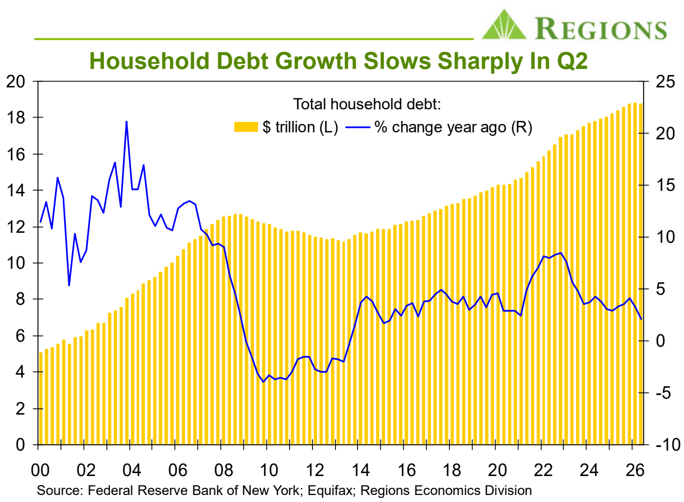
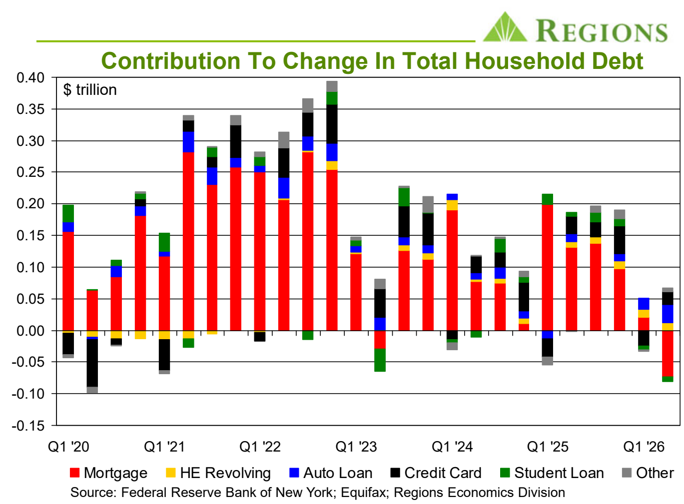
Q2 2026 Household Debt and Credit: Drop In Mortgage Balances Pushes Total Debt Lower

- Total household debt fell to $18.771 trillion in Q2 2026, a decline of $13 billion from Q1
- Outstanding mortgage loan balances fell by $74 billion, more than offsetting an increase in total non-mortgage debt
- As of Q2, 4.73 percent of outstanding household debt was in some stage of delinquency, little changed from 4.76 percent in Q1

