

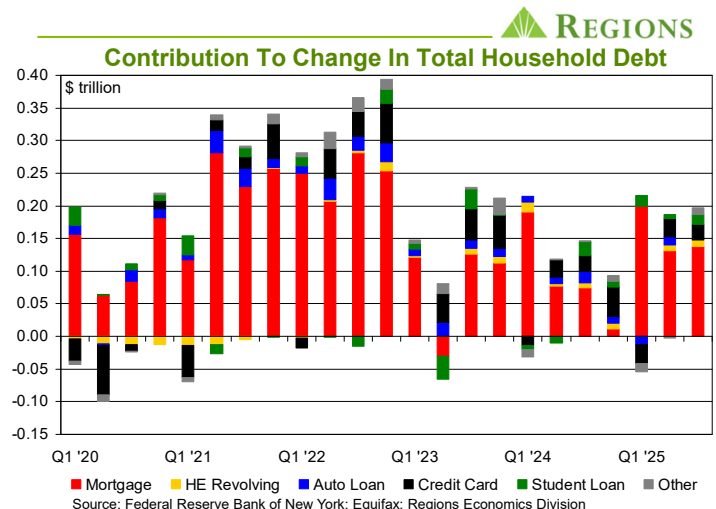
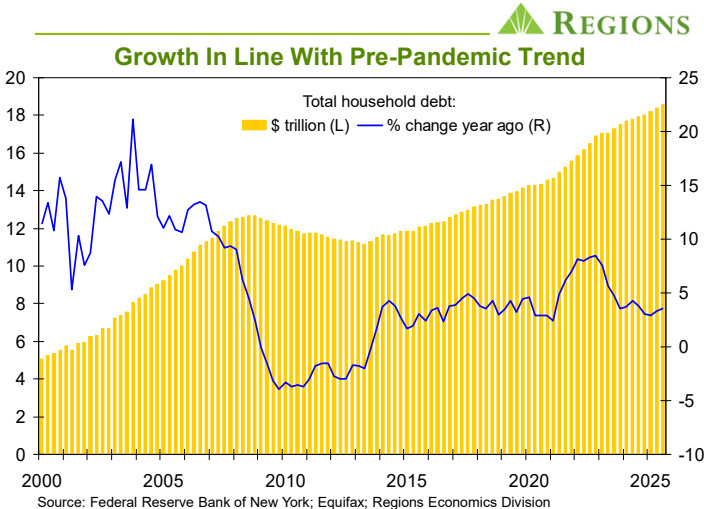


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Q3 2025 Household Debt and Credit: Balances Push Higher; Debt Service Still Managable

- Total household debt rose to \$18.585 trillion in Q3 2025, an increase of \$197 billion from Q2
- Outstanding mortgage loan balances rose by \$137 billion with modest increases in most components of non-mortgage debt
- As of Q3, 4.49 percent of outstanding household debt was in some stage of delinquency, up from 4.41 percent in Q2

