How has Covid-19 Affected the Finances of Different Kinds of Households?

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The views expressed are ours and do not necessarily reflect those of the Federal Reserve Bank of New York or the Federal Reserve System.
Debt Relief for Households

- Onset of Covid put immediate and intense pressure on hh finances

- Debt payments are a major part of cash flows
  - A huge problem during GR
  - Many echoes remain today

- Policy attempts to avoid repeat of GR experience
  - Income supports
  - Debt forbearance
    - Debt as a cushion against income shocks
CARES Act provided for debt relief on two products with large, direct federal role:

- Student loans ($1.5T outstanding, ~90% federal)
- Mortgages ($10T outstanding, ~60% federally-backed)
  - GSEs (44%)
  - FHA/Ginnie (18%)

Other major debt products excluded

- Auto Loans ($1.3T)
- Credit Cards ($0.8T)

But some lenders offer forbearance measures on mortgages or auto loans
1) The majority of people have neither student nor mortgage debt
   i. 63% of people with a credit report don’t have a student loan or a mortgage
   ii. Those with neither are older, but also more financially distressed: lower credit scores and higher credit card dq
   iii. More likely to live in poor and majority-Black or majority-Hispanic neighborhoods

2) Student debt is widespread in the population
   i. 20% of residents of majority-Black neighborhoods have a student loan, higher than for majority-white or -Hispanic

3) Mortgage debt is concentrated among advantaged groups
   i. Mortgage debt about $\frac{1}{2}$ as prevalent in Black as white ZIPs
Who Got Forbearances?

- How to get a forbearance differs by product
  - Student loan: All federal borrowers automatically get fb. (no need to request)
  - Auto: Up to lender/servicer
  - Mortgage: Have to ask, but for govt. loans it’s granted

- NB: Borrower can get a forbearance and keep paying
Student Loan Forbearance Rate

Overall Average: 89%

Source: FRBNY CCP/Equifax
Auto Loan Forbearance Rate

Overall Average: 6.5%

Source: FRBNY CCP/Equifax
Mortgage Forbearance Rate

Overall Average: 5.6%

Source: FRBNY CCP/Equifax
How Much Cash Flow Do Forbearances Create?

- In addition to differences in mortgage borrowing rates, amount borrowed and interest rates vary over groups.
- This translates into differences in monthly payments.
Conclusions

- CARES Act debt forbearances benefitted many American households
  - Many households, especially less advantaged, have neither student nor mortgage debt

- Availability of forbearance option differs sharply across products and groups of borrowers

- Requests for mortgage and auto forbearance highest in majority-Black and -Hispanic areas
  - Likely evidence of distress

- Improvement in cash flow smallest for borrowers residing in majority-Black areas