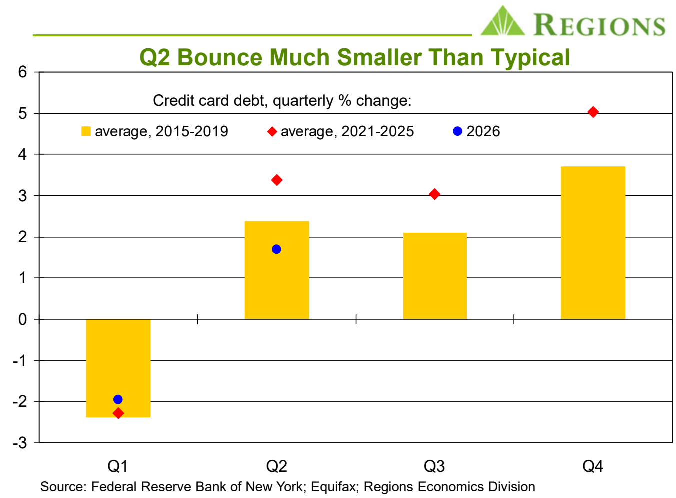
The Federal Reserve Bank of New York (New York Fed), in conjunction with Equifax, has released their latest quarterly report on trends in household debt, which shows total household debt fell to $18.771 trillion from $18.784 trillion in Q1 2026. Though the decline in total household debt was modest, at $13 billion, the decline is noteworthy, and not simply because it spared us from yet another round of headlines screaming about a "new record high" level of household debt. Instead, outside of Q2 2020 when households were flush with cash from pandemic-related financial transfers, there had not been a decline in the level of total household debt since Q2 2014, the end of a prolonged period of deleveraging, not all of which was voluntary, in the household sector. Still, the decline in total household debt in Q2 was more than fully accounted for by a $74 billion decline in outstanding mortgage debt, the largest such decline since Q2 2013. At the same time, credit card debt and auto loan debt increased by a combined $49 billion. As we discuss below, however, the increase in outstanding credit card debt in Q2 stands out for being much smaller than the increase in credit card debt typically seen in the second quarter of any given year. Additionally, there was a further increase in outstanding HELOC balances, the seventeenth straight quarterly advance. As of Q2 2026, 4.73 percent of outstanding household debt was in some stage of delinquency, down slightly from 4.76 percent in Q1 and thirty-two basis points higher than the overall delinquency rate as of Q2 2025. The over-the-year increase is more than fully accounted for by an increase in the "seriously derogatory" bucket though, as we discuss below, the inclusion of this component puts the New York Fed's measure of overall delinquency at odds with how many lenders think of, and report, delinquencies.

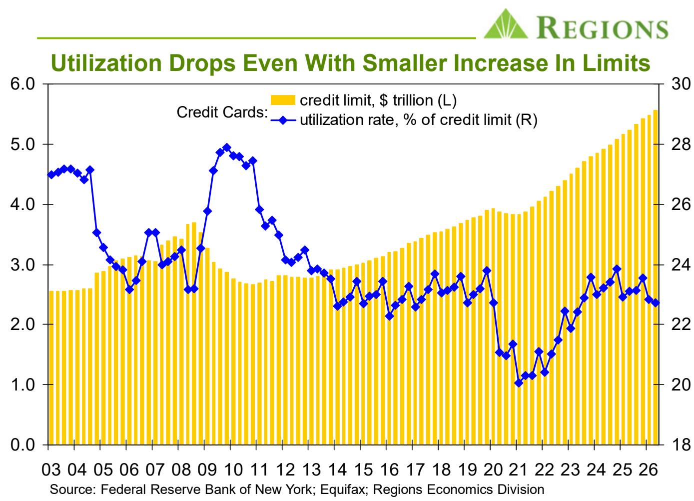




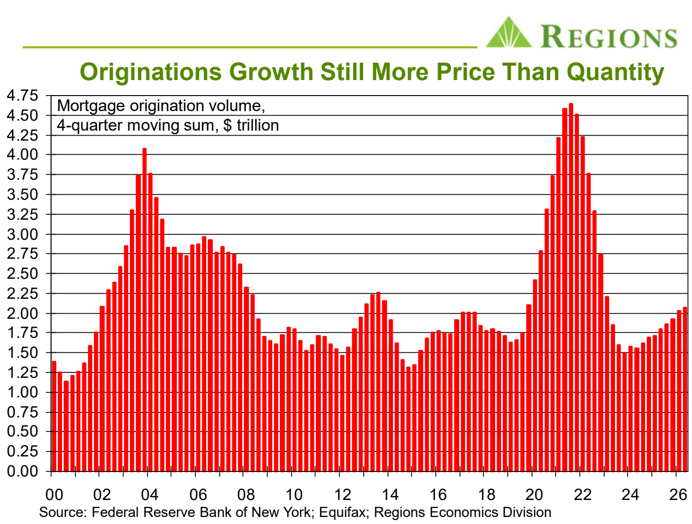
The decline in Q2 2026 left the level of total household debt outstanding up 2.08 percent year-on-year, the smallest such increase since Q2 2015 and modestly below what had been the low end of the fairly narrow range of growth seen, with the exception of 2021-22, over the past decade-plus. There is, of course, considerable variation in growth rates across the individual components of total household debt. For instance, outstanding HELOC balances were 11.6 percent higher than they were in Q2 2025, a second straight double-digit increase and marking the ninth straight quarter in which HELOC balances posted the fastest over-the-year growth across the components of total household debt. In contrast, the level of outstanding mortgage debt was up just 1.4 percent on an over-the-year basis, the smallest such increase since the third quarter of 2016.

