



FEDERAL RESERVE BANK *of* NEW YORK

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

Based on work by Rajashri Chakrabarti, Andrew Haughwout, Rebecca Landau, Donghoon Lee, Danno Lemu, William Nober, Joelle Scally and Wilbert van der Klaauw
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



Incidence of Debt Forbearance Measures

- 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 forbearances on mortgages or auto loans



Some Facts about Student and Mortgage Borrowers

- 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 debt
 - 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 1/2 as prevalent in Black as white ZIPs

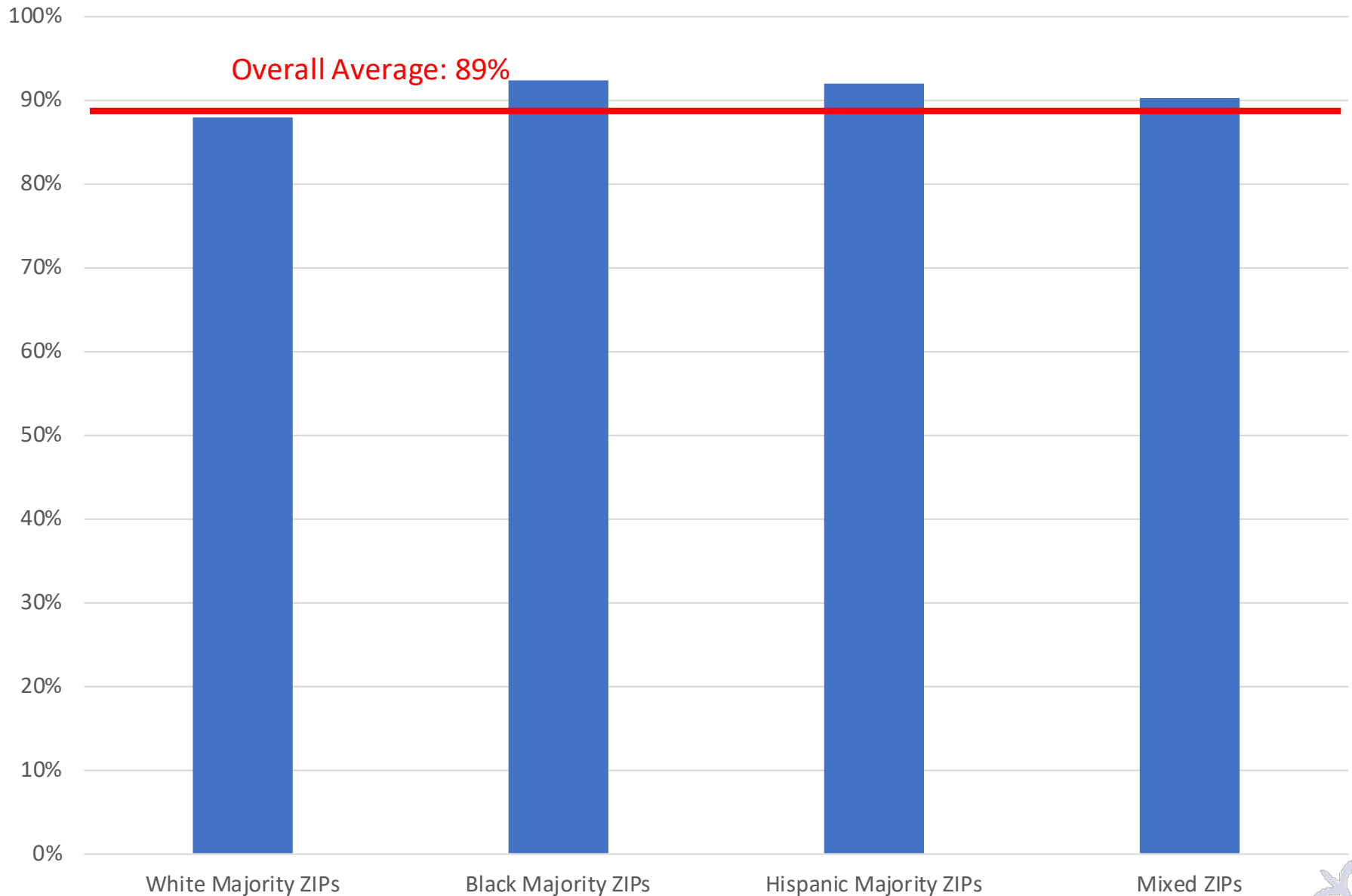


Who Got Forbearances?

