Economy

Where is debt growing?

08 August 2025

Key takeaways

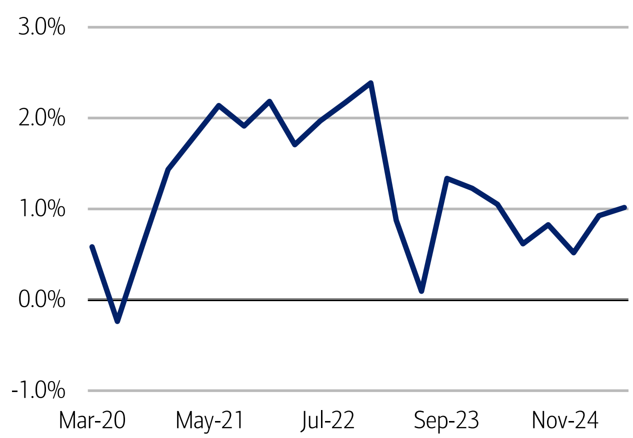
- Household debt rose again in the second quarter of 2025. Still, the ratio of household debt payments relative to disposable personal income remains below the historical average. This suggests to us there is further room for consumers to increase borrowing, so long as the labor market holds up.
- Average mortgage balances were up more than 32% in June from the 2019 average, according to third-party data which may include Bank of America loans. With mortgage costs at an all-time high, some borrowers are having difficulty keeping up with their payments, especially in western states where early-stage delinquencies saw the greatest annual rise.
- Notably, in the first half of 2025, new student loan delinquencies have jumped above the 2019 average, mainly among borrowers aged 50+, following the end of the education debt payment pause. Though this is a small subset of the overall student loan holder population, this group's spending momentum could slow.

Debt burden inches up again in the second quarter

Americans are inching further into debt, with debt levels up 1.0% quarter-over-quarter (QoQ) in 2Q 2025 (Exhibit 1). Total household debt increased by $185 billion to hit $18.39 trillion in the second quarter, according to the latest New York Fed Quarterly Report on Household Debt and Credit.

Looking by composition, the greatest share of total debt is held by those with mortgages (Exhibit 2). According to the New York Fed, mortgage balances grew by $131 billion and totaled $12.94 trillion at the end of June. And in the second quarter, mortgage balances grew 1.0% QoQ - less than credit cards (2.3% QoQ) but greater than auto loans (0.8% QoQ).

Exhibit 1: In 2Q 2025, total household debt rose 1.0% QoQ
Total debt balance (quarterly, QoQ%)



Source: New York Fed Consumer Credit Panel/Equifax

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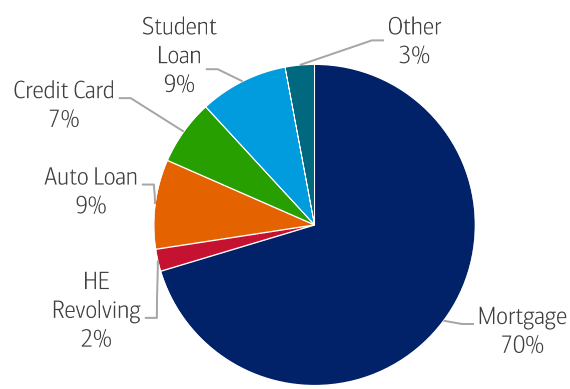
Exhibit 2: Mortgage loans are 70% of total household debt
Total debt balance by composition (%)



Source: New York Fed Consumer Credit Panel/Equifax
Note: HE revolving is home equity revolving debt.

