FEDERAL RESERVE BANK of NEW YORK

COMMUNITY DEVELOPMENT

THE STATE OF LOW-INCOME AMERICA: CREDIT ACCESS & HOUSING

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Key Takeaways

- Early delinquencies on auto and credit card products began rising for low-income borrowers in 2022 and now exceed pre-pandemic levels. While delinquency rates were unusually low during the pandemic, financial stress appears to have risen.
- Student loan delinquencies remain low due to the repayment moratorium. The student loan payment pause remained in place until the end of August 2023, although the Department of Education will not report delinquencies on credit reports until late 2024. When payments resume, many borrowers may benefit from expanded income-driven repayment programs, but uncertainty regarding the availability and roll-out of the programs remains.
- Low-income home ownership has been and remains low, and low/moderate-income homeowning households were less likely to access lower mortgage rates and reduce their debt service burdens through refinances between 2020-2021, during the period of unusually low rates. Only 24% of mortgages in low-income areas were refinanced, compared to 42% of mortgages in high-income areas, resulting in fewer low-income borrowers benefitting from reduced rates and monthly costs.

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Introduction

The COVID-19 Public Health Emergency ended in May 2023[1] and with it many of the financial supports that sustained American households during the crisis. For low-income Americans, significant fiscal transfers in 2020 and 2021 reduced poverty levels.[2,3] Low-income debt holders, who tended to have elevated debt delinquency levels prior to the pandemic, saw their delinquency rates – and credit scores – improve; the median credit score for borrowers in low-income areas went from 651 in Q4 2019 to 670 in Q3 2023.[4]

Now that the crisis phase of the pandemic has subsided, low-income households are facing new economic realities: fiscal and debt relief helped to shore up household finances, but inflation continues to eat into purchasing power. Housing, the largest monthly household expense, is a prime example. More than half of low-income households are renters.[5] The national housing shortage has resulted in significant cost increases in rental housing,[6] and forty-nine percent of renters report being severely or moderately burdened.[7] Additionally, a close examination of credit reports shows that low/moderate-income households are experiencing a strain on their financial accounts, as reflected in credit delinquencies beginning to rise in 2022.

This report is the third installment in a series that offers insight into low-income households' finances by examining their ability to obtain access to and maintain credit, as well as highlighting rental burden and the muted refinance boom in lower-income areas.

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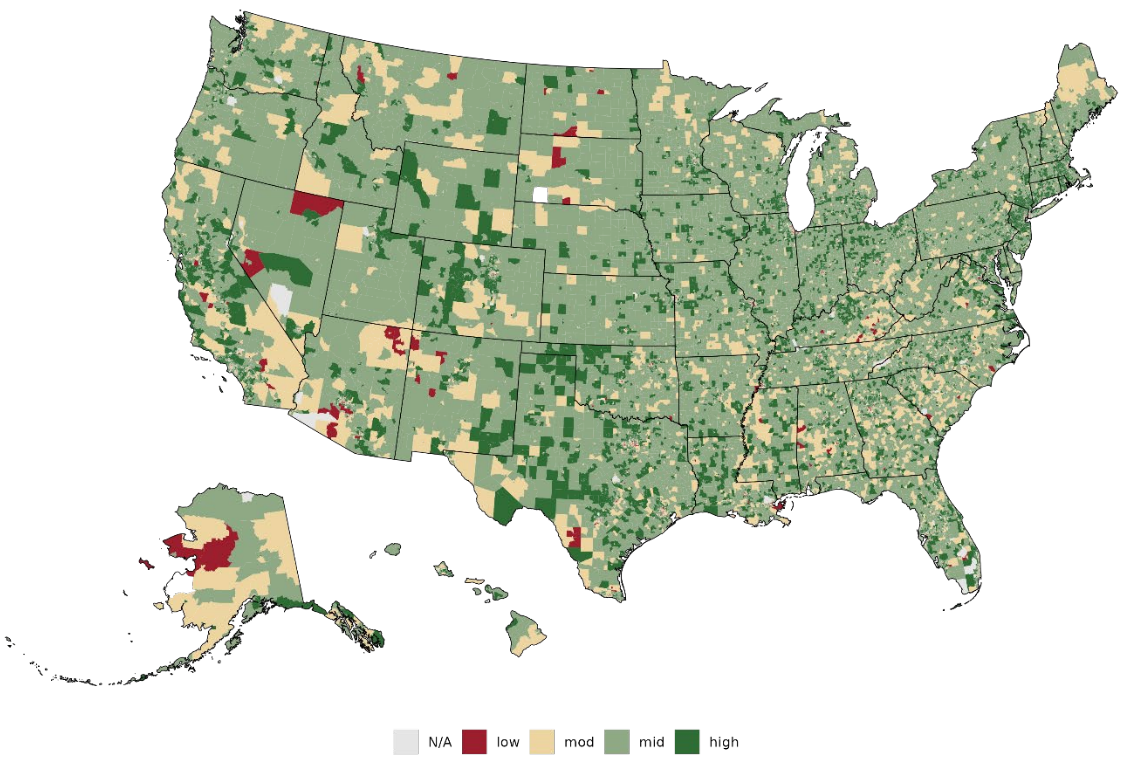
[1] "Fact Sheet: End of the COVID-19 Public Health Emergency." U.S. Department of Health and Human Services. (May 9, 2023). https://www.hhs.gov/about/news/2023/05/09/fact-sheet-end-of-the-covid-19-public-health-emergency.html.
[2] "Robust COVID Relief Achieved Historic Gains Against Poverty and Hardship, Bolstered Economy." Center on Budget and Policy Priorities. (June 14, 2022). https://www.cbpp.org/research/poverty-and-inequality/robust-covid-relief-achieved-historic-gains-against-poverty-and-0
[3] "The COVID-19 Pandemic Underscored the Child Tax Credit's Power to Alleviate Family Poverty." Urban Institute. (January 27, 2022). https://www.urban.org/urban-wire/covid-19-pandemic-underscored-child-tax-credits-power-alleviate-family-poverty
[4] Authors' calculations, New York Fed Consumer Credit Panel/Equifax and Census Bureau.
[5] "Distribution of Housing Wealth Across Income Groups from 2010-2020." National Association of Realtors. (March 11, 2022). https://www.nar.realtor/blogs/economists-outlook/distribution-of-housing-wealth-across-income-groups-from-2010-2020
[6] "Housing inflation is hitting low-income renters." Consumer Financial Protection Bureau. (July 27, 2022). https://www.consumerfinance.gov/about-us/blog/office-of-research-blog-housing-inflation-is-hitting-low-income-renters/
[7] "Number of Renters Burdened by Housing Costs Reached a Record High in 2021." Joint Center for Housing Studies. (February 1, 2023). https://www.jchs.harvard.edu/blog/number-renters-burdened-housing-costs-reached-record-high-2021

