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A NEW HOUSEHOLD LIQUIDITY MEASURE

IS DEBT EATING ARIZONA MORE THAN OTHER STATES?

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ABOUT THE AUTHORS



Thomas Young brings a wealth of eclectic experience at the touch points of economics including economic forecasting, econometrics, finance, investing, public economics, survey research, and cost-benefit analyses to name a few. He received his Ph.D. from the University of Utah with fields in Business Economics, Industrial Organization, Econometrics, and Finance.



Zachary Milne is CSI Arizona's Senior Economist and Research Analyst. Prior to joining CSI, Zachary served as an economist and budget analyst for the Arizona Governor's Office of Strategic Planning & Budgeting. In this capacity he developed the state's revenue forecasts, and advised a team of budget analysts on the creation of K-12 and Medicaid caseload figures for the State's annual budget. He also advised the Executive policy and leadership teams on fiscal policy, and regularly presented detailed analyses on each of the dozens of tax bills introduced in the Arizona Legislature each year. Originally from upstate New York, Zach's then-active-duty service with the United States Air Force brought him to Arizona, where he has remained.

ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Arizona's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Arizonans. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Arizonans are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the Arizona economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Arizonans are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

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INTRODUCTION

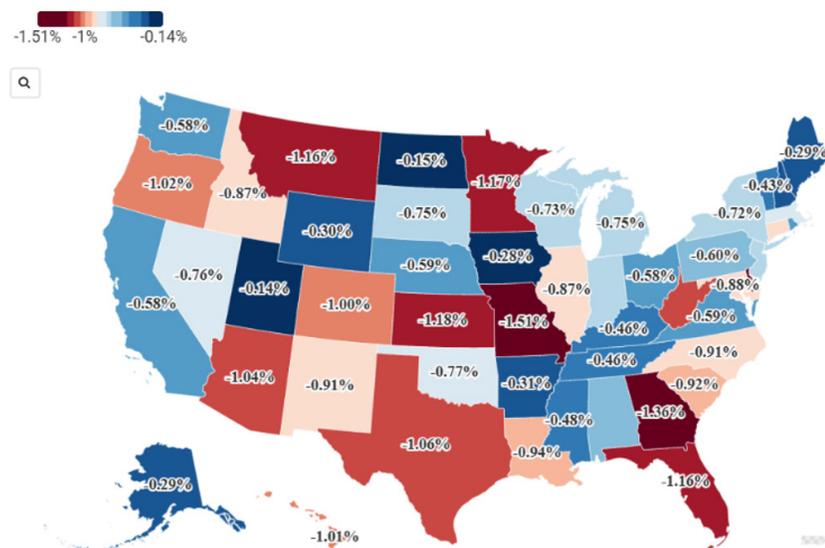
On January 8th, WalletHub released its most recent estimate of average credit scores across the states.ⁱ In every state, the average credit score dropped compared to the prior year as households, some of the most indebted in human history, continue to struggle with rising debt, moderate interest rates, and higher living costs.

How does Arizona compare? Down 1.04%, Arizona’s credit scores dropped the 10th fastest among states. Overall, the average credit score in the state is 666, ranked 30th among states (e.g., in the bottom half of states for credit scores). One reason for the not-so-great credit picture is housing affordability. Arizona’s mortgage debt per capita is 22% higher than the national average, as housing prices and mortgage rates continue to weigh on households. Policies aiming to improve housing affordability may also have a secondary effect—improving Arizona’s credit picture. What follows is a comparison of average credit scores, household debt burdens, and early signs of payment distress through a new “household liquidity resiliency” measure.

FIGURE 1.

Change in Average Credit Score, Q3 2024 to Q3 2025

Among states, Arizona’s average credit score was down 1.04%, dropping the 10th fastest among states.



Source: WalletHub

KEY FINDINGS

- Average credit score in Arizona dropped the 10th fastest (-7 points) among states in 2025.
- At 666, Arizona ranks 30th among all states for average credit score—meaning it is in the bottom half of states for average household credit rating.
- Arizona has seen the second largest increase in per capita debt since 2003 among the 11 states reported, up 129% to approximately \$74,000.
- For the fourth quarter of 2025, Arizona stands out for three areas with debt per capita well above the national average:
 - > **Arizona's mortgage debt per capita is 22% higher than U.S. average.**
 - > Per capita auto loan debt is 7% above the national average.
 - > Credit card debt is 8% above the national average.
- Arizona has surprisingly high account delinquency rates compared to the national average (percent above national average in parentheses):
 - > (1) 30 days late (\$1,050 per person past due, 36% more than average),
 - > (2) 60 days late (\$390 per person past due, 31% more than average),
 - > (3) 90 days late (\$360 per person past due, 78% more than average), and
 - > Derogatory (\$1,240 per person past due, 27% more than average).
- Using CSI's newly developed Household Liquidity Resilience measure (HLR), the CSI HLR says Arizona households are 23% less prepared for potential credit crunch problems than the average U.S. household. This lower preparedness stems from generally higher than average debt, higher delinquency, and a lower cash cushion than the average U.S. household.