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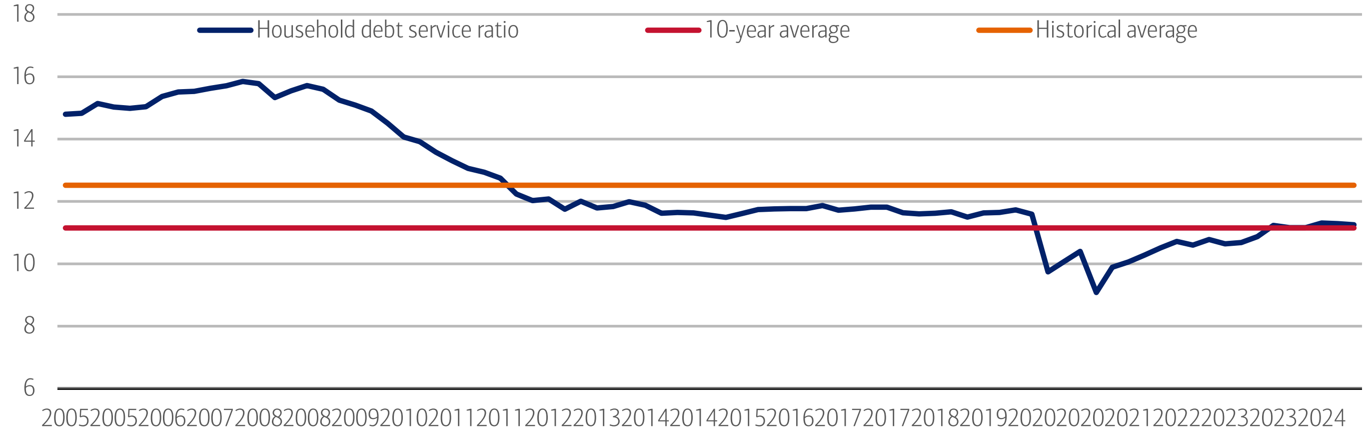
The good news is the ratio of household debt payments to disposable personal income dropped to 11.25 in Q1 2025 from 11.29 in Q4 2024 (Exhibit 3) and remains below the historical average of 12.52, suggesting to us there is some room for consumers to increase borrowing, so long as the labor market holds up. Plus, household debt to GDP has been steadily declining in recent years, meaning the debt service ratio is increasing primarily due to the rise in interest rates, according to BofA Global Research.

Exhibit 3: Debt payments as a percentage of disposable personal income remained well below the historical average in Q1 2025
Household debt service ratio (quarterly, seasonally adjusted)



Source: Haver analytics, New York Fed Consumer Credit Panel/Equifax and the Bureau of Economic Analytics
Note: The household debt service ratio is an estimate of the ratio of debt payments to disposable income and includes estimated debt payments on outstanding mortgage & consumer debt.
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Mortgage market matters

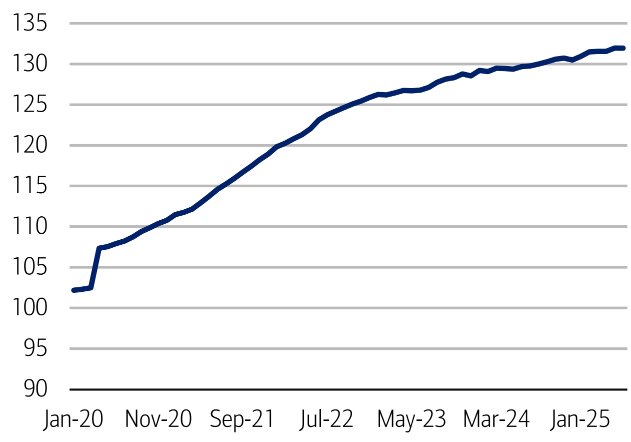
According to third-party loan account data, in June, the average mortgage loan balance was almost 32% above the 2019 average (Exhibit 4). Note that this data is representative of overall industry loans, and not specifically mortgage loans issued by Bank of America (see methodology for further details). While the rate of acceleration has slowed, the increased payment level could pose cost pressures for some homeowners.

Home sales remain lackluster amid high mortgage rates

Many people still have low mortgage rates from the pandemic era, making the overall debt service ratio still very low. For future homeowners, however, rising mortgage costs – driven both by higher mortgage rates and higher house prices – can pose risks.

While the 2025 Bank of America Homebuyer Insights Report suggested more people expect better buying conditions this year (read more on this in our May On the Move publication), the National Association of Realtors data for June showed that year-over-year (YoY) there was no change in existing home sales – and month-over-month existing home sales fell 2.7%. So for now these higher costs, potentially combined with broader economic uncertainty, are contributing to a stagnant housing market.

Exhibit 4: In June, the average mortgage balance was more than 32% above the 2019 average
Average industry mortgage balance (monthly, indexed, 2019 average = 100)



