

Another possible explanation for the decline in early-stage mortgage delinquencies is that "the folks who really were in trouble have washed through the system...and we are coming back to standard delinquency behavior in a recession," said Doug Duncan, chief economist of government-controlled mortgage company Fannie Mae.

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