The State of Low-Income America:

CREDIT ACCESS & DEBT PAYMENT

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Introduction

As the COVID-19 pandemic enters its third year, the financial lives of low-income Americans are in flux. By several measures, economic conditions look promising for low-income households in early 2022. Last year was the strongest year of economic growth since 1984. The Supplemental Poverty Measure, which includes food and housing assistance (and in 2020 also included COVID-19 relief checks) fell 2.6 percentage points in 2020—to 9.1%. The job market also posted strong gains, with overall employment nearing its pre-pandemic level by December 2021.

Yet aggregate statistics mask the heavy toll the pandemic has taken on lower-wage workers and the uncertainty that lies ahead. Low-income communities and communities of color experienced disproportionate physical and economic harm from the COVID-19 pandemic. Data from the Centers for Disease Control show that infection rates and the risk of serious illness were higher among these populations.[2] As the health crisis prompted shutdowns and prolonged economic uncertainty, it exacerbated preexisting inequalities. The unemployment rate rose in April 2020 to a level not seen since the 1930s, and the impact was larger for low-wage workers in 2020, who lost jobs at five times the rate of middle-wage workers, while high-wage employment increased.[3,4] And although the unemployment rate has largely returned to pre-pandemic levels, inflation appears to be eating into purchasing power among lower-wage earners.

In this report, the second installment in a series on low-income households' borrowing, we examine these households' ability to access and keep current on debt obligations during the pandemic and recovery. Government fiscal transfers to households and significant government-mandated and private-sector debt relief during the pandemic have alleviated economic hardship for millions of Americans.[5] With fiscal relief and debt-related moratoria waning, this report examines current debt holdings across income groups and points to indicators we intend to monitor throughout 2022.

We highlight the following themes and areas to be monitored:

1. Borrowers benefited substantially from the federal government's fiscal transfers and debt-related payment moratoria, and many saw increases to their credit scores despite the recession. This was particularly the case for lower-income borrowers, who were more likely to be delinquent before the pandemic. Fiscal transfers came in the form of both additional cash in the pockets of most Americans, while forbearance participants were able to pause repayment on their debt obligations.

2. Americans residing in low-income areas hold auto and student loan balances comparable to those residing in wealthier areas. Larger differences in mortgage debt persist between borrowers in poorer and wealthier areas, reflecting differences in homeownership.

3. Comparable debt holdings in auto and student loans across income groups point to considerably higher non-housing debt-to-income ratios among low-income borrowers.

The financial impact of waning fiscal relief and debt moratoria on low-income households will be a key issue to monitor in the coming quarters.

1 Previously a senior community development research analyst at the Federal Reserve Bank of New York.
2 Centers for Disease Control, Risk for COVID-19 Infection, Hospitalization, and Death By Race/Ethnicity | CDC, updated Nov. 22, 2021.
3 Raj Chetty, John Friedman, Nathaniel Hendren, Michael Stepner, and The Opportunity Insights Team, (2020) The Economic Impacts of COVID-19: Evidence from a New Public Database Built Using Private Sector Data | NBER.
4 Jaison R. Abel and Richard Deitz, Some Workers Have Been Hit Much Harder than Others by the Pandemic—Liberty Street Economics (newyorkfed.org).
5 Susan Cherry, Erica Jiang, Gregor Matvos, Tomasz Piskorski, and Amit Seru (2021), Government and private household debt relief during COVID-19 (brookings.edu).

About the Data

The data are primarily sourced from the New York Fed's Consumer Credit Panel, which is derived from anonymized Equifax credit data and is the source for the Bank's Quarterly Report on Household Debt and Credit, which reports on these concepts nationally. Credit report data do not provide information on income: for this, we use geographic information on the borrowers' census tracts and merge it with income data from the American Community Survey. The definitions of low- and moderate-income levels are taken from the Federal Financial Institutions Examination Council (FFIEC), using data from the American Consumer Survey (ACS). A "lower-income" or "LMI" 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 across metro areas. 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.

Measuring Financial Access: Credit Holdings

There are wide disparities in credit holdings by income.