To our earlier point, while the level of outstanding credit card debt rose by $21 billion in Q2, this reflects an increase of just 1.69 percent from Q1. We say "just" here because, as we routinely note in these write-ups, there are clear seasonal patterns in credit card balances which, in a typical year, result in declines in balances in the first quarter followed by substantial increases in the second quarter. In that context, the 1.69 percent increase in card balances in Q2 2026 is, again with the exception of 2020 when pandemic-related financial transfer payments significantly skewed the household income/saving/spending/debt data, the smallest Q2 increase since 2014. That the increase in outstanding card balances in this year's second quarter was smaller than the typical Q2 bounce in part reflects the decline in card balances seen in this year’s first quarter having been a bit smaller than the typical Q1 decline, but we think that any such “evening out” effects are only a trivial factor behind this year’s smaller Q2 increase. What we think to be a more important factor is that the changes in the tax code signed into law last summer led to significantly larger income tax refunds for many households this year than had been seen over recent years. It helps to recall that the flow of refunds came later for many households this year than is typically the case, which is why we think larger income tax refunds may have had a more pronounced effect on credit card usage during Q2 than was the case during Q1. Either way, we do know that deposit balances were running higher than normal during Q2 and, with higher than usual deposit balances, it could be that many households either felt less inclined to or felt less need to utilize credit cards to facilitate spending which, in turn, would have helped hold down growth in card balances in this year’s second quarter.





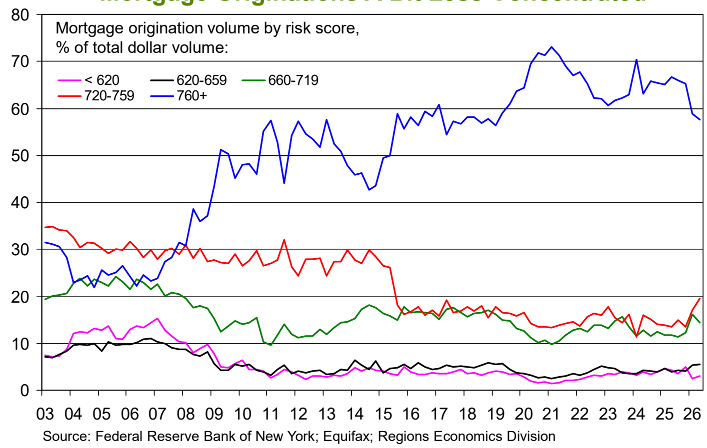
While the quarterly increase in outstanding credit card balances was smaller than is typically the case in the second quarter of any given year, so too was the increase in credit card limits available to consumers. This year saw the smallest Q2 increase in credit card limits, on a percentage change basis, since the second quarter of 2021. As such, even with the smaller than typical increase in balances, the credit card utilization rate declined during Q2, falling to a rate last seen in Q2 2023. One thing that will be interesting to see when the Q3 data are made available is whether, or to what extent, the increase in outstanding card balances in Q3 will be smaller than the typical increase seen in the third quarter of any given year. That the changes in the first two quarters of 2026 were smaller than typical for the respective quarters does not ensure that will also be the case in the third quarter. Indeed, there are reasons to think that the Q3 increase will be more in line with recent norms than was the case in the first two quarters of 2026. Specifically, the cushion in the form of higher than normal deposit balances is thinner than had been the case while the household savings rate has fallen, while at the same time prices continue to rise and retail gasoline prices are up by over twenty-five percent year-on-year. While spending growth slowed in July, it picked up pace over the first half of August. Should July prove to be the outlier for consumer spending growth over course of Q3, it is reasonable to expect credit cards to have done more of the heavy lifting to sustain spending.