About the Data

The data are primarily sourced from the New York Fed's Consumer Credit Panel (updated as of Q3 2023), which is derived from anonymized Equifax credit data and is the source for the Bank's Quarterly Report on Household Debt and Credit. Credit report data do not provide information on income: for this, we use geographic information on the borrowers' 2010 census tracts and merge it with income data from the 2016 Census Bureau American Community Survey (ACS). Note that these estimates are the best available, yet imprecise, approximations of income. Borrower traits vary within neighborhoods, and it is possible for a high-income or high-wealth borrower to live in a low-income neighborhood and vice-versa. The definitions of low- and moderate-income levels are taken from the Federal Financial Institutions Examination Council (FFIEC). A "lower-income" neighborhood is defined as a census tract in which the median family income is <80% of the metro area median income; thus, the thresholds vary between metro areas.

Nationwide income indicators

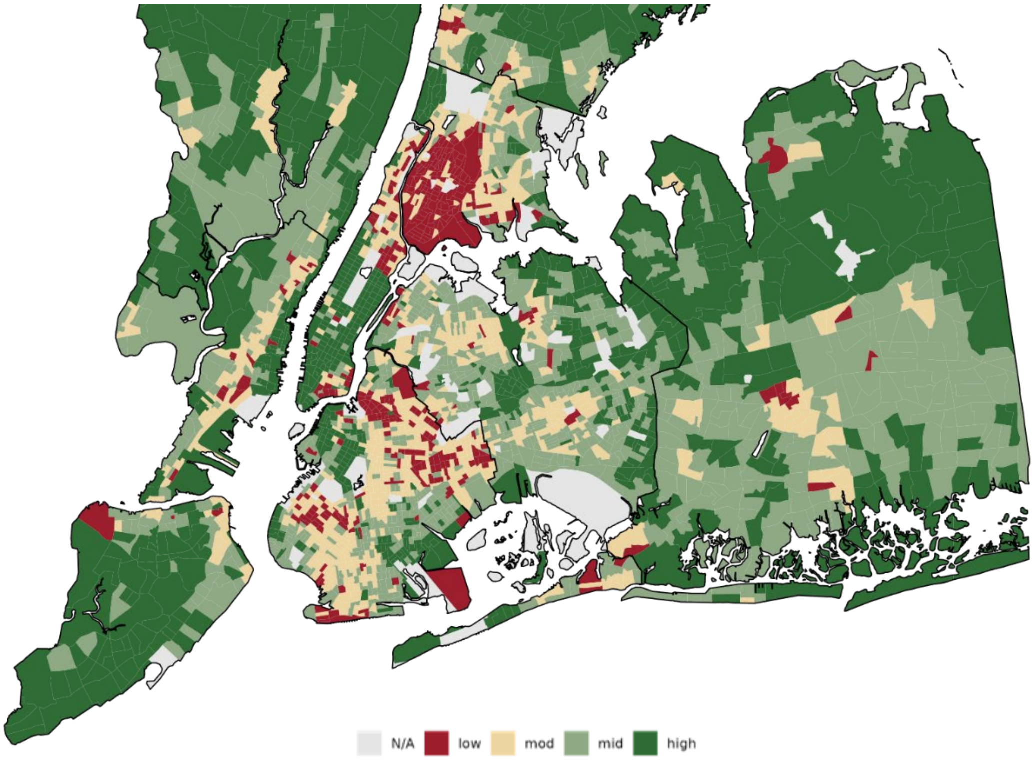
2010 Census Tracts



Source: Census Bureau

New York City metropolitan area income indicators

2010 Census Tracts

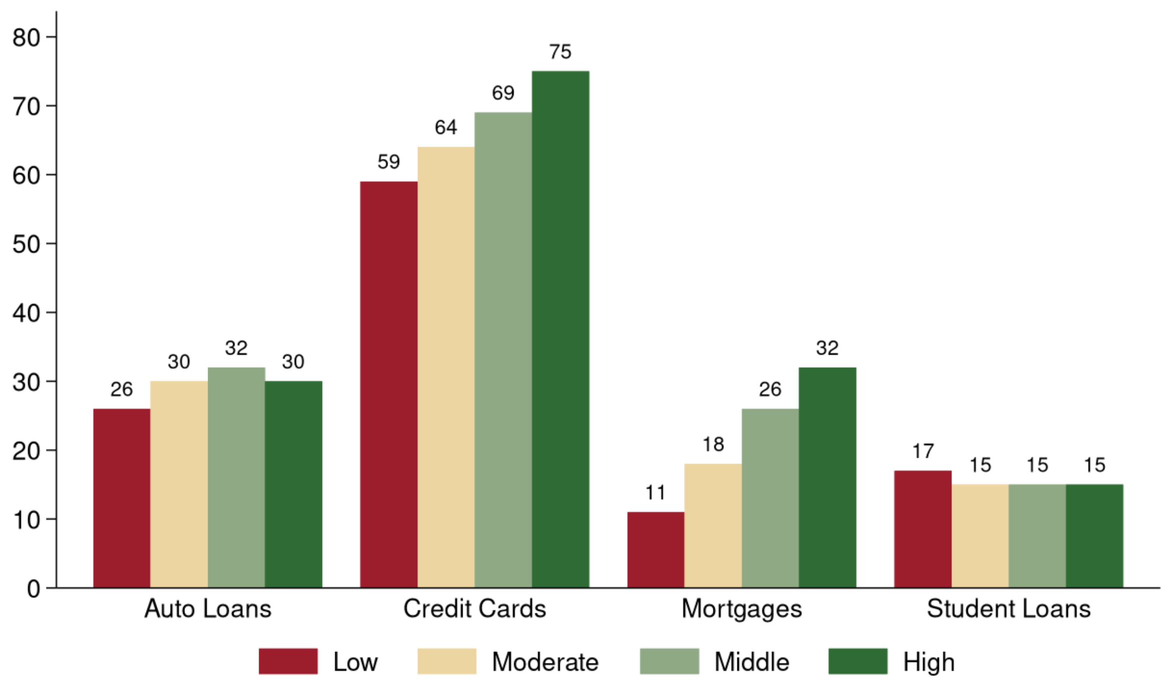


Source: Census Bureau

Balances

Credit Participation (Q3 2023)

as % of borrowers with a product

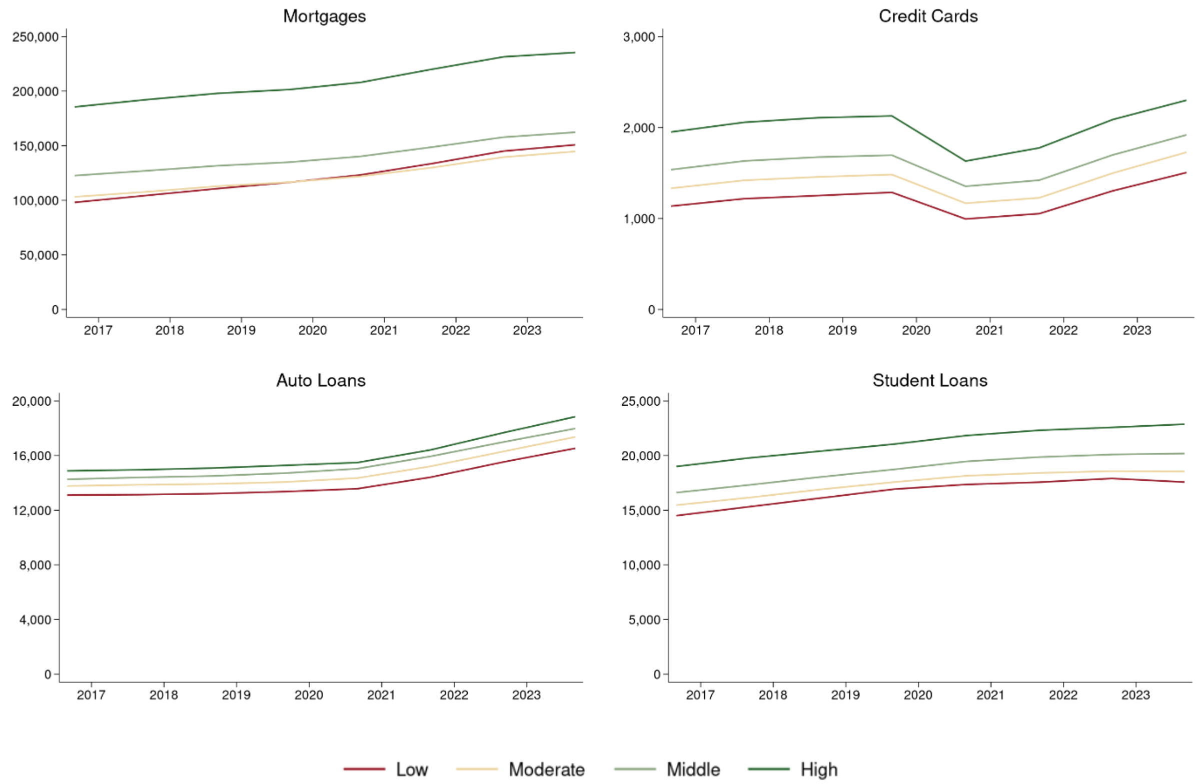


Source: New York Fed Consumer Credit Panel/Equifax; Census Bureau

- The share of borrowers holding auto and student loans show smaller variation across income groups, with student loans showing the least variation.
- In general, mortgages are more common in higher-income areas compared to lower-income areas, reflecting differences in homeownership.
- Disparities in uptake of credit cards, with only 59% of individuals in low-income neighborhoods having credit card accounts, highlight limited ability to smooth consumption during periods of unemployment and disruptions to income.