Debt Holdings by Income, Q3 2021

% of population with the product (millions of borrowers with the product)

- Credit card debt is the most commonly held debt across all income groups, yet only half of low-income households have access to a credit card.
- The prevalence of auto and student loan debt is more constant across income groups compared to other credit products.
- Mortgages are common among borrowers in higher-income areas and rarer among borrowers in lower-income areas.
- Note that credit report data do not track payday loans, rent payments, and some other products.

Income 25th–75th percentile	**Mortgage**	**Bank Card**	**HELOC**	**Auto**	**Student Loan**	**Other**
Low $18,500–$26,500	9.7% (1.5)	50.6% (7.9)	0.9% (0.1)	25.6% (4.0)	15.9% (2.5)	26.7% (4.1)
Moderate $30,000–$41,300	18.5% (9.8)	62.4% (33.0)	1.8% (1.0)	32.5% (17.2)	16.5% (8.7)	32.3% (17.0)
Middle $43,000–$60,000	28.7% (31.2)	73.3% (79.6)	3.6% (3.9)	37.0% (40.2)	17.2% (18.7)	34.4% (37.4)
High $66,800–$102,000	37.0% (26.9)	84.8% (61.8)	5% (3.6)	36.9% (26.9)	17.9% (13.0)	31.3% (22.8)

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

Median Debt Holdings by Income Group

- Median auto and student loan balances are comparable between income brackets.
- Mortgage median balances are the highest for all income groups.
- Auto loan balances have increased at the highest rate among debt lines for all income groups during the pandemic.[6] Sharp increases in the cost of new and used cars drove the increase in auto debt.

Source: New York Fed Consumer Credit Panel/Equifax; Census Bureau.
Note: Data as of 2021Q3.

6 Andrew Haughwout, Donghoon Lee, Daniel Mangrum, Joelle Scally, and Wilbert van der Klaauw, Car Prices Drive Up Borrowing—Liberty Street Economics (newyorkfed.org).

Measuring Financial Stress: Delinquencies, Collections, and Bankruptcies

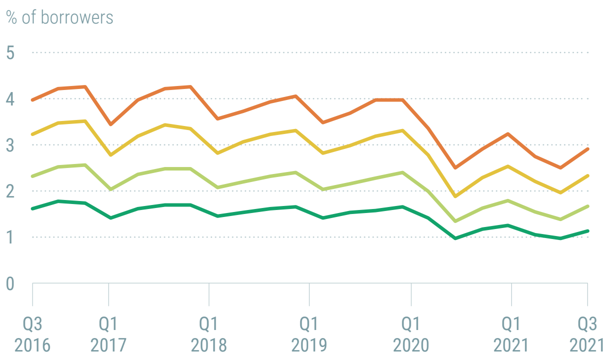
Low-income credit holders have higher delinquencies and higher median balances in collections.

Early Delinquencies

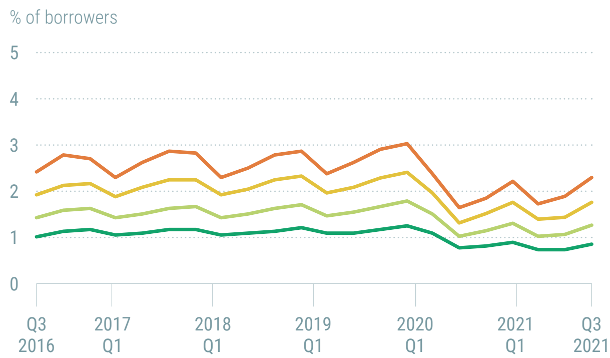
- The repayment moratorium on student loan debt has been an equalizing (and stabilizing) factor in reducing delinquency during the pandemic.
- During the pandemic, all borrowers saw improvements in their payment rates. Low- and moderate-income debt holders consistently have the highest delinquency rates across credit products (card, auto, mortgage).
- Historically, auto loans have had higher delinquency rates compared to other products. *Note that early delinquencies are not reported for student loans.*

