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Costly loans drive consumers to longer loan terms, riskier borrowing strategies

Economists, policymakers, and business leaders are parsing through a wider range of variables than usual to make sense of present-day macroeconomic conditions and determine what should be done to keep markets on a healthy course.

Some variables suggest the economy is faring well, if not improving. Economic analysis from the US Bureau of Labor Statistics, for instance, describes a fairly resilient labor market, with unemployment hovering around 4.2%, down from a four-year high of 4.5% in November 2025. Yet inflation remains a nagging issue: According to the Federal Reserve Bank of Dallas, the Iran war stands to exacerbate inflation and further drive up the price of fuel and other core goods if it persists. In July, the Federal Open Market Committee disagreed on the best path forward for interest rates, with some members calling for an interest-rate hike to keep prices in check.

But new market data by credit advisory firm 2nd Order Solutions shows consumer credit as lying in a cautiously constructive — yet fragile — position. Low savings rates, increasing bankruptcy rates, and stubbornly high borrowing costs have left consumers continuing to look stressed on paper; but the risks are concentrated, rather than systemic, confined to certain credit card vintages, auto loans, and personal loans.

Credit has held better than many expected, but if employment and income rates weaken, consumers will have even less of a financial cushion than they do today.

Households' murky economic conditions

A confluence of variables suggests consumers are weathering challenging times. The rate at which Americans are saving their money is approaching the low set in 2022; they're saving just 2.6% of their income, as of June 2026. Meanwhile, in the second quarter, bankruptcies increased year-over-year by 11%. And borrowing costs remain far above the rates consumers saw between 2020 and 2022, when the Fed set near-zero interest rates at the outset of the COVID-19 pandemic.

In a vacuum, these statistics paint a foreboding picture about the state of consumer debt. And some early indicators suggest borrowers are falling into further debt to lessen the impact of their financial precarity. In the auto loan sector, for instance, many borrowers are stretching out the terms of their loans, with nearly 1 in 4 borrowers agreeing to loans that are 84 months long or more.

Risks remain elevated, but appear concentrated

Market data does not suggest wide-scale credit deterioration, however. Credit card delinquencies eased in the second quarter, down approximately two-tenths of a percentage point, though they hover near multiyear highs, and 2025 vintages continue to underperform those from 2024. Personal-loan delinquencies continued to ease during this time to approximately 3.4%, though some risk bands remained elevated. And auto delinquencies stayed stable, despite extended term lengths and increasing payment amounts. In aggregate, delinquency rates held or improved across most major products during the second quarter.

And, crucially, the risks appear concentrated, rather than systemic. Though recent vintages of debt products are at relatively high rates of delinquency and risk, other variables encourage a cautiously constructive outlook. In addition to the stabilizing of unemployment rates, data from the Federal Reserve Bank of St. Louis shows real wages improving, and consumers' debt payments decreasing relative to income. Wide-scale credit deterioration has not materialized — and consumers remain resilient in the face of headwinds.

Geopolitical shifts and sudden societal challenges, like the war in Iran and the COVID-19 pandemic, have proven their ability to drastically change households' financial conditions. A sustained rise in interest rates poses a direct threat to private sector stability. As borrowing costs increase, business leaders are often forced to move beyond speculation and take concrete action, trimming budgets and reducing head counts to offset the rising cost of debt. With personal savings rates so eroded, such private-sector shifts would quickly affect households' ability to pay off loans.

The Federal Reserve's Board of Governors appears divided on how to balance its dual mandate of maximizing employment and stabilizing inflation. As geopolitical volatility continues to adversely affect prices, interest-rate hikes may hedge inflation, but do so at the expense of borrowing costs and household financial health; borrowers show signs of resilience and even recovery, but their capacity to weather additional economic challenges is tenuous.

Methodology

To analyze these trends, this article utilizes 2nd Order Solutions' proprietary evaluation of consumer credit performance data on the Equifax Ignite database, classifying credit card, personal, and auto loans as delinquent at 60 or more days past due. These insights are paired with public-release macroeconomic indicators from the Federal Reserve Banks of St. Louis and Dallas alongside labor market studies from the Yale Budget Lab.

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