- 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



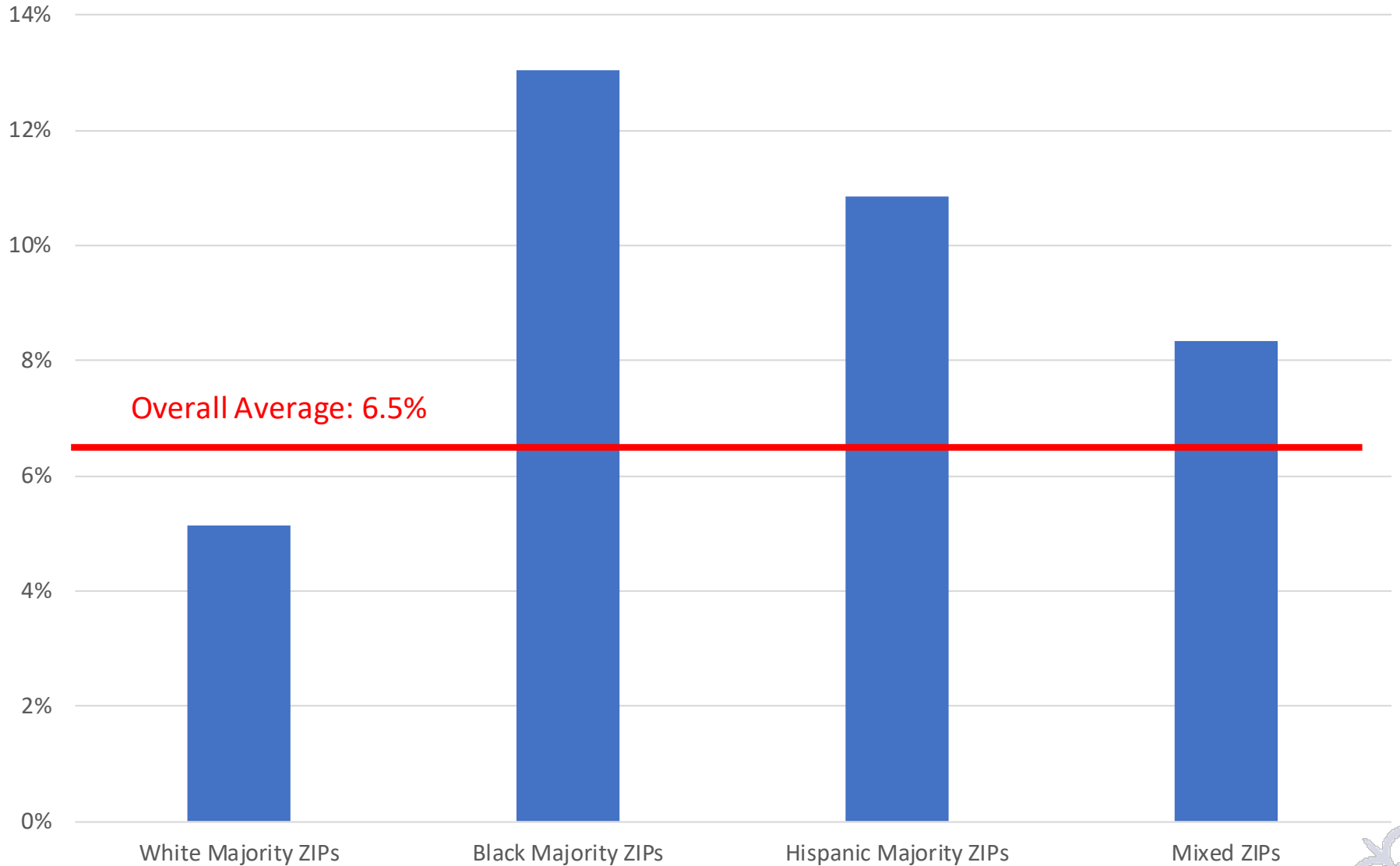
Student Loan Forbearance Rate



Source: FRBNY CCP/Equifax



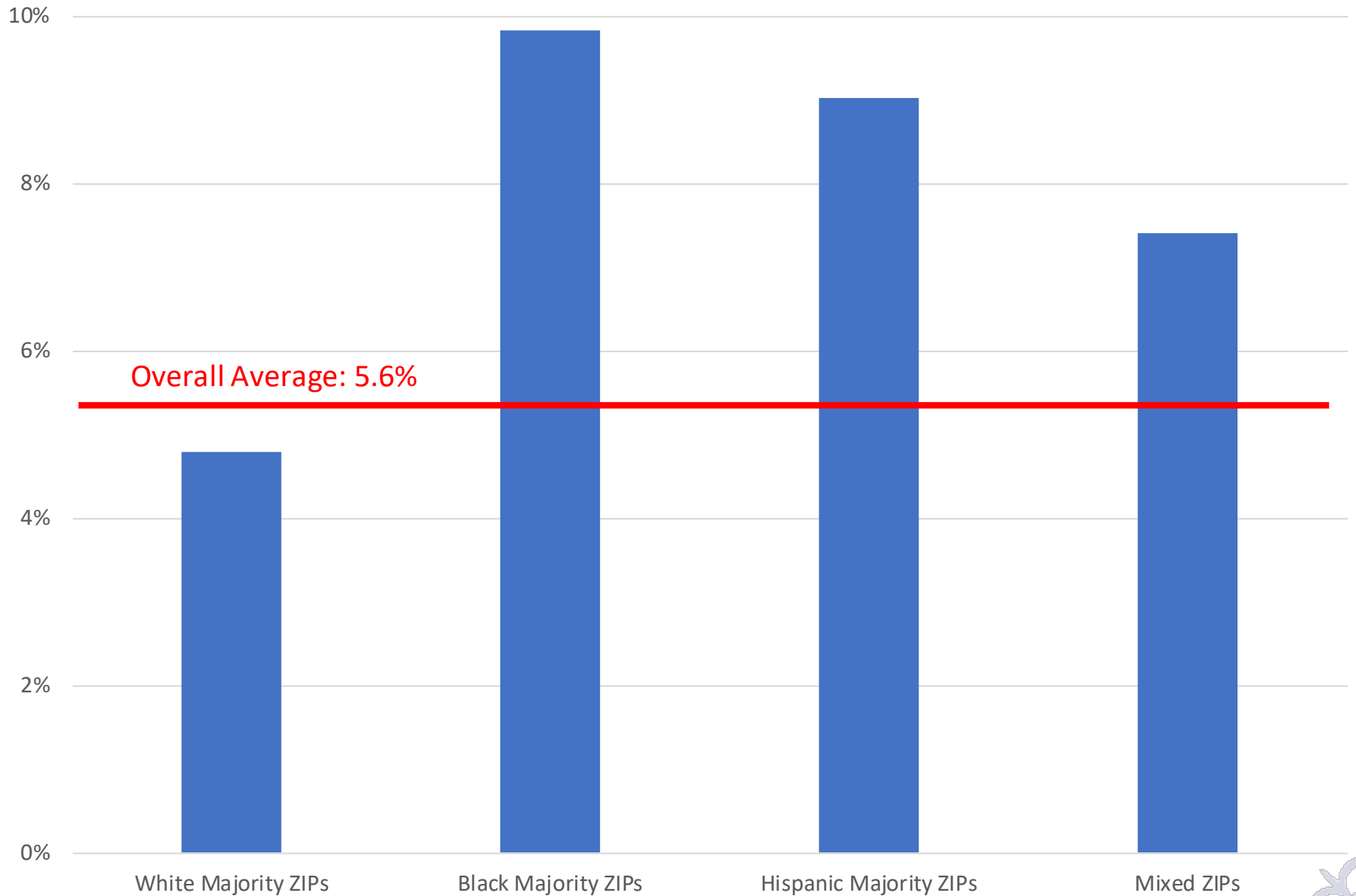