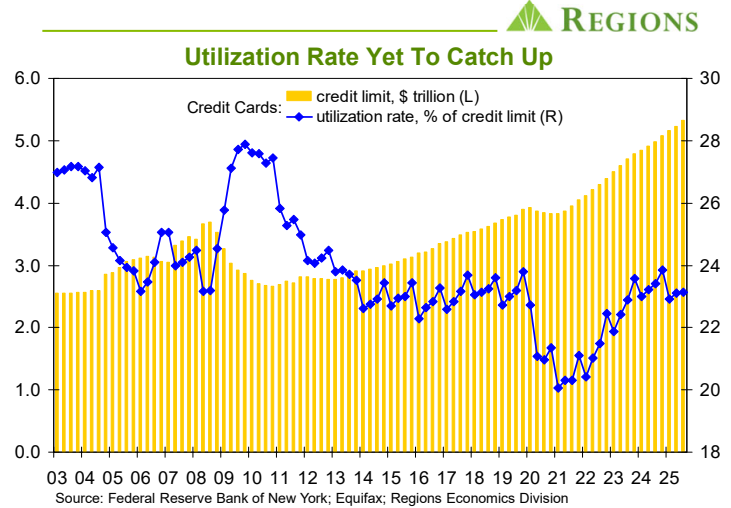
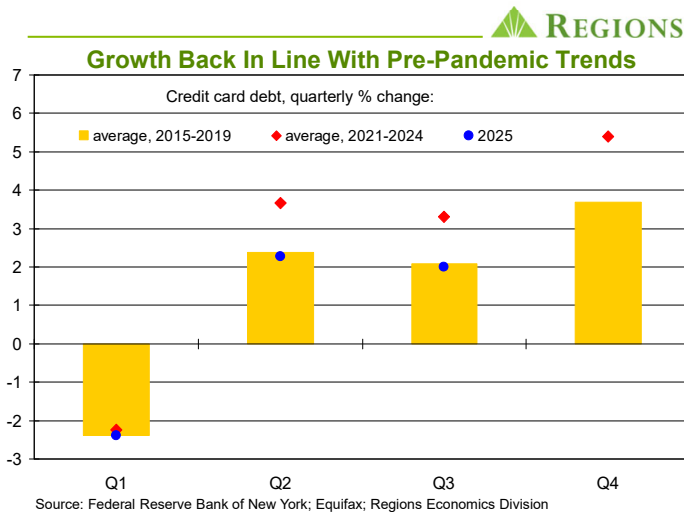
The Federal Reserve Bank of New York (New York Fed), in conjunction with Equifax, has released their latest quarterly report on trends in household debt, which shows total household debt rose to \$18.585 trillion in Q3 2025 from \$18.388 trillion in Q2, an increase of \$197 billion. An increase in mortgage loan balances, up \$137 billion, accounted for the bulk of the increase in household debt in Q3, with increases in credit card balances, student loan debt, and balances on revolving home equity lines of credit (HELOC) while outstanding auto loan balances were flat. Total household debt was up 3.58 percent year-on-year in Q3, leaving growth in line with the pre-pandemic trend rate of growth; from 2015 through 2019 growth in total household debt averaged 3.51 percent. That said, there is considerable variance in growth rates across the individual categories, with some – mortgage loans, HELOC balances – growing at rates above their pre-pandemic trend rates and others – auto loans, student loans – growing at much slower rates, while growth in credit card balances is back in line with the pre-pandemic trend rate after what has been a dizzying ride over recent years. The overall delinquency rate on household debt rose modestly in Q3, rising to 4.49 percent from 4.41 percent in Q2. Recall that the overall delinquency rate on household debt jumped sharply in Q1, reflecting the resumption of delinquencies on student loan debt being reported to the credit bureaus. The resulting spikes in early-stage and late-stage student loan delinquencies were substantial, leading to a corresponding spike in the overall delinquency rate in the Q1 data which has carried over into subsequent quarters. Even so, the overall delinquency rate on household debt remains below pre-pandemic norms. While early-stage delinquency rates – delinquent for less than ninety days – have leveled off over recent quarters, increases in later-stage delinquency rates have pushed the overall delinquency rate higher.



Outstanding credit card balances increased by \$24 billion in Q3, leaving them up 5.75 percent year-on-year. As noted above, the year-on-year increase is in line with the trend rate of growth in the years leading up to the pandemic. And while this is the eighth straight quarter in which year-on-year growth slowed, that has to be put in the context of the run of nine straight quarters of double-digit year-on-year increases seen from Q2 2022 through Q2 2024, with year-on-year growth topping out at 17.24 percent in Q1 2023. That run was triggered by the sharp post-pandemic acceleration in inflation at a time when pandemic-related financial supports had begun to work their way out of the system. This combination left many households reliant on credit card debt to sustain spending.