Median Balance

Balances ($)

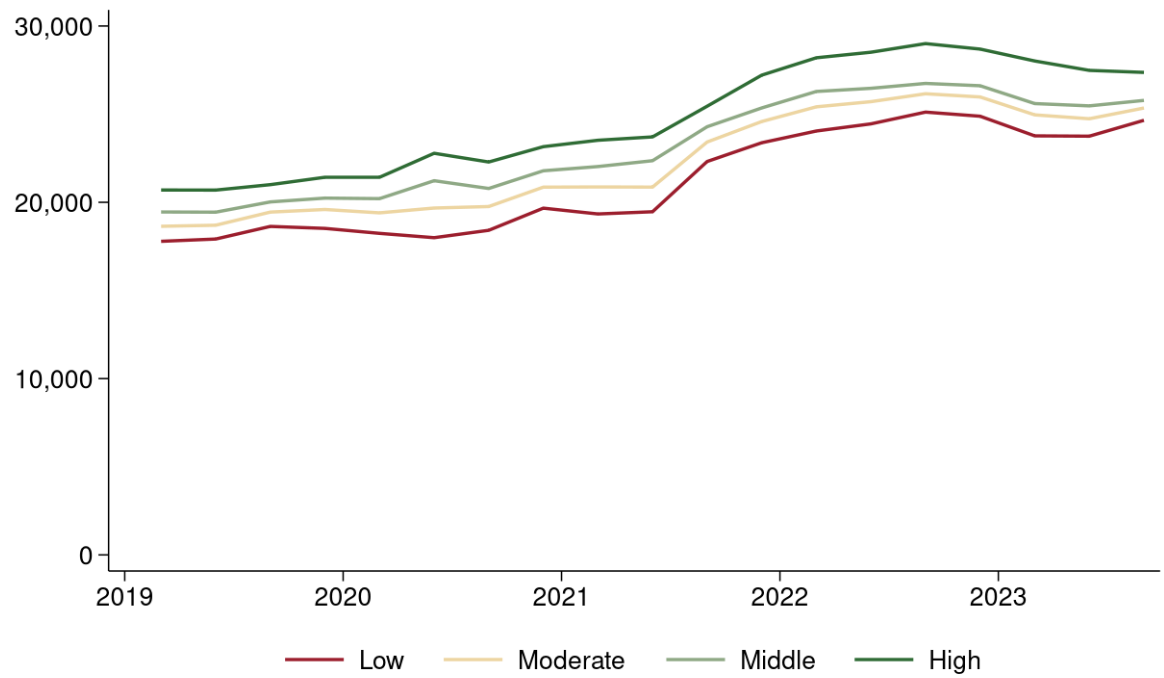


Source: New York Fed Consumer Credit Panel/Equifax; Census Bureau

- Trends in median balances are generally the same for each product across all income groups, although the amounts of credit balances vary.
- Credit card balances were decreasing at the start of the pandemic when spending was limited and borrowers paid down balances, but are now higher than pre-pandemic for all groups.
- Mortgage balances have been steadily increasing for the past five years, although borrowers in high-income areas have always held significantly larger balances than borrowers living in other income areas.
- Auto loan balances were increasing at a faster rate for the past two years, as the demand for cars, specifically used cars, has increased.

Auto Loan Originations

Median balance ($)



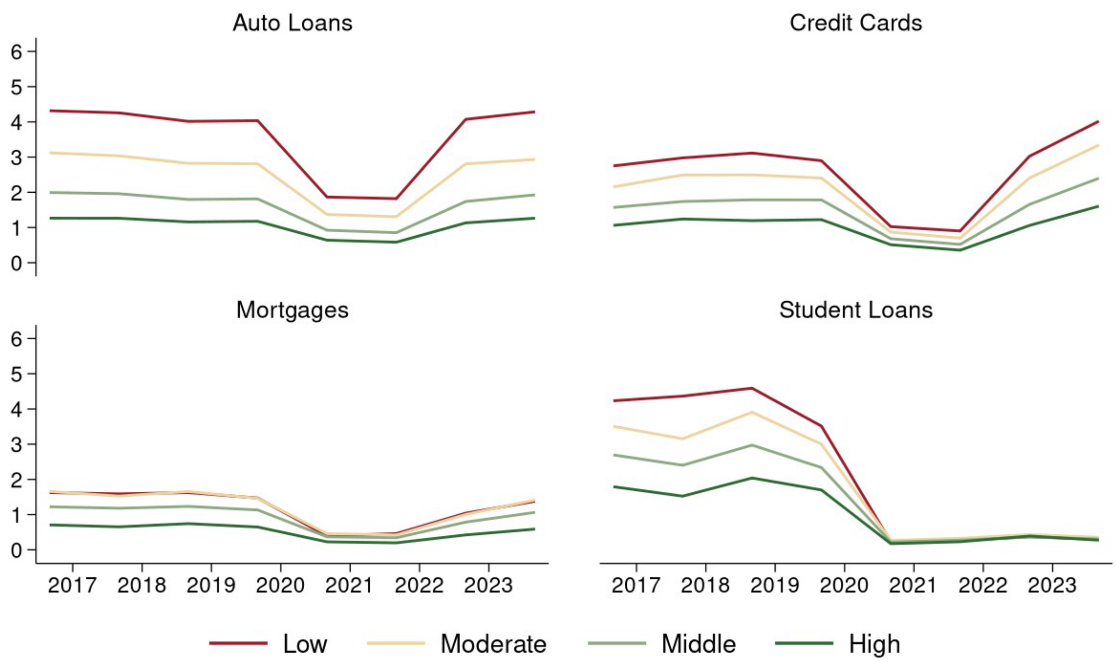
Source: New York Fed Consumer Credit Panel/Equifax; Census Bureau

- Newly originated auto loan balances increased steeply for all borrowers in 2021 and have remained high, including for borrowers in low-income areas.
- The median origination balance for a borrower in a low-income area was $18,500 at the end of 2019 and rose to $24,700 in Q3 2023, compared to $20,700 and $27,400 for a borrower in a high-income area.