HOUSEHOLD BALANCE SHEET AND DEBT STRESS

The drop in credit scores across every state corresponds with rising household debt. According to the New York Federal Reserve, household debt grew to \$18.8 trillion at the end of 2025 (growth since 2024 in parentheses), driven by \$13.2 trillion in mortgage debt (+4.5%), \$1.3 trillion in credit card debt (+5.5%), and \$1.7 trillion in auto loans (+0.7%). Student loan balances increased to \$1.7 trillion (+3.0%).ⁱⁱ

The most recent data confirms the average household's balance sheet isn't improving. In fact, when comparing the 11 states reported by the New York Federal Reserve since 2003, Arizona's households have seen the second largest increase in per capita debt at 129%, surpassed only by Texas at 148%.

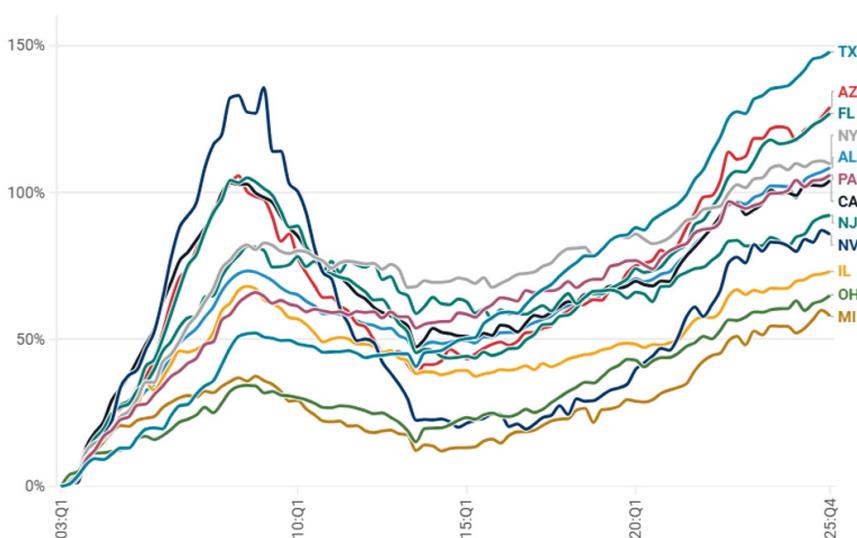
About three-fourths of the rise in debt across the state can be directly attributed to mortgage debt. For the 11 states with reported information for the fourth quarter of 2025, Arizona stands out for its per-capita mortgage debt which is 22% above the U.S. average. Arizona also has slightly (7%) higher-than-average auto loan and credit card debt (8%) relative to income, compared to the United States overall.

In contrast to higher-than-average mortgage, auto, and credit card debt, on a per capital basis, Arizona has lower-than-average education-related debt, with higher education revolving debt 3% below the national average and student loan debt 8% below the national average.

FIGURE 2.

Growth in Per Capita Debt

For the 11 states reported by the NY Fed, Arizona saw the second fastest growth in per capita debt since 2003 at 129%.



Source: New York Federal Reserve • The estimates for per capita debt are in nominal dollars across all states.

FIGURE 3.

Debt per capita and per dollar of income, Arizona Compared to the U.S. Average

Arizona's mortgage, auto loan, and credit card debt is higher than the national average, while its higher education and student loan debt is lower than the national average.

Debt Measure	Arizona debt per capita	Arizona debt per dollar of personal income	U.S. average per capita	U.S. average per dollar of personal income
Mortgage	\$54.51	\$0.79	\$44.84	\$0.58
HE Revolving	\$1.44	\$0.02	\$1.48	\$0.02
Auto Loan	\$6.09	\$0.09	\$5.67	\$0.07
Credit Card	\$4.72	\$0.07	\$4.38	\$0.06
Student Loan	\$5.03	\$0.07	\$5.47	\$0.07
Other	\$1.98	\$0.03	\$1.92	\$0.02

Source: New York Federal Reserve, St. Louis Federal Reserve, U.S. Census Bureau

The recent rise in debt relative to other states shows up in the delinquency statistics. Arizona has surprisingly high delinquency amounts compared to the national average for accounts that are (1) 30 days late (36% higher than the U.S. average), (2) 60 days late (31% higher than the U.S. average), (3) 90 days late (78% higher), and Derogatory¹ (27% higher).