Low-Income Moderate-Income Middle-Income High-Income

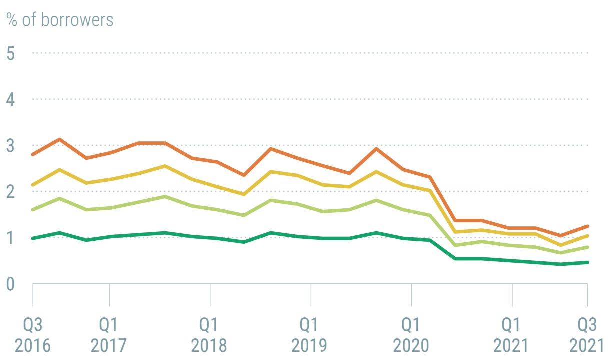
Auto Loan, 30-60 Days



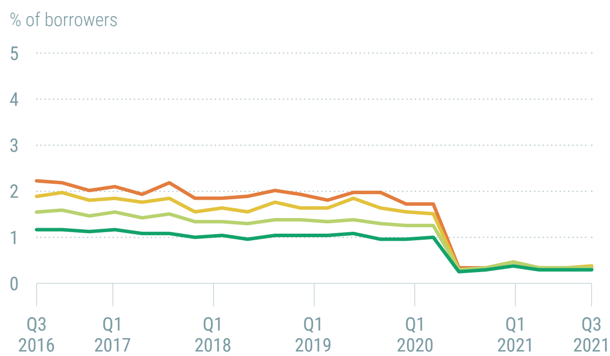
Credit Card, 30-60 Days



Mortgages, 30-60 Days



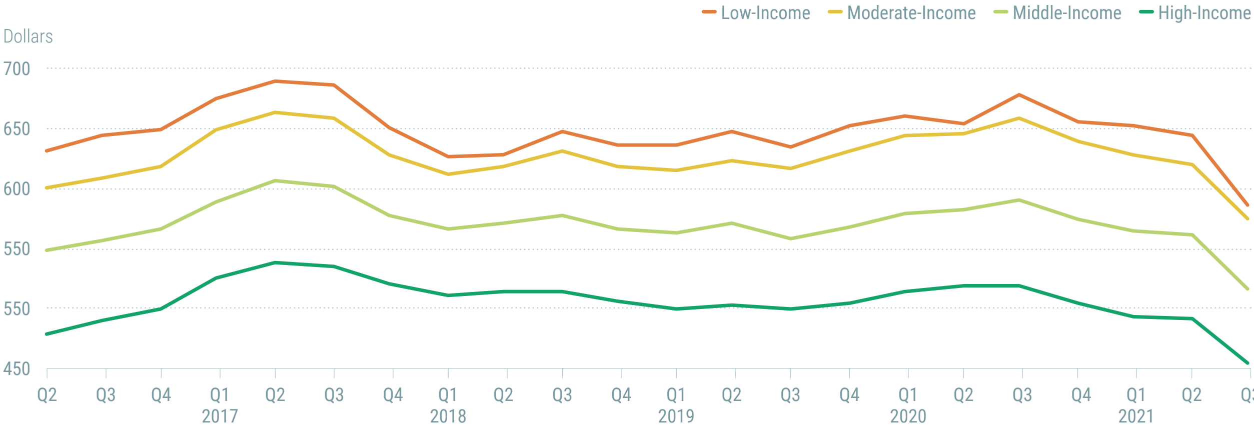
Student Loans, 90-120 Days



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

Median Balance in Collections

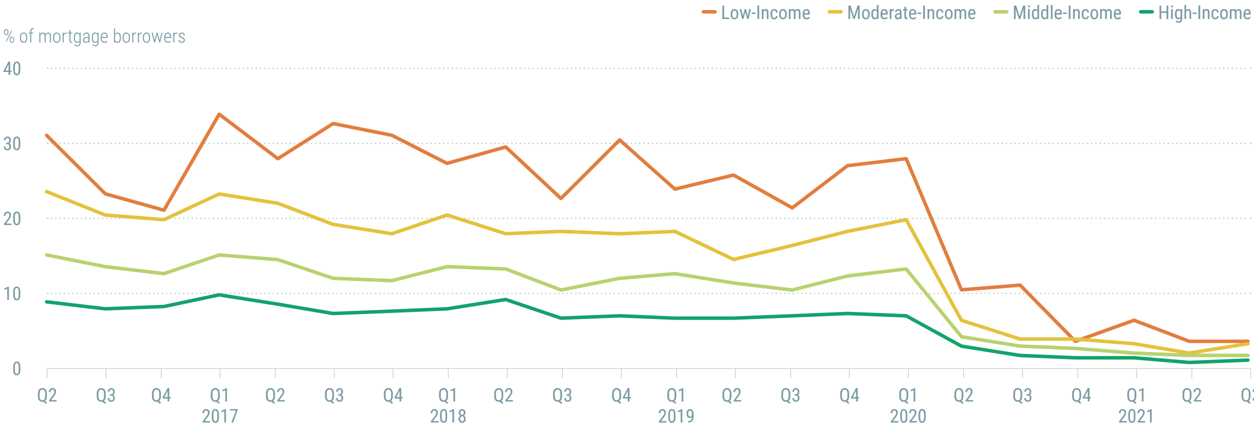
- Among borrowers with an account in collections, low-income borrowers have the highest median balances, 29.1% higher than those of high-income borrowers.
- During COVID-19 there were pauses on collections, possibly accounting for decreases in prevalence and balances.