Delinquency

Early Delinquencies

as % of balances transitioning to early delinquency

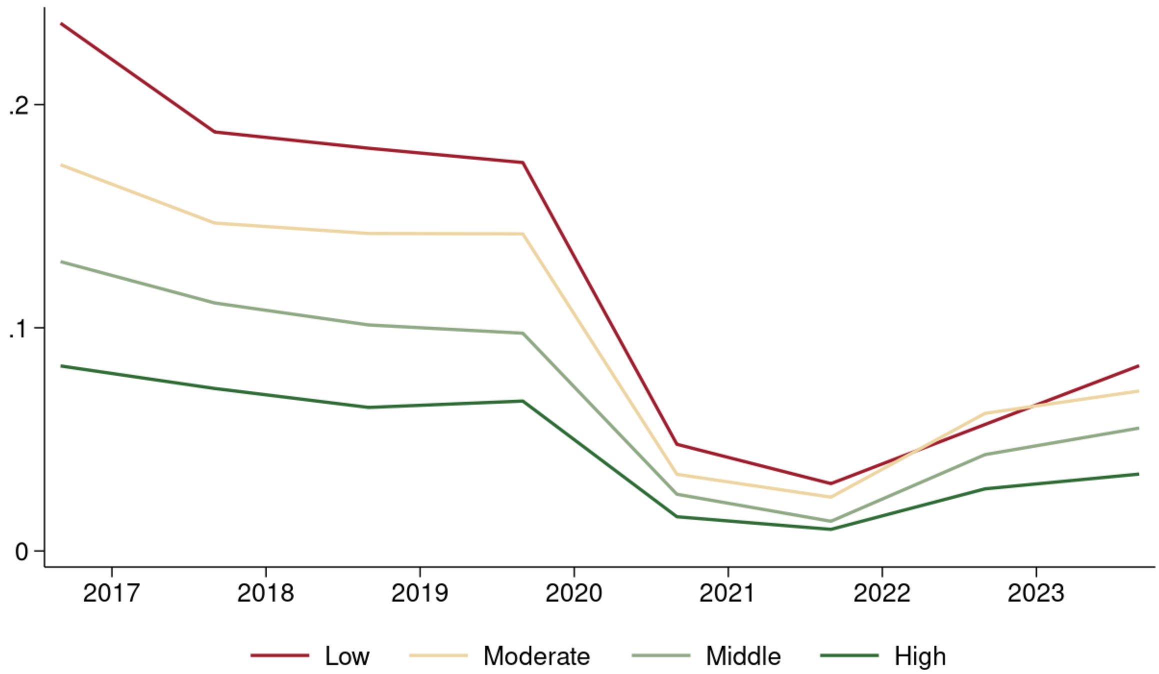


Source: New York Fed Consumer Credit Panel/Equifax; Census Bureau

- Delinquency rates for all income groups increased for mortgages, auto loans, and credit cards since mid-2021 and are at or slightly above pre-pandemic levels. Lower-income areas have seen higher delinquency rates compared to high income areas.
- Student loans saw a sharp decline in delinquency rates due to the repayment moratorium in 2020, and delinquency rates have stayed flat since the beginning of the pandemic.
- The student loan payment pause remained in place until the end of August 2023, although the Department of Education will not report delinquencies on credit reports until late 2024. With payments resuming, many borrowers may benefit from expanded income-driven repayment programs, but uncertainty regarding availability and program roll-out remains.
- Low and moderate-income mortgage borrowers hold a significantly lower median balance and are less likely to hold a mortgage (see previous section), but they have higher rates of delinquency compared to borrowers in high-income areas.