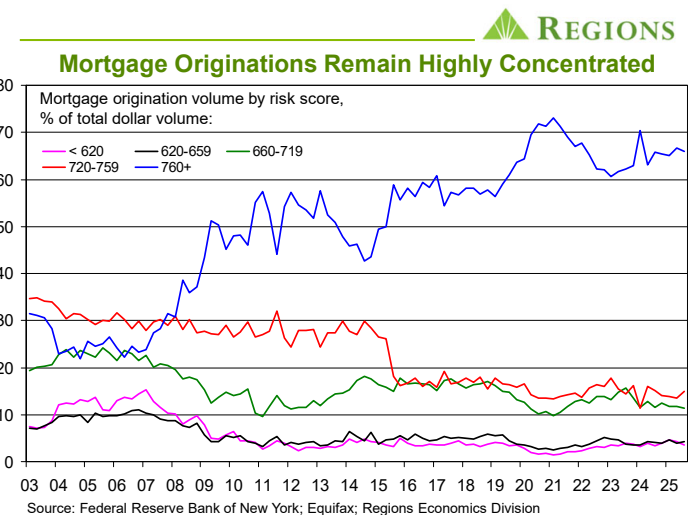
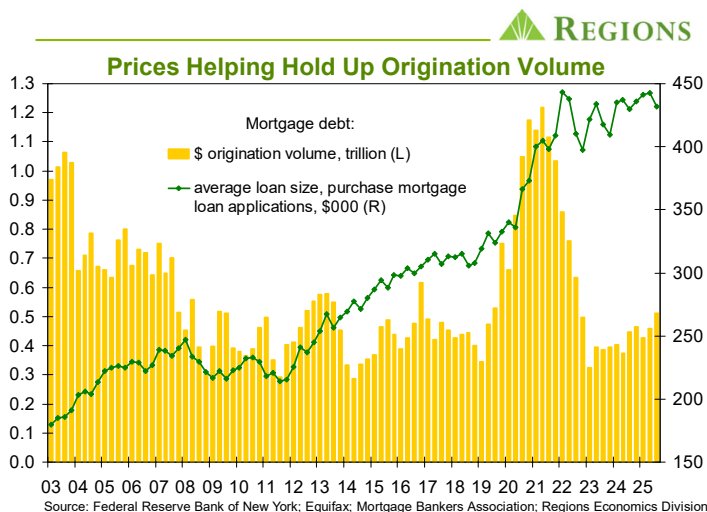
As we've frequently noted in these write-ups, the quarterly New York Fed data on household debt are reported on a not seasonally adjusted basis and there are clear seasonal patterns in credit card debt. In any given year, credit card balances tend to decline in the first quarter, largely reflecting paydowns of debt run up during the holiday shopping season, with moderate increases in balances in the second and third quarters followed by a much more pronounced increase in the fourth quarter – the holiday season run-up. While those typical seasonal patterns held over the 2022-2024 period of notably rapid growth in credit card debt, the quarterly changes were far more pronounced than had been the case over the years leading up to the pandemic. What we've observed over the course of 2025,

however, is that the magnitudes of the quarterly changes have fallen back in line with pre-pandemic norms, as can be seen in the first chart below. This is another way of making the point about growth in credit card debt having “normalized,” a process likely helped along by the corresponding deceleration in inflation.



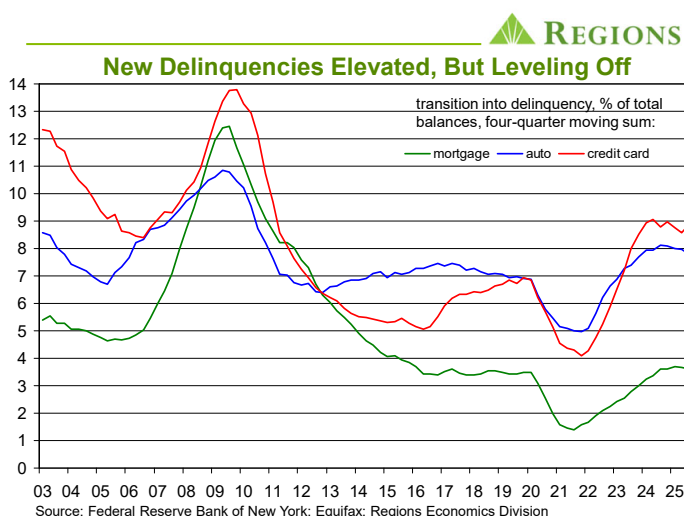
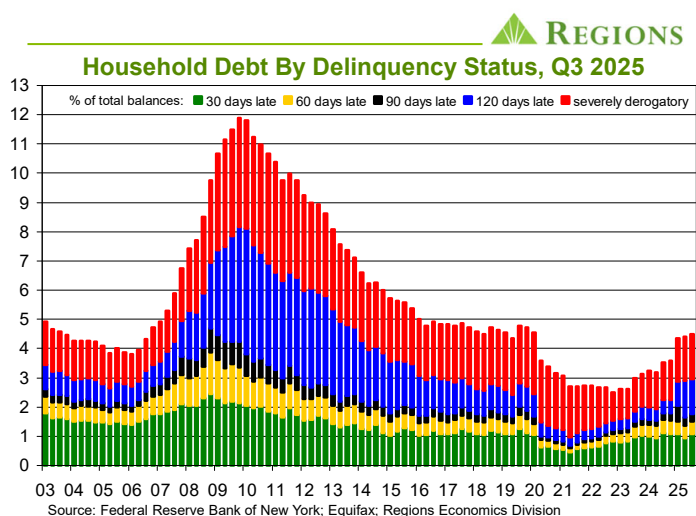
What will be worth watching over the next few quarters is whether, or to what extent, softening labor market conditions trigger another round of rapid growth in credit card debt. As illustrated in the second chart above, there is ample capacity, with credit card utilization still slightly below pre-pandemic norms which, given the growth in outstanding credit card debt, reflects the extent to which card limits have increased over recent years. To be sure, it could be that the bulk of the increase in card limits has been extended to the group(s) less likely to need it, i.e., higher income households while those most vulnerable to softening labor market conditions may not have much, if any, spare capacity to resort to taking on additional credit card debt to sustain spending if need be.