One thing that doesn’t seem likely to change in Q3 is the somewhat listless pace of mortgage loan originations. On a sequential basis, mortgage origination volume declined by 4.75 percent in Q2, with the lowest dollar volume since the second quarter of 2025. That the four-quarter moving sum of mortgage originations, which we see as more reflective of the underlying trends, rose as of Q2 simply reflects originations volume in this year’s second quarter topping that seen in last year’s second quarter, even with the sequential decline. Either way, existing home sales remain stuck in a notably narrow range, and new sales are either bouncing in a narrow range of their own (Census data) or continuing to trend lower (CoreLogic data), as affordability constraints remain a heavy weight on sales. That mortgage interest rates were, on a quarterly average basis, almost thirty basis points higher in Q2 than in Q1 further exacerbated affordability constraints. At the same time, part of the robust growth in HELOC balances over recent quarters could reflect owners taking advantage of elevated equity positions as opposed to refinancing mortgages at current mortgage interest rates. Thus far in Q3, mortgage interest rates are about twenty basis points higher than the Q2 average and there is little reason to expect the pace of home sales to pick up, meaning mortgage origination volume is likely to remain weak.

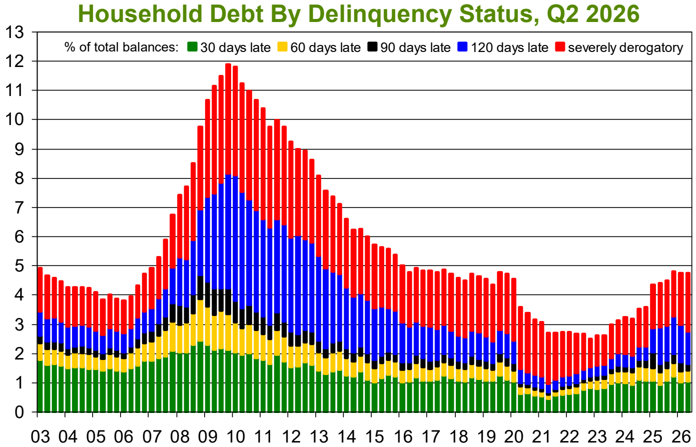
The slowdown in origination volumes over the first half of 2026 coincided with mortgage originations becoming somewhat less concentrated amongst borrowers with the highest credit scores. The share of origination volume accounted for by borrowers with credit scores of 760 and higher fell further in Q2 and, at 57.55 percent, was the lowest in any quarter since Q1 2019. Even if lenders are looking to push loan volumes higher, they're not looking far, as the drop in the share of originations accounted for by borrowers with credit scores of 760 and higher has been almost entirely matched by an increased share amongst those with credit scores between 720 and 759. We've noted the high concentration of origination volumes amongst borrowers with the highest credit scores both here and in our write-ups in the quarterly data on mortgage loan performance as being a primary factor in early-stage mortgage delinquencies have remaining notably low, and below longer-tern norms, over the past several years.