New Foreclosures

as % of mortgage borrowers



Source: New York Fed Consumer Credit Panel/Equifax; Census Bureau

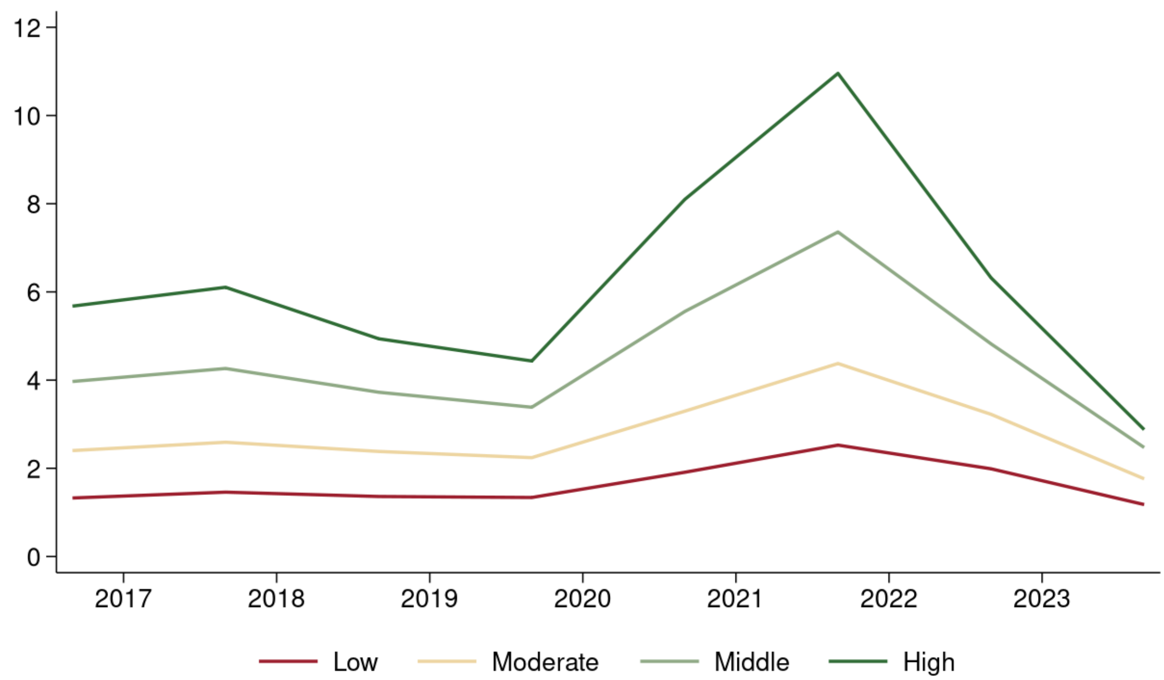
- Moratoria on new foreclosures were in place between March of 2020 until the end of 2022. Although these moratoria have been lifted and new foreclosures can now be initiated, they remain extremely low.
- Substantial house price growth during the pandemic caused owner's overall homeowners' equity in housing to increase to a near all-time high,[8] lowering the likelihood of foreclosure for many homeowners.

[8] "Households; Owners' Equity in Real Estate, Level." Board of Governors of the Federal Reserve System (US), retrieved from FRED, Federal Reserve Bank of St. Louis. (January 9, 2024). https://fred.stlouisfed.org/series/OEHRENWBSHNO.

Housing

Mortgage Originations

as % of total borrowers

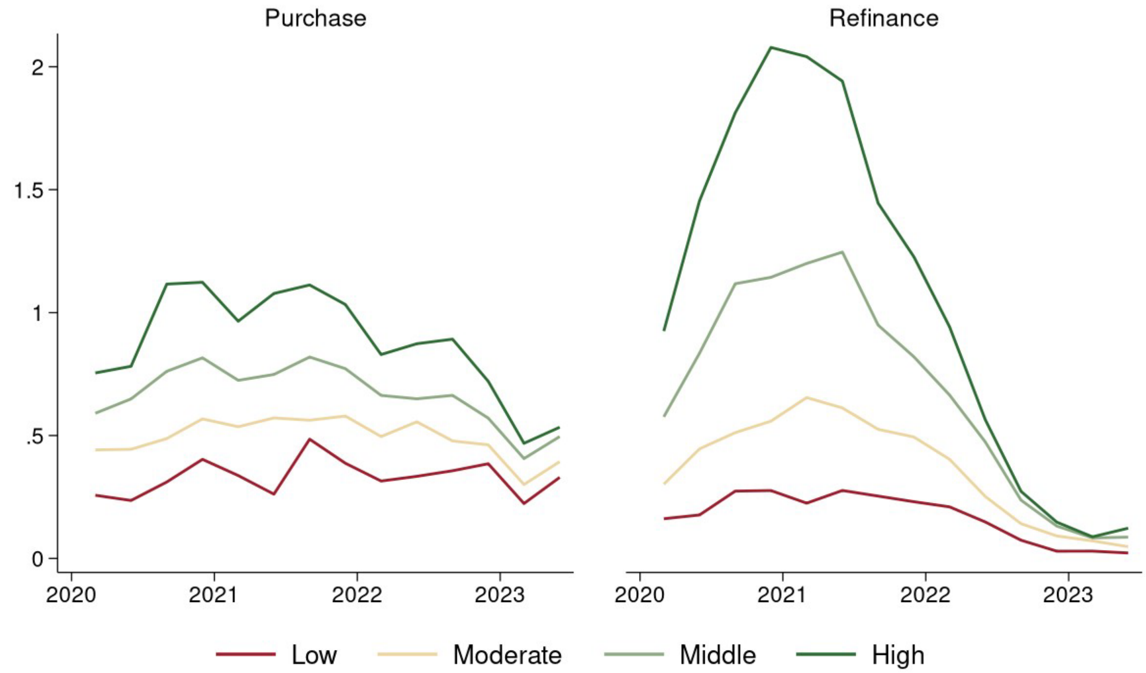


Source: New York Fed Consumer Credit Panel/Equifax; Census Bureau

- The pandemic saw a boom in mortgage originations from 2020 to 2022, with a particularly large proportion of borrowers (largely middle and high income) taking advantage of historically low rates. However, with rates increasing in 2022 and 2023, mortgage originations declined to levels lower than pre-pandemic mortgage originations.
- Lower-income areas have lower levels of homeownership, and thus, the share of the population with a mortgage is lower. Still, the boom in originations was much less pronounced in low-income neighborhoods.