Auto Loan Forbearance Rate



Source: FRBNY CCP/Equifax



Mortgage Forbearance Rate



Source: FRBNY CCP/Equifax

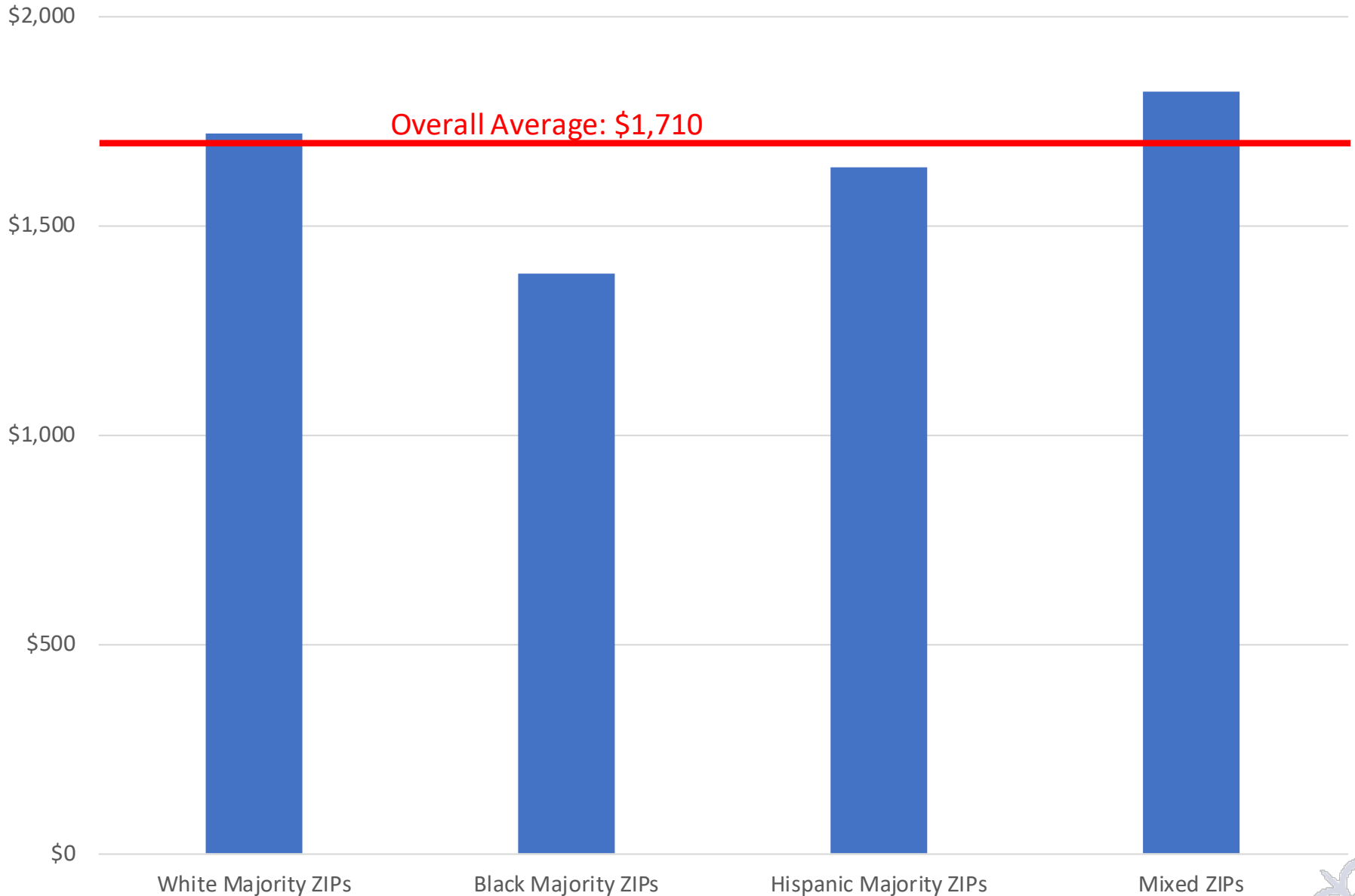


How Much Cash Flow Do Forbearances Create?

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



Average Mortgage Payment Relief



Source: FRBNY CCP/Equifax



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