While it is reasonable to expect higher delinquency rates in Arizona relative to the United States due to its higher relative debt loads, the actual observed rates are significantly higher than what can be explained by the debt rates alone.

FIGURE 4.

Arizona Compared to the National Average in Delinquency by Stage

Per capita delinquency amount

State	Current	30 days late	60 days late	90 days late	120+ days late	Derogatory
AZ	\$69.89	\$1.05	\$0.39	\$0.36	\$0.75	\$1.24
US	\$60.69	\$0.77	\$0.30	\$0.20	\$0.72	\$0.98
AZ Comparison: Above or below US average	15%	36%	31%	78%	3%	27%

Source: New York Federal Reserve

¹ A derogatory item is a negative comment, and typically indicates a serious delinquency or late payments. Derogatory items represent credit risk to lenders.

A NEW “HOUSEHOLD LIQUIDITY RESILIENCE” INDEX

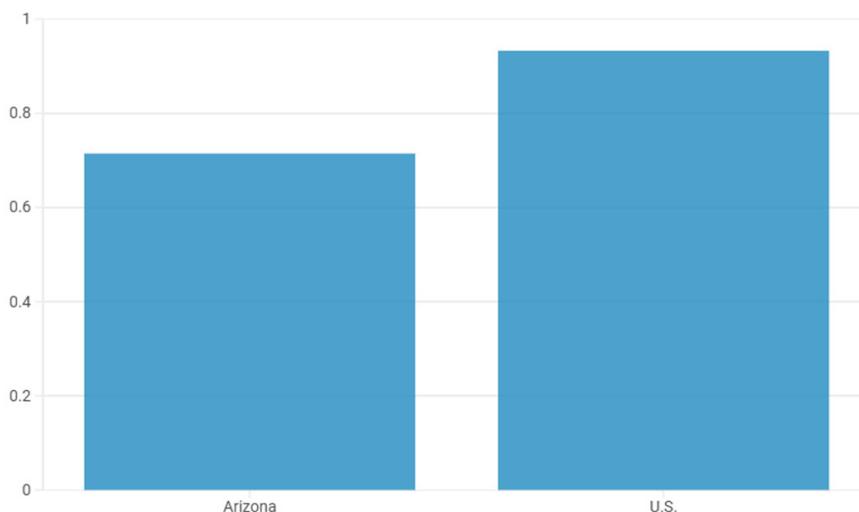
Average credit scores can offer valuable information on how financially resilient households in a state may be, but this measure alone is imperfect. Other measures matter as well, such as debt service to income, credit utilization rate, delinquency probability, and liquidity buffers. Assuming that these measures act as signals of broader economic success or weakness, CSI developed a new index – the “Household Liquidity Resilience” (HLR) measure—to capture how liquid consumers are across states.²

The HLR equally weights four factors to gauge the health of household liquidity across a state: the debt service to income ratio, the credit utilization rate, the delinquency probability, and the liquid buffer months reserve inverse. Overall, the CSI HLR says Arizona households are 23% less prepared for potential credit crunch problems than the average U.S. household. This lower preparedness stems from generally higher than average debt, higher change of delinquency, and a lower cash cushion that the average U.S. household.

FIGURE 5.

Household Liquidity Resilience Index

The Household Liquidity Resilience Index suggests Arizona’s households are 23% less prepared for potential credit problems than the U.S. on average, as the state has higher mortgage, credit card, and auto loan burden, a higher chance of delinquency, and less of a cash buffer for a potential credit crunch.



Source: CSI Modeling and Analysis

² See the Appendix for the HLR calculation.

THE BOTTOM LINE

Overall, debt across the state continues to grow, and is doing so faster than most other states. Behind the rise in the state's relative debt burden is above average mortgage debt, a clear nexus to the state's ongoing struggle with housing affordability. The rise in debt explains why Arizona saw the 10th largest drop in households' average credit score in 2025. Policies that improve housing affordability may also help improve Arizona's below-average debt and credit picture, but CSI's newly created "Household Liquidity Resilience" index suggests the state's credit crunch is likely to continue to be a problem in 2026.

APPENDIX: HOUSEHOLD LIQUIDITY RESILIENCE INDEX

The definition of the Household Liquidity Resilience Index is as follows:

$$\text{Household Liquidity Resilience Index} = \frac{1}{w_1 \cdot \frac{\text{Debt Service}}{\text{Income}} + w_2 \cdot \text{Credit Utilization} + w_3 \cdot \text{Delinquency Probability} + w_4 \cdot \text{Liquidity Buffer Months Inverse}}$$

where (Debt Service)/Income captures the ability to repay debt service, Utilization Rate captures the rate at which debt is used, Delinquency Probability captures the probability of delinquency, and Liquidity Buffer Months Inverse captures the amount of liquid reserves available to use as a buffer in times of stress.

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