Mortgage Originations: Purchase and Refinance

as % of total borrowers

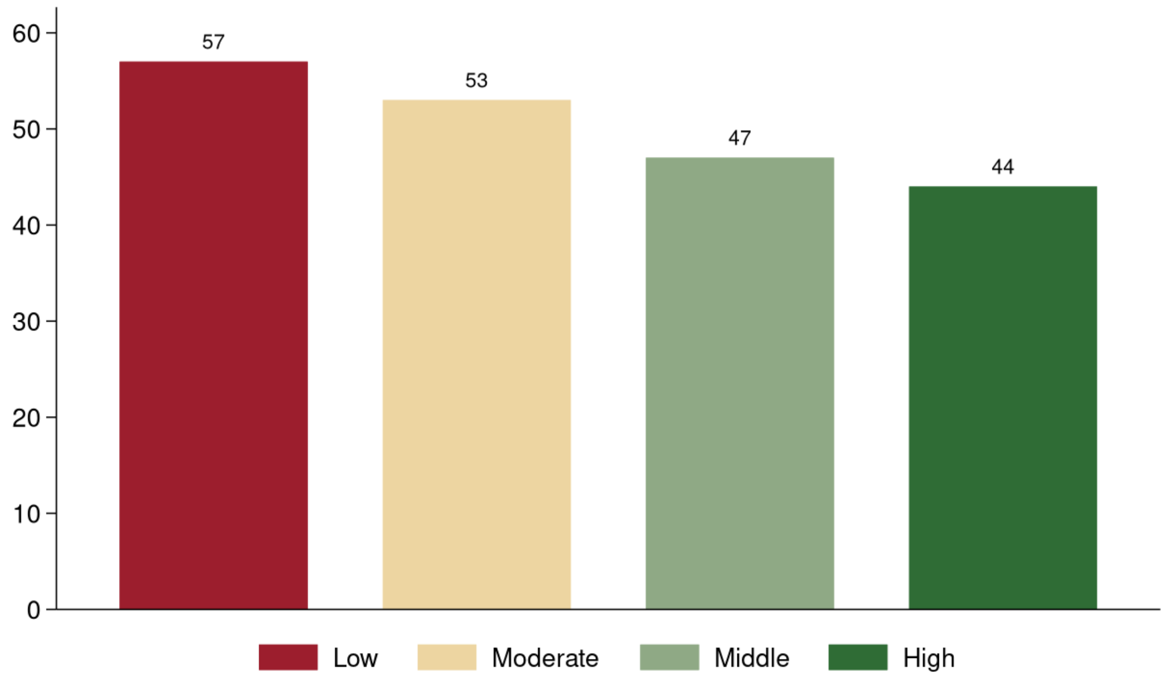


Source: New York Fed Consumer Credit Panel/Equifax; Census Bureau

- Historically low mortgage rates during the pandemic led to a refinancing boom. Many homeowners refinanced to lock in lower rates for their mortgages or extract equity.
- Borrowers in middle/high-income areas were more likely to take advantage of the option to refinance their mortgages. Low-income areas barely saw any increase in refinanced mortgages.
- Purchase originations continue to increase moderately even after mortgage rates increased in the first quarter of 2023, and all income areas saw a slight uptick in the number of borrowers with purchase originations.

Rent-Burdened Households: Income Groups (2021)

as % of households



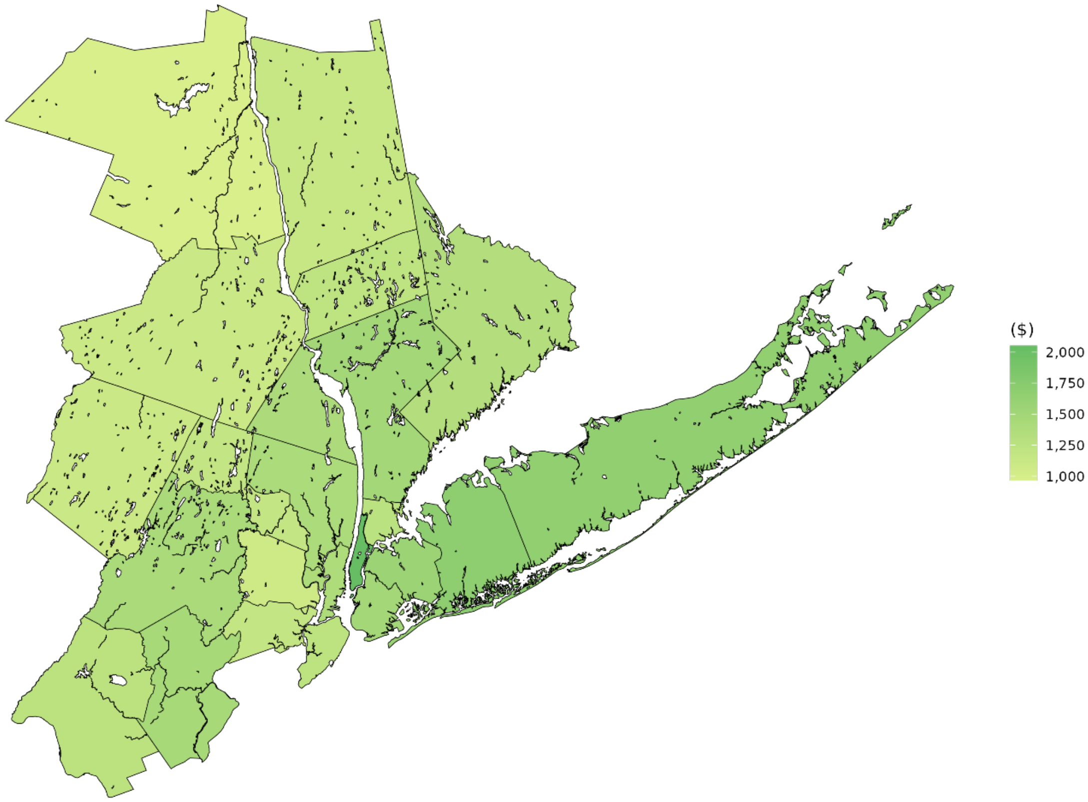
Source: Census Bureau

Note: Rent-burdened is defined as more than 30% of a household's monthly income going towards rent

- Renters are particularly constrained in this market, even in higher-income areas.
- Renters in low-income areas are the most rent burdened; specifically, 57 percent of households are rent burdened in low-income areas, compared to 44 percent of households in high-income areas.