This, by the way, is one place in which the root cause of the sharp deceleration in job growth seen over recent months takes on added importance, i.e., whether it is a labor demand story or a labor supply story. As we’ve often noted, the slowing pace of job growth has thus far been far more a reflection of less hiring than, recent headlines notwithstanding, of more layoffs, a distinction which very much matters. We’ve argued that the substantial outflow of foreign born labor over the course of this year is a primary factor behind the slowdown in hiring. It is also the case that growth in aggregate labor earnings, the largest block of personal income, continues to easily outpace inflation. Under this set of circumstances, it would follow that fewer people would be in the position of needing to rely on credit card debt to sustain spending. Should we start to see a significant and sustained increase in layoffs, however, that could and likely would lead to increased reliance on credit cards, reflected in rising balances, rising utilization rates, and rising delinquencies. There is little to suggest that, at least in the aggregate, we are at that point.



Between purchase and refinance originations, total mortgage originations equaled \$512 billion in Q3, up from \$458 billion in Q2 and the highest quarterly total since Q3 2022. Home sales have been somewhat listless over recent months with our measure of the trend rate of sales – the running twelve-month total of not seasonally adjusted sales – basically flatlining, which is the case for both existing home

sales and new home sales. Though there is considerable variation across metro areas, on the whole home prices continue to push higher and this has been a support for origination volumes. There was a spurt of refinancing activity as mortgage interest rates fell sharply in September, and data from the Mortgage Bankers Association show that the average size of refinance loan applications increased significantly over this span. As such, refinancing activity was a bigger support for growth in overall mortgage origination volume in Q3 than has been the case for some time. One thing that has not changed for quite some time is that mortgage loan originations remain heavily concentrated amongst those with the highest credit scores, as shown in the chart on the prior page. More stringent underwriting standards and stronger equity positions had pushed early-stage mortgage delinquencies to all-time lows prior to the pandemic, and with the assistance from pandemic-related financial transfers, early-stage delinquency rates pushed even lower over the 2020-2022 period before reversing course. That said, early-stage mortgage delinquencies have been little changed over the past several quarters, leaving them right in line with where they were prior to the pandemic. Further deterioration in labor market conditions, in the form of a significant and sustained increase in layoffs, would almost surely push early-stage delinquency rates higher on all forms of consumer debt, including mortgage debt, and while we cannot rule that out, thus far there are few signs of that becoming the case.

