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## ECONOMY

# Household Debt Burden Looms Larger for Lower-Income Renters

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WASHINGTON -- American households may be carrying much bigger financial burdens than previously reported, but the burden is larger for lower-income renters than homeowners, new data developed by the Federal Reserve indicate.

Americans currently pay 13.3% of after-tax income to service their debts, but adding other recurring liabilities such as rent and auto leases pushes the figure up to 18.1%, according to a report published in this month's Federal Reserve Bulletin. Both figures are slightly below the record levels reached at the end of 2001, but up more than two percentage points since 1993.

Because the trend in financial burdens is similar under both measures, the new data don't suggest household balance sheets are deteriorating any more quickly than previously estimated. But they do suggest that renters are far more stretched than homeowners.

The household debt-service burden is a popular way to assess consumer balance sheets. The higher the burden, the less money consumers have left to spend on goods and services and the more likely they are to default.

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The report by Fed economists Karen Dynan, Kathleen Johnson and Karen Pence introduces a far broader "financial obligations ratio" that includes rent, auto leases, homeowners insurance and property taxes.

Federal Reserve policy makers have played down the recent rise in debt burdens in part because it has been heavily driven by a shift from



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renting to homeownership, in particular by lower-income households. That implies merely a shift from rent to mortgage payments, rather than a rise in overall burdens.

The new data support that. Homeowners' financial-obligations ratio has risen from 12.2% in 1992 to 14.1% now, but excluding renters-turned-homeowners, the ratio would have risen only to 13.2%.

The report also shows that renters' financial obligations have soared to 29% of after-tax income from 22.5% in 1993. The reason isn't so much because of increasing rents, but because renters tend to be poorer than homeowners, and the gap between rich and poor households' incomes grew sharply in the last decade. From 1992 and 2001, renters' incomes rose 22% while homeowners' incomes rose 60%, the Fed said.

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