Median Gross Rent (2021)

One-bedroom housing units only in New York City metropolitan area

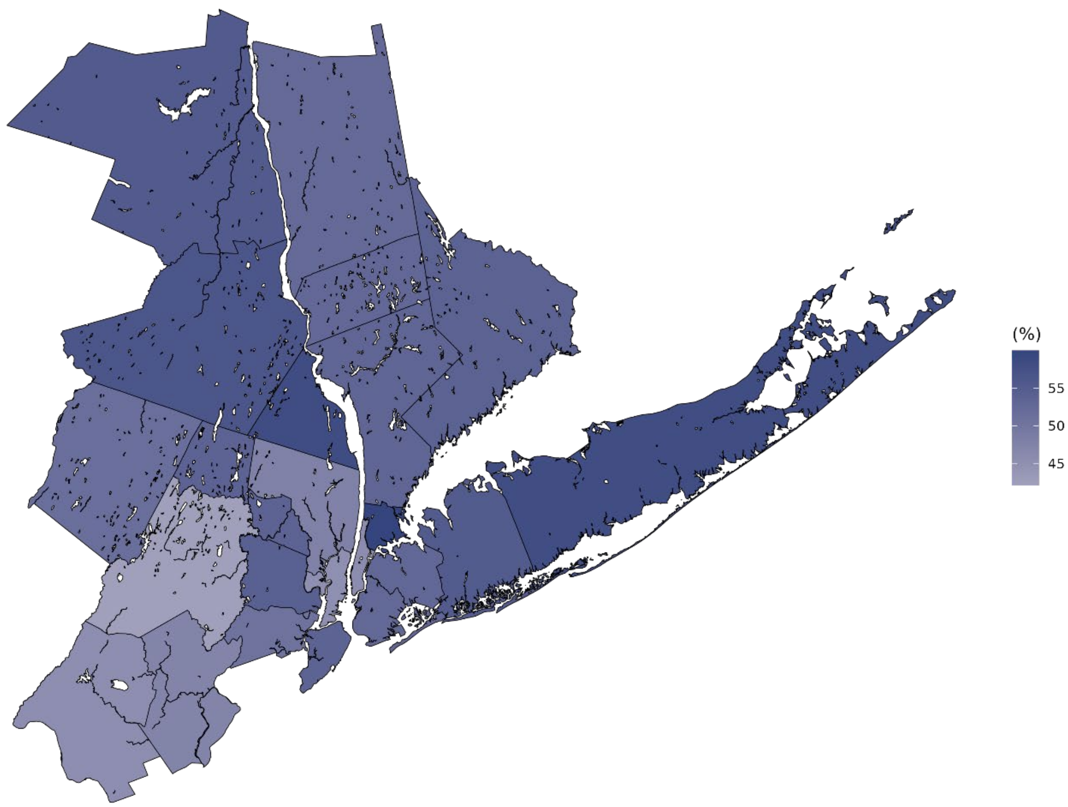


Source: Census Bureau

- Median gross rent for one bedroom housing units is higher in Manhattan and Long Island. The more suburban parts of the metro area see the lowest median rent.
- Although having lower rents compared to surrounding areas, the Bronx has a significant proportion of lower-income households and will see higher proportions of households in the county being rent burdened (as seen in the following map)

Rent-Burdened Households (2021)

as % of rent-burdened households in New York City metropolitan area



Source: Census Bureau

Note: Rent-burdened is defined as more than 30% of a household's monthly income going towards rent

- The Bronx, eastern Long Island, and Orange-Rockland-Ulster region have the highest proportion of rent burdened households in the metro area.
- Even though other parts of the metro area have fewer households that are rent burdened, 40 percent or more of households frequently report being rent burdened across the region, which is still a significant proportion of households.

Conclusion

While the pandemic had the potential to put significant financial stress on low- and moderate-income communities, many of the responses to the pandemic were able to alleviate some of their financial burdens. Delinquency rates for many credit products dropped across all income groups, due to moratoriums, fiscal supports, and decreased spending. However, uptake of pandemic-related programs varied significantly by income groups during the pandemic. Individuals in high-income areas were more likely to be refinancing their homes, and were thus more likely to take advantage of low rates and refinance their mortgages, while lower-income areas saw minimal refinancings during the period of historically low rates. As the pandemic-related relief programs have wound down, delinquency rates have risen and, for some income groups, have surpassed pre-pandemic levels. Renters have seen particular financial strain; for example, many areas in the New York metropolitan area are experiencing acute rental burdens and limited housing choices. This can especially be a financial strain on lower-income renters, who are more likely to be rent burdened compared to higher-income renters. We will continue to monitor how debt holdings, delinquencies, and rent burdens are evolving in the post-pandemic period.