Mortgage Originations A Bit Less Concentrated



Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

Household Debt By Delinquency Status, Q2 2026



Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

As of Q2 2026, 4.73 percent of total household debt was in some stage of delinquency, little changed from 4.76 percent as of Q1. As with measures of household debt, debt service ratios, and debt-to-income ratios, delinquency rates on household debt were pushed lower in the wake of the pandemic by three rounds of financial transfers to the household sector which provided a sizable boost to personal income, part of which many households devoted to paring down debt. As these effects wore off, the various household financial metrics began to normalize but many continue to outperform pre-pandemic norms. For instance, the overall delinquency rate on total household debt remains below the average rate seen over the five years prior to the pandemic (4.90 percent), and with the exception of the severely derogatory bucket that is true of each of the components of the overall delinquency rate. Compared to Q2 2025, the overall Q2 2026 delinquency rate is thirty-two basis points higher; while the 30-day delinquency rate is twelve basis points higher than the Q2 2025 rate, the 60-day, 90-day, and 120-day rates are down from Q2 2025. What stands out, however, is that the severely derogatory rate is forty-eight basis points higher year-on-year, more than accounting for the increase in the overall delinquency rate.

There is, however, some question as to how meaningful of a measure, at least to lenders, the severely derogatory component of the New York Fed's measure of delinquency actually is. The severely derogatory category includes debt in any stage of delinquency that is paired by a repossession, foreclosure, or charge off (i.e., the lender has removed the debt from their books). Lenders, however, do not include charged off balances in their reporting of delinquencies, and the difference in reporting conventions can lead to confusion to those comparing the delinquency rate reported by the New York Fed with those reported by individual lenders or the overall delinquency rate for all commercial banks based on call report data compiled by the Federal Reserve Board. The difference has become more pronounced of late as a greater portion of debt deemed uncollectable by lenders has remained on consumer credit reports for longer lengths of time, thus pushing the overall delinquency rate reported by the New York Fed higher than it otherwise would be. One point worth keeping in mind is that when the New York Fed began producing their quarterly reports on household debt and credit, their aim was to assess the state of household balance sheets, which they did by scouring data from Equifax, one of the credit reporting agencies. In that sense, the New York Fed is simply reporting what they see, i.e., to the extent debt in the "severely derogatory" bucket remains on consumer credit reports, it is incorporated into the delinquency rate reported by the New York Fed, which was not intended to be a point of comparison with industry data on delinquencies.

To make the New York Fed measure more comparable to the commercial bank delinquency rate reported by the Federal Reserve Board based on commercial bank call report data, we can strip out the severely derogatory rate reported by the New York Fed. Though not aligning perfectly, the two measures tend to be closer. It is interesting to note how closely aligned the two measures were between 2000 and the 2007-09 recession, after which there was a significant gap between the two, with the New York Fed measure excluding the severely derogatory bucket being significantly higher than the commercial bank delinquency rate reported by the Federal Reserve