Source: New York Fed Consumer Credit Panel/Equifax; Census Bureau.
Note: Balance is chart conditional on a borrower owning a product.

New Foreclosures

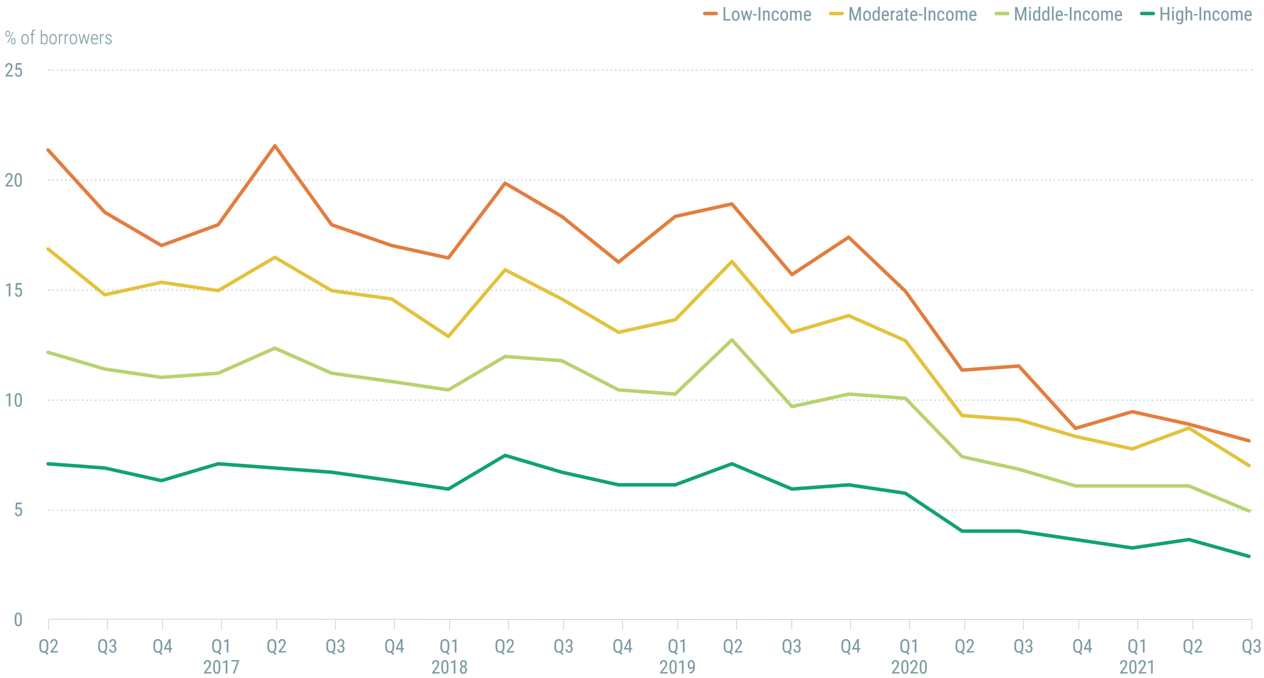
- New foreclosures have been declining since the Great Recession, but they effectively stopped during the COVID pandemic.
- The CARES Act provided a foreclosure moratorium, which ended on July 31, 2021. However, strong economic fundamentals (income growth and home prices, accompanied by low interest rates) have limited the start of new foreclosures and new foreclosures remained near zero throughout 2021, although these limitations are being lifted.