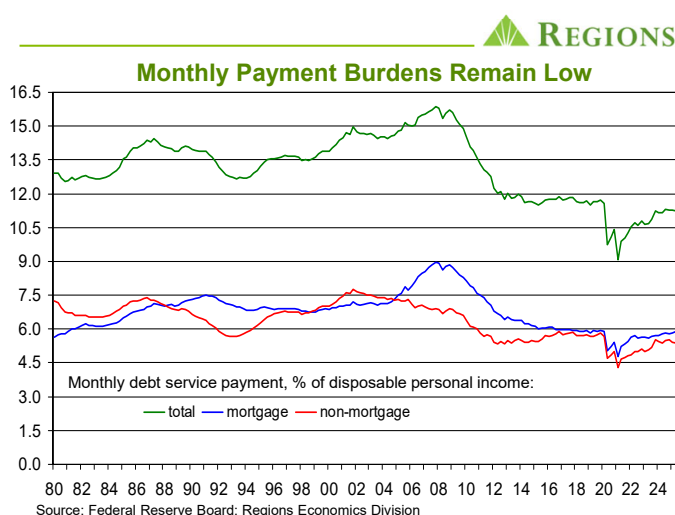
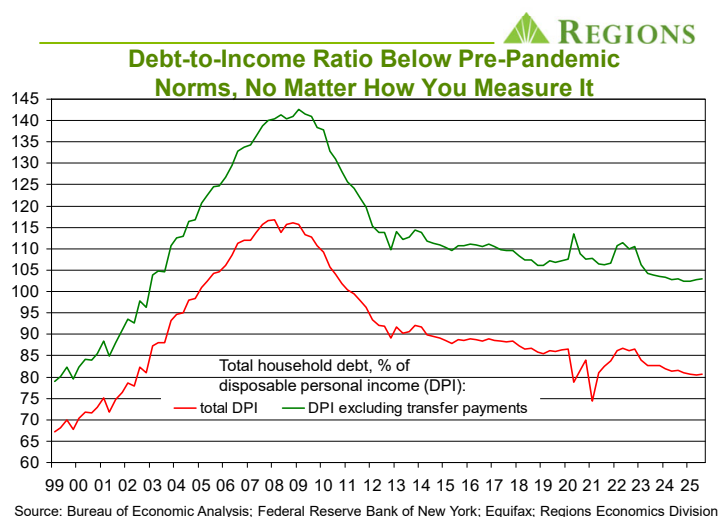


The overall delinquency rate on household debt rose from 4.41 percent in Q2 to 4.49 percent in Q3. As noted earlier, a change in the reporting of student loan delinquencies led to a spike in the overall delinquency rate in Q1 2025, with the rate rising by seventy-six basis points from Q4 2024. With this level-shift in the delinquency rate persisting into subsequent quarters, it basically puts a floor under the overall delinquency rate, making it harder to compare 2025 with prior years. One comparison we can make is to look at the intra-year change in the overall delinquency rate thus far in 2025 – i.e., the change between the first and third quarters – and compare that to changes over the same span of prior years, though the data from 2020-2022 are not of use here given the extent to which sizable pandemic-related transfers to the household sector pushed down debt service burdens and delinquencies. The overall delinquency rate as of Q3 2025 is fifteen basis points higher than it was in Q1 2025, which excluding 2020-2022 is the smallest Q1-Q3 increase since 2018; last year's Q1-Q3 increase was twenty-nine basis points.

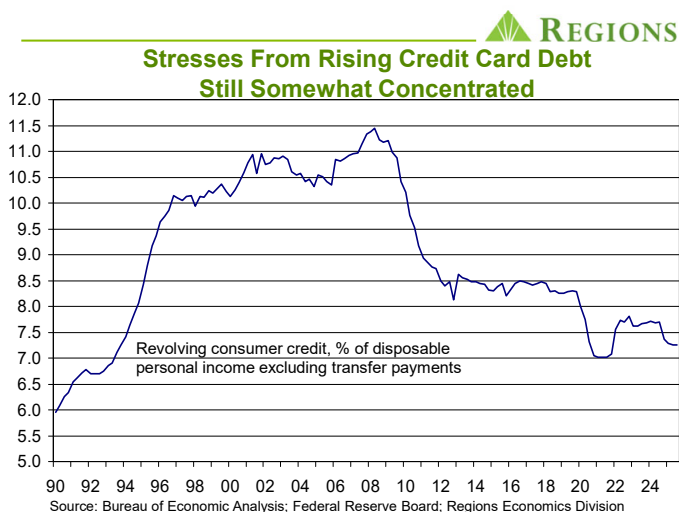
Thirty-day, sixty-day, and ninety-day delinquency rates have been more or less flat over the past several quarters and, as seen in the first chart above, each of these delinquency rates has returned to where it was in the years leading up to the pandemic. At the same time, however, the 120-day delinquency rate and the severely derogatory rate (defined by the New York Fed as a delinquency of any duration combined with a reported repossession, charge-off to bad debt, or foreclosure) have risen sharply over the course of this year and are well above pre-pandemic rates. To a large degree, this seems a function of the change in reporting on student loan delinquencies and, if so, these rates will remain elevated for some time. Still, even with these rates being elevated, the overall delinquency rate is forty basis points below the average delinquency rate over the five years leading up to the pandemic. The second chart above shows the transition into delinquency for mortgage loans, auto loans, and credit card debt. Note that the New York Fed reports transitions as annual rates, and that the annualized rates for mortgage and auto loans have started to edge lower suggests declines over the most recent quarters. The transition rate on credit card debt has moved lower as well but, as seen in the chart, the path lower has not been as smooth as with mortgage and auto loans.