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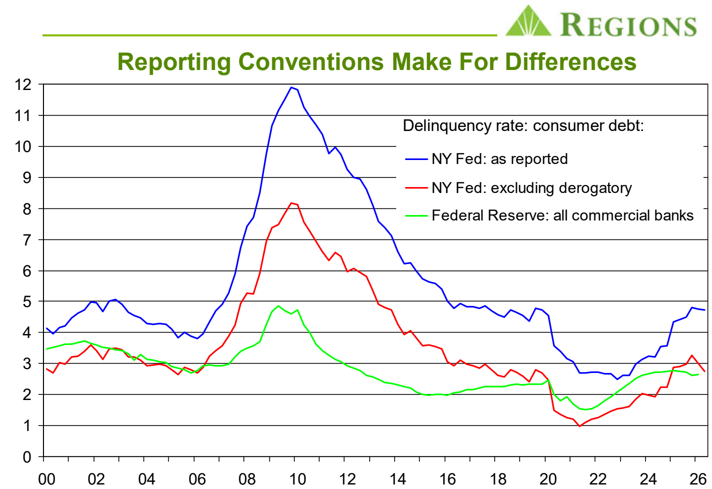
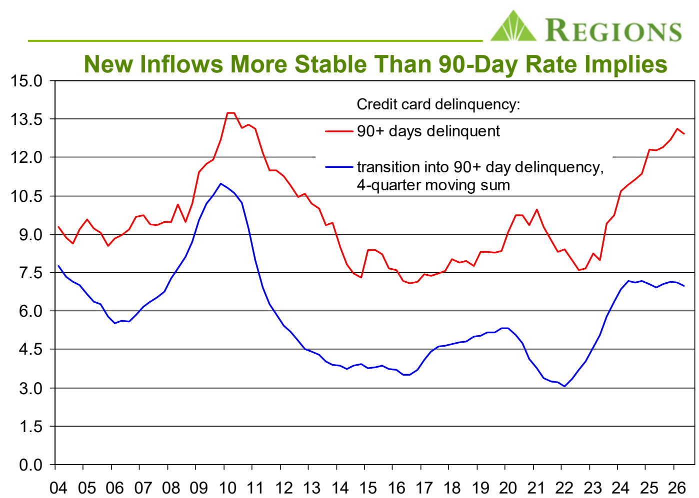
Board. Initially, the difference mostly reflected mortgage loan foreclosures remaining in consumer credit files for longer periods of time, i.e., turning up in the New York Fed's 120-plus day delinquency bucket and lingering there for some time. Longer stays by foreclosed mortgage loans ultimately gave way to student loan defaults, which began rising rapidly in 2012 and, as had mortgage loan foreclosures previously, began to linger in credit files for longer, particularly in the 120-plus day bucket. Note that the industry-wide delinquency rate reported by the Federal Reserve Board encompasses all loans delinquent for at least thirty days, with no breakdowns of the individual duration buckets, and differences as to how longer-term delinquencies are accounted for, i.e., charged off at 120 days or remaining delinquent until 180 days, largely account for differences between the ex-derogatory New York Fed measure and the broader commercial bank measure. Note that changes in reporting practices in the wake of the pandemic, particularly for student loans, likely pushed the modified New York Fed measure below the broader commercial bank measure, whereas the expiration of those temporary changes help account for the modified New York Fed measure pushing higher than the broader commercial bank measure in 2025, where it remains.



Source: Federal Reserve Bank of New York; Equifax; Federal Reserve Board; Regions Economics Division

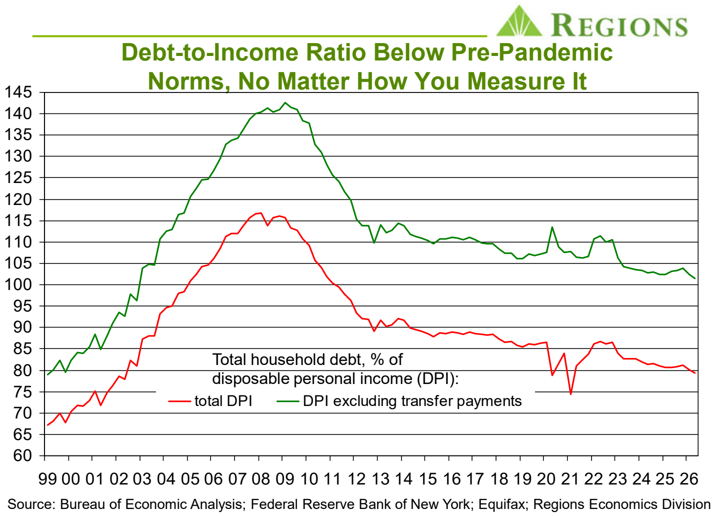
The broader point is that differences in reporting practices have led to a significant wedge between delinquency rates constructed from consumer credit panels, such as the New York Fed measure, and delinquency rates as seen by most lenders, particularly commercial banks. This has often been a source of confusion, which is perhaps why the New York Fed opted to discuss this matter in this quarter's report on household debt and credit. One way to see the implications of the changes in reporting practices is to focus on credit card delinquencies and examine the differences between the 90-day delinquency rate and the transition into 90-day delinquency as reported by the New York Fed. As discussed above, the significant increase in the 90+ day delinquency rate seen since mid-2023 was largely driven by an increase in the severely derogatory bucket, i.e., credit card debt remaining in consumer credit files for longer even after lenders had written it off their books. In contrast, the transition into 90+ day delinquency has been notably stable for the past two-plus years, which is more akin to what lenders are seeing in their own books. Clearly, transitions into late-stage delinquency have stabilized at a high rate, but the stability is nonetheless at odds with the New York Fed's reported 90+ day delinquency rate.