Source: Third-party data from industry lenders. See Methodology.
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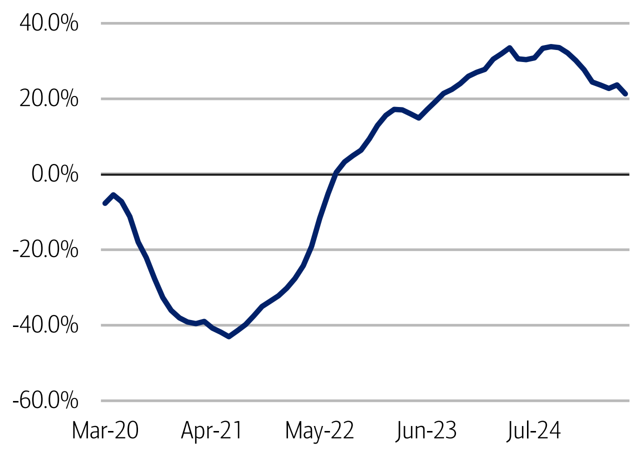
Exhibit 5: In June, the average amount for mortgages 60-149 days past due was up 21.3%
Average amount for mortgages 60-149 days past due (3-month moving average, monthly, YoY%)



Source: Third-party data from industry lenders. See Methodology.
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Housing affordability has deteriorated by 28% since December 2021, before Fed rate hikes in 2022, and since then, new and existing home sales have declined 24% and 37% respectively in June, according to BofA Global Research. Additionally, BofA

Global Research expects little change in mortgage rates, staying in the 6.5%-7.0% range at least through 2026, inferring that a stagnant housing market may be with us for some time to come.

Mortgage delinquency rates are down from last year

Since the post-pandemic housing boom, homebuyers have taken out larger mortgages amid rising home prices, and for some, it has now become harder to keep up with those payments. And according to BofA Global Research, the challenge is most acute for those who got mortgages in the past couple of years at high home prices and high mortgage rates, especially lower-income Federal Housing Administration borrowers.

In fact, according to third-party data on industry loan account trends, the rate of mortgages 60-149 days past due was up 21.3% YoY in June, having come down significantly from September 2024's peak of more than 33% YoY (Exhibit 5). Plus, the delinquency rate for home loans on one-to-four-unit residential properties increased to a seasonally adjusted rate of 4.04% of all loans outstanding at the end of the first quarter of 2025, according to the Mortgage Bankers Association's (MBA) National Delinquency Survey.

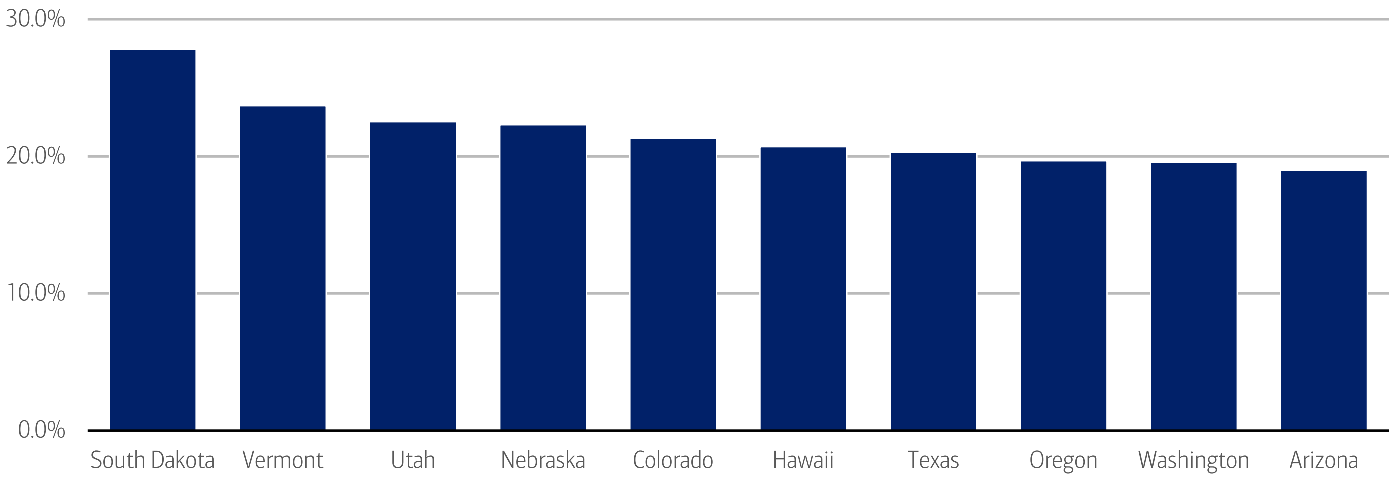
Still, overall national delinquency and foreclosure rates remain below historical averages, though some households are clearly feeling more financial pressures.[1]

Western states outpace other regions in early mortgage delinquencies

Regionally, the West has been hit harder by higher rates and a lack of affordability (read more on this in our June Regional Roundup). As a result, many homeowners have decided not to sell – a trend known as the "lock-in effect," according to BofA Global Research. This may explain why the region has seen the largest decline in existing home sales – 43% – as of June.

