Best and worst states for credit: Who's faring best post-pandemic?

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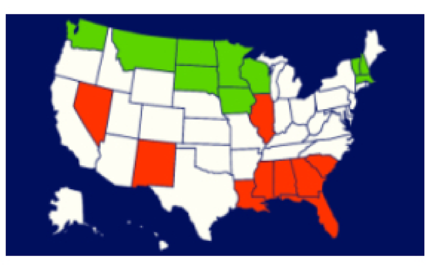

The COVID pandemic has had many economic impacts. Some of them have yet to be fully felt.

A new CardRatings.com study of the Best and Worst States for Credit Conditions shows that on the surface, household finances have been surprisingly resilient during the pandemic. However, government programs put in place to ease financial burdens may be temporarily masking some serious problems.

Average bankruptcy rates, foreclosure rates and credit scores have all improved since just before the pandemic, but some or all of these have benefited from government programs and other temporary conditions. While the economy should improve as the pandemic eases, deeper problems with household finances may start to come to light as well.

For example, government suspensions of some student loan payments and foreclosure proceedings, along with provision of stimulus checks and enhanced unemployment benefits, may have directly or indirectly helped statistics on bankruptcies, foreclosures and credit scores.

Take away these temporary sources of support, and the picture could get worse for many American households. As a hint of what may be in store, during 2020 the average credit card balance owed as a percentage of income increased by nearly 10%.

The knowledge that more trouble may be looming as emergency government programs expire makes this study of Best and Worst States for Credit Conditions especially timely. It provides a look at where households are best - and worst - prepared for the greater financial burdens that may await them in the months ahead.

The Pandemic Has Left Sharp Divides in Financial Conditions

Here are some examples of how widely household finances vary depending on where you look:

- Since the start of 2020, the personal bankruptcy rate in Alabama has been more than eight times the rate in Alaska.
- The average credit score in Minnesota is 62 points higher than the average in Mississippi.
- As a percentage of wages, the average credit card balance in South Carolina is twice as high as the average in the District of Columbia.
- A house in Delaware is nearly 19 times as likely as a house in South Dakota to be in foreclosure.
- A worker in Hawaii is more than three times as likely as one in South Dakota to be unemployed.

The combination of factors like these causes some big differences in credit conditions from state to state.

Methodology: Measuring State-by-State Credit Conditions

To measure the combined impact on credit conditions, CardRatings.com studied at the following factors:

- Bankruptcies per capita since the beginning of 2020, based on data from the American Bankruptcy Institute
- Average credit scores from Experian
- Credit card balances as a percentage of average income, based on credit card data from Experian and wage data from the Bureau of Labor Statistics
- Foreclosure data from Attom Data Solutions
- State unemployment rates from the Bureau of Labor Statistics

All 50 states plus the District of Columbia were ranked based on the above factors. Those rankings were then averaged to create an overall ranking of the best and worst states for credit conditions.

Best States for Credit as of April 2021

Based on the five factors listed above, the following were found to be the ten best states for credit conditions:

1. Vermont. Credit conditions in Vermont were excellent across the board, helping Vermont move into the top spot after taking second place last year. Vermont was no worse than seventh in any individual category of this study.

2. South Dakota. Finishing among the 10 best states in four out of five categories lifted South Dakota into the second spot overall.

3. (tie) New Hampshire. A tie for third place features neighbors of the top two states. New Hampshire ranked better than median in all five categories, including top 10 rankings in three.

3. (tie) North Dakota. After finishing first the last four times this study was done, North Dakota slipped to a tie for third but was still better than median in all five categories.

5. Minnesota. Most people would love to have a 720 credit score, but in Minnesota that's just average - the best in the country for that category. Minnesota also finished in the top 10 in two other categories, and better than median in all five.

6. (tie) Massachusetts. No state improved more from last year's study than Massachusetts, which climbed by nine spots into a tie for sixth. Massachusetts has the second lowest average credit card balance as a percentage of income, and was among the 10 best states in two other categories as well.

6. (tie) Montana. The key to Montana's high ranking was being among the 10 best states in three categories, including third lowest foreclosure rate.

6. (tie) Washington. The state of Washington tied for sixth overall thanks to finishing among the 10 best states in three out of five categories.

9. Wisconsin. Ranking fifth best for both average credit score and credit card debt as a percent of income were Wisconsin's greatest strengths in this study.

10. Iowa. Top 10 finishes in three categories helped Iowa do well, and it was worse than median in just one category.

Worst States for Credit as of April 2021

1. Nevada. After finishing last in this study last August, Nevada is still the worst state for credit conditions. There are no bright spots to report - the state is worse than median in all five categories, and among the 10 worst states in four.

2. Georgia. The job market in Georgia is a little better than in most states, so maybe things will start to get better. That would be crucial, because the state ranks among the 10 worst in the four other categories.

3. Louisiana. With the second worst average credit rating in the United States, Louisiana clearly has some problems with household finances. The state is also among the 10 worst in two other categories.

4. Mississippi. The biggest problem for Mississippi in this study was the nation's lowest average credit score, but it was also among the 10 worst states in two other categories.

5. Alabama. This fifth-from-the-worst finish is a repeat of how Alabama fared in last year's study. Though the state's job market is relatively good, it has the worst personal bankruptcy rate in the nation and is also among the 10 worst for credit score and credit card debt as a percentage of income.

6. Florida. A loose approach to COVID restrictions doesn't seem to have helped credit conditions in Florida much. The biggest problem was the second highest level of credit card debt relative to income.

7. New Mexico. Ranking 41st or worse in four out of five categories doomed New Mexico to a bottom 10 finish overall.

8. (tie) South Carolina. The Southeast fared poorly in this study with six states in the bottom ten. The biggest downfall for South Carolina was having the nation's highest level of credit card debt relative to income.

8. (tie) Illinois. The biggest problem for Illinois was having one of the worst foreclosure rates. Unemployment and personal bankruptcy rates are also among the country's 10 worst.

10. Oklahoma. Rounding out the bottom 10 is Oklahoma, which despite a relatively healthy job market was worse than median in the other four categories.

Regardless of where you live, there are plenty of things you can do to improve your personal credit.

From shopping for better credit card rates to creating a stricter budget, you can start today to ease your financial burdens. It's wise to begin now, because things may only get tougher as government pandemic aid programs start to go away.

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