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Stale Loans Help Keep U.S. Credit-Card Delinquencies High

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—Note

When Americans fail to pay their credit-card bills, the delinquencies are staying on their records longer than they used to, a key reason that measures of distress have risen to the highest level since the aftermath of the 2008 financial crisis.

The Federal Reserve Bank of New York's gauge of creditcard loans that are 90 or more days past due has been rising steadily since about 2023, prompting concern about how people are faring in today's economy. Many of these delinquencies fall into the bucket of "severely derogatory" loans, meaning lenders have generally deemed them uncollectable.

They remain on credit reports far longer than they used to. Between 2004 and 2012, about 40% of borrowers' charged-off debts were still being reported one year later. By 2024, this figure had doubled, New York Fed researchers said in a blog post published Tuesday.

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When the researchers used a different calculation that removed severely derogatory balances, they found that the pace of delinquencies stabilized after 2024. A measure of loans that are newly 90 days past due suggests that creditcard stress remains at elevated levels, but it hasn't gotten meaningfully worse in the past few years.

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Still, delinquency rates are especially elevated for those living in low-income areas and for younger borrowers, the researchers said.

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Lenders tend to measure delinquencies differently than the New York Fed, The Wall Street Journal previously reported. They typically exclude delinquencies from their calculations once they are deemed uncollectible, somewhere between 120 and 180 days past due.

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At that point, the loan is no longer on the lender's books, but the borrower is still on the hook for the debt and the lender may still pursue it. As a result, the New York Fed continues to include it in its delinquency calculations.

"When the pace of new delinquencies stabilized in early 2024, the stock kept rising as charged-off debts accumulated," the researchers said in their blog post.

The New York Fed researchers didn't have a definitive answer for why charged--off loans are staying on credit records longer, though they posited that perhaps lenders changed their reporting practices.

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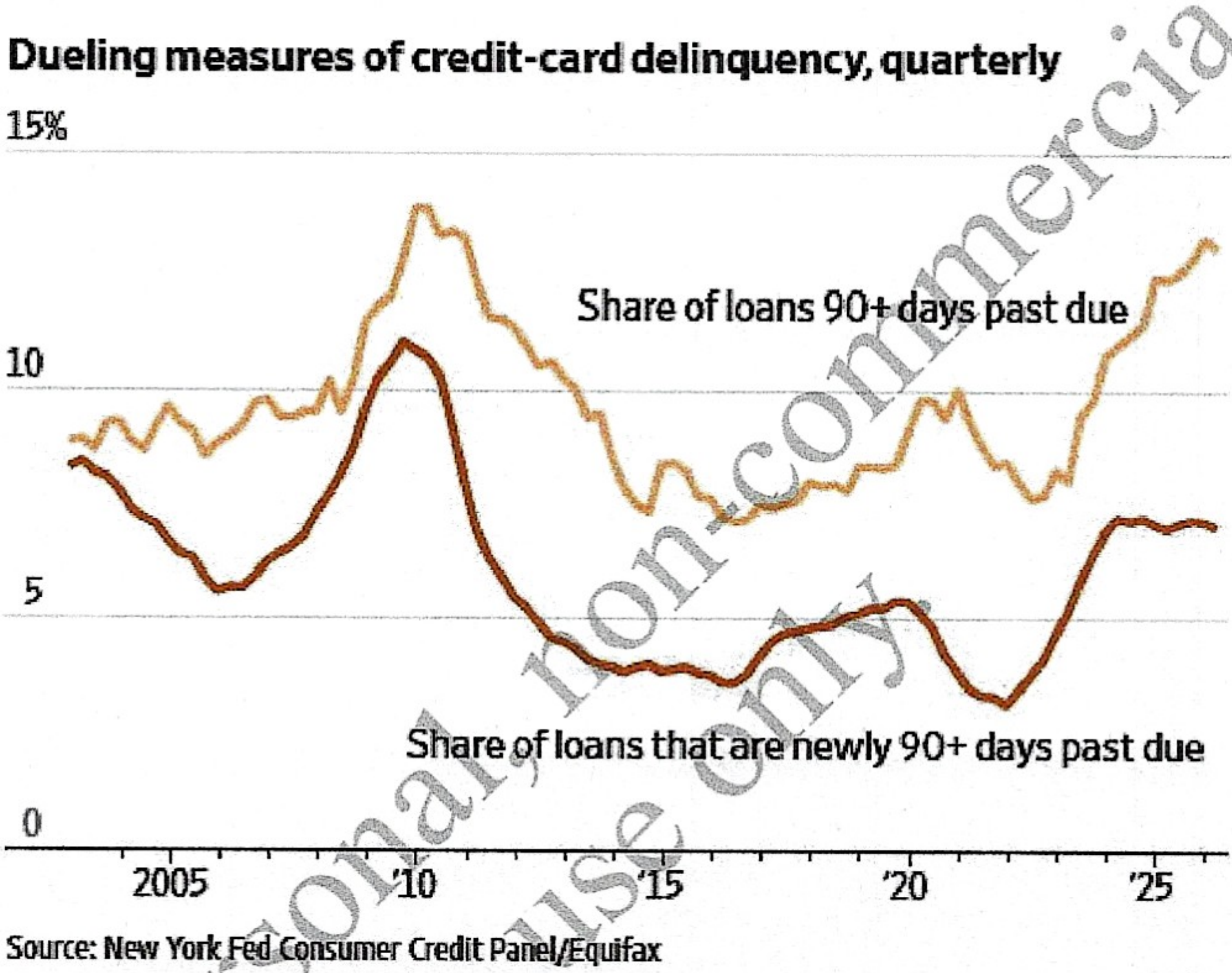
Lenders have been calling attention to the discrepancy in data. In June, **PNC Financial Services Group** researchers argued that the New York Fed's measure of credit-card stress was misleading, saying other measures of credit-card performance show either stable or improving trends.

"That one little data point has been the one thing that doesn't really make sense," said Brian LeBlanc, head of economic analysis at PNC. "It's one of those things that people point to as alarming, and it's just incongruent with everything else."

The Fed's quarterly data analysis on consumer debt, also published Tuesday, showed delinquency rates across consumer loans appeared steady in the second quarter. Overall debt balances declined by $13 billion in the second quarter. Mortgage and student-loan balances marked a slim decline, while home-equity lines of credit, creditcard balances and auto loans rose.


Dueling measures of credit-card delinquency, quarterly
15%
10
5
0
Share of loans 90+ days past due
Share of loans that are newly 90+ days past due
2005
'10
'15
'20
'25
Source: New York Fed Consumer Credit Panel/Equifax