The West is also outpacing other regions in mortgage delinquencies. In fact, the YoY growth in the number of mortgage accounts 30+ days delinquent in June the highest in western states (Exhibit 6).

Exhibit 6: States in the West account for a majority of the top 10 growth rates of mortgage accounts 30+ days delinquent in June
Rate of mortgage accounts 30+ days delinquent in June (YoY%)



Source: Third-party data from industry lenders. See Methodology.

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New student loan delinquencies could put pressure on spending

One of the most notable jumps in the data within the Household Debt and Credit reports so far this year was in student loan balances which edged up by $7 billion and stood at $1.64 trillion in the second quarter of the 2025.

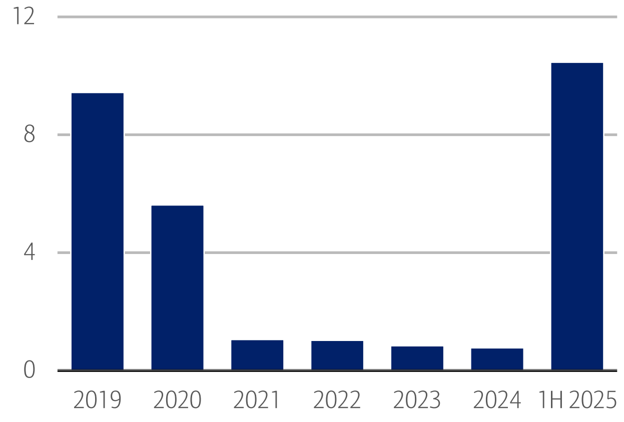
Markedly, the data also shows a large uptick in balances that went from current to delinquent, primarily due to the resumption of student loans being included in credit reports after a nearly five-year pause (Exhibit 7). Note that this data is inclusive of student loan accounts across the industry.

Although Gen Z and Millennials make up more than three-quarters of student loan holders (Exhibit 8), the majority of those student loan holders who became seriously delinquent, or 90 or more days past due, in Q2 2025 were age 50+, according to the New York Fed. This could put additional pressure on card spending, especially among Gen Xers, whose overall spending growth has been weaker than Baby Boomers and Traditionalists (read more on this in the June Consumer Checkpoint).

[1] Taylor, F. (2025, May 13). *Mortgage Delinquencies Increase Slightly in the First Quarter of 2025 | MBA*. Mortgage Bankers Association.

Exhibit 7: New student loan delinquencies spiked in the first half of 2025

New seriously delinquent* student loan balances (%)



Source: New York Fed Consumer Credit Panel/Equifax

*Note: Seriously delinquent refers to more than 90 days.

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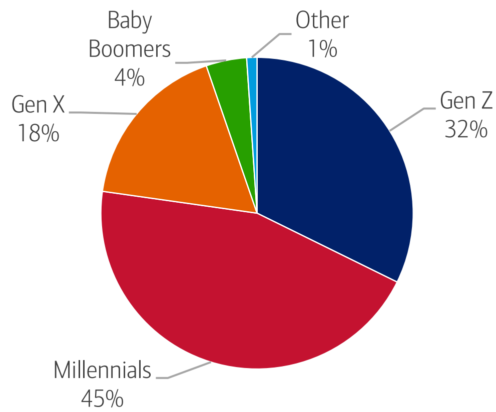
Exhibit 8: Younger people hold the majority of student loans

Number of student loan accounts by generation in June (%)



Source: Third-party data from industry lenders. See Methodology.

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Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Any payments data represents aggregated spend from US Retail, Preferred, Small Business and Wealth Management clients with a deposit account or credit card. Aggregated spend include total credit card, debit card, ACH, wires, bill pay, business/peer-to-peer, cash, and checks.

Any data on household debt and/or delinquency composition is representative of anonymized third-party credit bureau data from customers of industry lenders and creditors including Bank of America. Third-party credit bureau data includes data in connection with numerous lending products, including but not limited to mortgages, credit cards, auto, home equity, personal, and student loans.

To the extent these materials reference Bank of America data, such materials are not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

Generations, if discussed, are defined as follows:

1. Gen Z, born after 1995
2. Younger Millennials: born between 1989-1995
3. Older Millennials: born between 1978-1988
4. Gen Xers: born between 1965-1977
5. Baby Boomer: 1946-1964
6. Traditionalists: pre-1946

Additional information about the methodology used to aggregate the data is available upon request.

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