For many, the more relevant question is whether delinquency rates have normalized and, as such, will remain somewhat stable from here out or will continue to push higher. With early-stage delinquency rates having leveled off, further increases in the overall delinquency rate seem unlikely, the obvious caveat being that this is contingent upon there not being meaningful deterioration in labor market conditions, i.e., a significant and sustained increase in layoffs. The pronounced slowdown in the rate of monthly job growth has clearly been a cause of concern, but we'll again note that this slowdown has thus far been far more a function of lower hiring rates rather than rising layoff rates while aggregate labor earnings continue to grow at a rate faster than inflation. One implication of a lower hiring rate is that those who do lose a job are finding it harder to land a new job and that it is taking longer to do so, which is clearly a

factor that can lead to increased financial stress and have an adverse impact on credit performance. In other words, even though the incidence of layoffs has not materially changed, the slower hiring rate opens up another source of financial stress that can impact credit performance. Still, any such adverse effects will be far less pronounced than those that would be triggered by a pick-up in layoffs.



Though there are areas of financial stress, particularly amongst younger and lower-income households, overall household financial conditions remain healthy. As we've noted, growth in aggregate labor earnings continues to easily outpace inflation, and despite some softening in house prices across parts of the U.S. and parts of the Regions footprint, household net worth remains elevated, and the ratio of net worth-to-disposable income remains near its all-time high. In the aggregate, consumers remain well able to meet monthly debt service obligations, and the debt-to-income ratio remains well below pre-pandemic norms, as seen in the first chart above. As we've often discussed, while the measure of income commonly used in calculating the debt-to-income ratio is total disposable (i.e., after-tax) income, we consider disposable income excluding transfer payments to be the more relevant measure of income. Our reasoning is that a sizable portion of transfer payments, such as Medicare/Medicaid outlays, are booked as personal income but are actually payments to service providers, meaning there is no cash transfer to households. Additionally, cash transfers such as Social Security and unemployment insurance benefits are largely devoted to necessity spending and, as such, contribute little, if anything, to households meeting monthly debt service obligations. The difference made by the choice of income is clear in the first chart above, but the broader point is that, regardless of which measure of income is used, the debt-to-income ratio is not sending any ominous signals about the level of household debt. In turn, the measure of monthly debt service burdens remains at what would be an all-time low were the income data from 2020-2022 distorted by the pandemic-related financial transfers to the household sector.



We can, in light of what are heightened concerns over both the level and the performance of credit card debt, further break down the debt-to-income ratio to focus strictly on credit card debt. As seen in the chart to the side, in which we use the more restrictive measure of disposable income, the (credit card) debt-to-income ratio remains easily below historical and pre-pandemic norms. To be sure, one can argue that this aggregate measure masks what are potentially sizable disparities in the ratio across household income buckets. That is a fair point, but it also is the point we're trying to reinforce, which is that stresses from debt, whether credit card or total, remain somewhat concentrated amongst a certain segment of households rather than being more universal. This is by no means meant to dismiss that stress or the impact on those households in question, but instead to help put the level of credit card debt in context. As with the level of total household debt, we've found that, absent any such context, the level of/growth in credit card debt seems to trigger fears households laboring under unsustainable debt burdens that

will, in turn, result in a wave of delinquencies/defaults. Our point here is that it is the ability to service debt that is the relevant marker to follow, not the level of debt itself. Obviously, disruptions in income flows are often the trigger for disruptions in payments, which goes to emphasize the importance of labor market conditions as a guide to more broadly based financial stresses. Our take on the Q3 data is that while there are pockets of stress, on the whole households remain well able to manage debt loads, with further deterioration in labor market conditions looming as a downside risk.