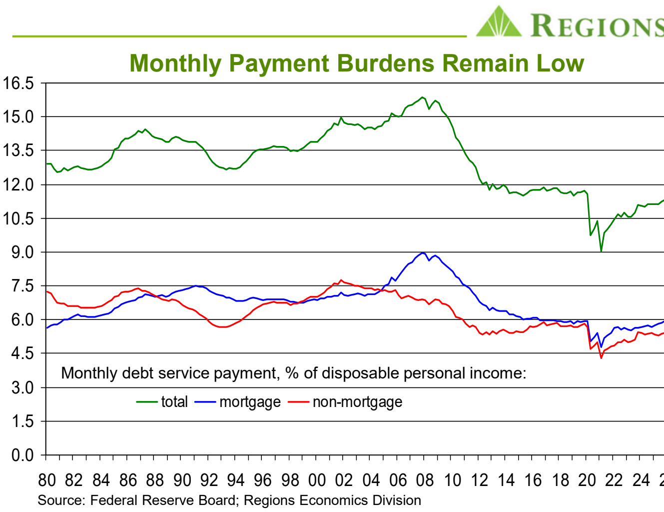


Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

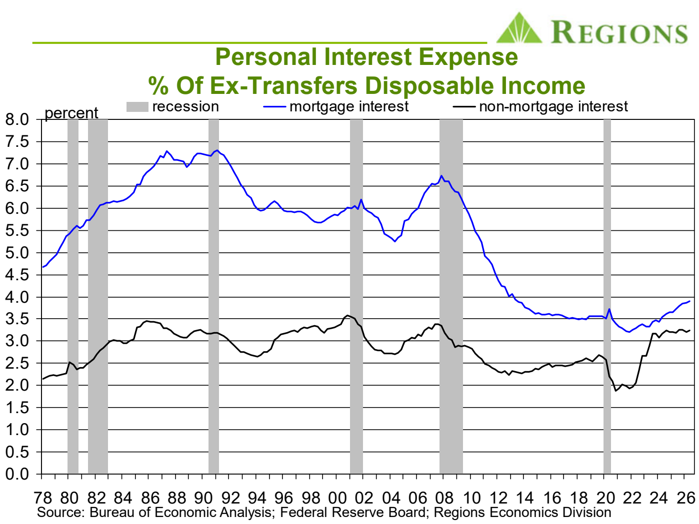
We've taken the time to discuss this issue here as it is something we've gotten questions about over the course of these quarterly updates. In terms of how we view the data, our main focus is typically on 30-day delinquency rates, as we see early-stage delinquencies as a more real-time indicator of current degrees of financial stress, at least to the extent that lagged quarterly data can be seen as "real time." Either way, that 30-day delinquency rates on total household debt have been fairly stable and remain below pre-pandemic norms is more consistent with what has become a cooler but nonetheless more stable labor market, which should not deflect attention from ongoing pockets of stress, particularly amongst younger and lower-income households. Such pockets of stress are reflected in longer-term delinquency rates remaining somewhat elevated, even if somewhat stable.

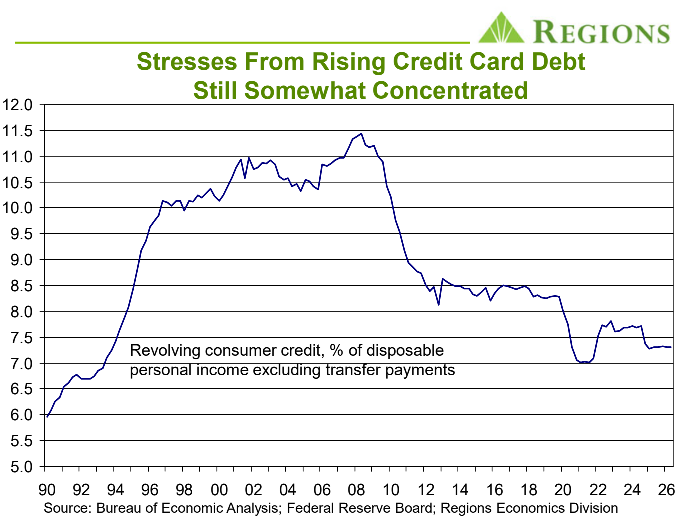
We'll end this update by looking at a few of the broad indicators of household financial conditions we routinely track and report on. The obvious caveat here is that, as with any aggregate measure, these indicators of household financial conditions are aggregate measures that mask what can be meaningful differences across various cohorts, such as across income buckets. At the same time, though, there can be, and typically are, differences within any given bucket, and the reality is there is no perfect measure, but we nonetheless think that examining the patterns in the aggregate measures is still a useful exercise. One metric we routinely cite is the ratio of household debt to disposable (i.e., after-tax) income. The debt-to-income ratio fell slightly in Q2, reflecting the modest decline in the level of total household debt along with growth in disposable income. As we often note, we prefer to look at the debt-to-income ratio based on after-tax personal income excluding transfer payments, though most discussions of debt-to-income ratios are based on the measure of after-tax income inclusive of transfer payments. Our rationale for excluding transfer payments is twofold. First, a significant share of what are booked as transfer payments in the data on personal income are not cash income to recipients but instead payments made to third-party service providers (Medicaid, Medicare, for example). Second, of those transfers that are in the form of direct payments to recipients, such as Social Security benefits or unemployment insurance benefits, the bulk are devoted to necessity spending. As such, we see ex-transfers income after taxes as the most useful measure of income available for servicing debt. The broader point here, however, is that debt-to-income ratios remain very well-behaved and are at levels last seen in 2002. This is a useful reminder that while each quarter, or at least most quarters, bring new record levels of household debt, they also bring new record levels of personal income, the difference being that the former are subject to screaming, if not scolding, headlines, while the latter typically go without mention, other than here, of course.





Of perhaps more importance than the debt-to-income ratio is the monthly debt service ratio, i.e., interest and principal payments as a share of after-tax income. Note that this metric is calculated and reported by the Federal Reserve Board as opposed to being part of the New York Fed’s quarterly updates, and while we can make the same point here that we made above, which is that a measure of after-tax income excluding transfer payments would be a more useful indicator, we simply do not have the data needed to construct such a metric at our disposal. That said, as with the alternative measures of the debt-to-income ratio, the patterns in debt service ratios based on the two different measures of income would be broadly similar. Either way, monthly debt service ratios remain fairly stable and remain below pre-pandemic norms, with one difference being that higher mortgage interest rates have pushed the measure of monthly mortgage payments as a share of after-tax income back into alignment with pre-pandemic norms, but nonetheless still lower than seen over much of the history of this series.





We can construct a measure of interest payments as a share of after-tax income exclusive of transfer payments, and this goes to our point about higher mortgage interest rates pushing monthly mortgage debt service costs higher. At the same time, however, aggregate interest payments on non-mortgage debt as a share of ex-transfers disposable income have been fairly stable over the past several quarters. That is also the case focusing on credit card interest, as seen in the second chart above. Again, though, our caveat on the use of aggregate measures applies here, as lower-income households are likely devoting a higher share of after-tax income to credit card servicing, part of which would be interest payments. That said, the broader point is that financial stress in the household sector still appears to be more concentrated than it does more broadly based, and barring a meaningful deterioration in labor market conditions that should remain the case over coming quarters.

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