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

New Bankruptcies

- Bankruptcies have declined substantially since the onset of the pandemic.
- Bankruptcy filings have historically been more prevalent in lower-income areas.

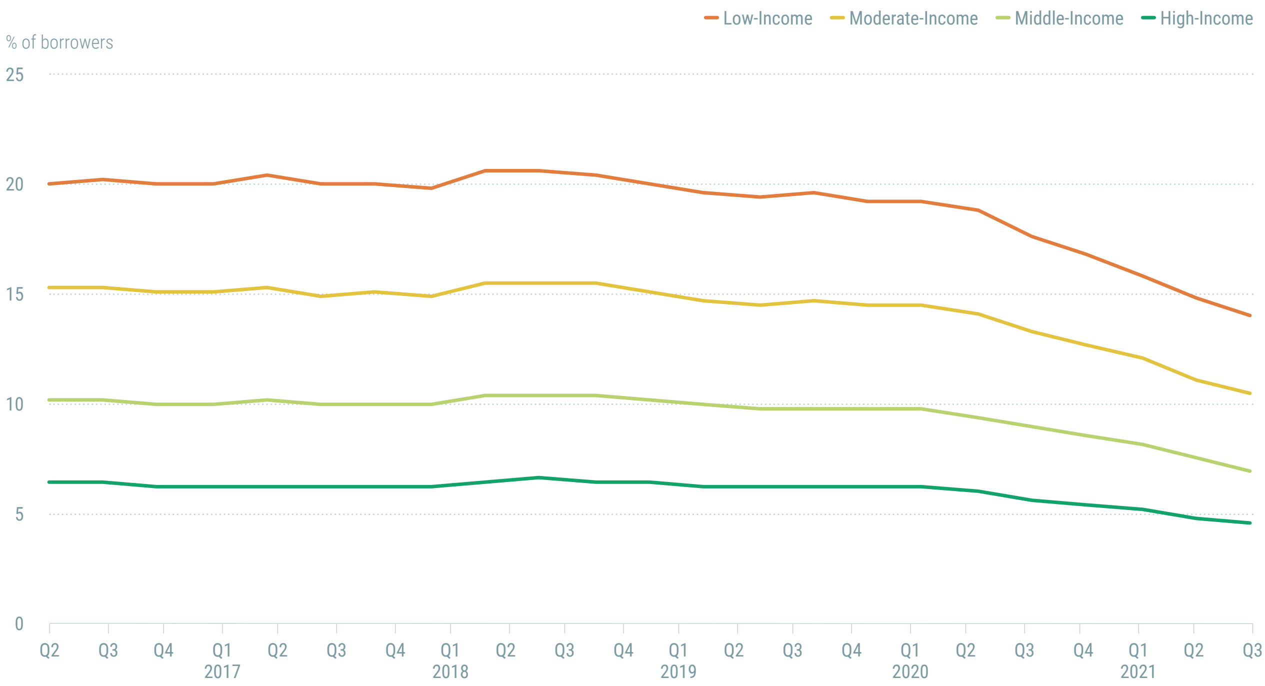


Source: New York Fed Consumer Credit Panel/Equifax; Census Bureau.

Special Focus—Student Loans

Student Loan Default Prevalence

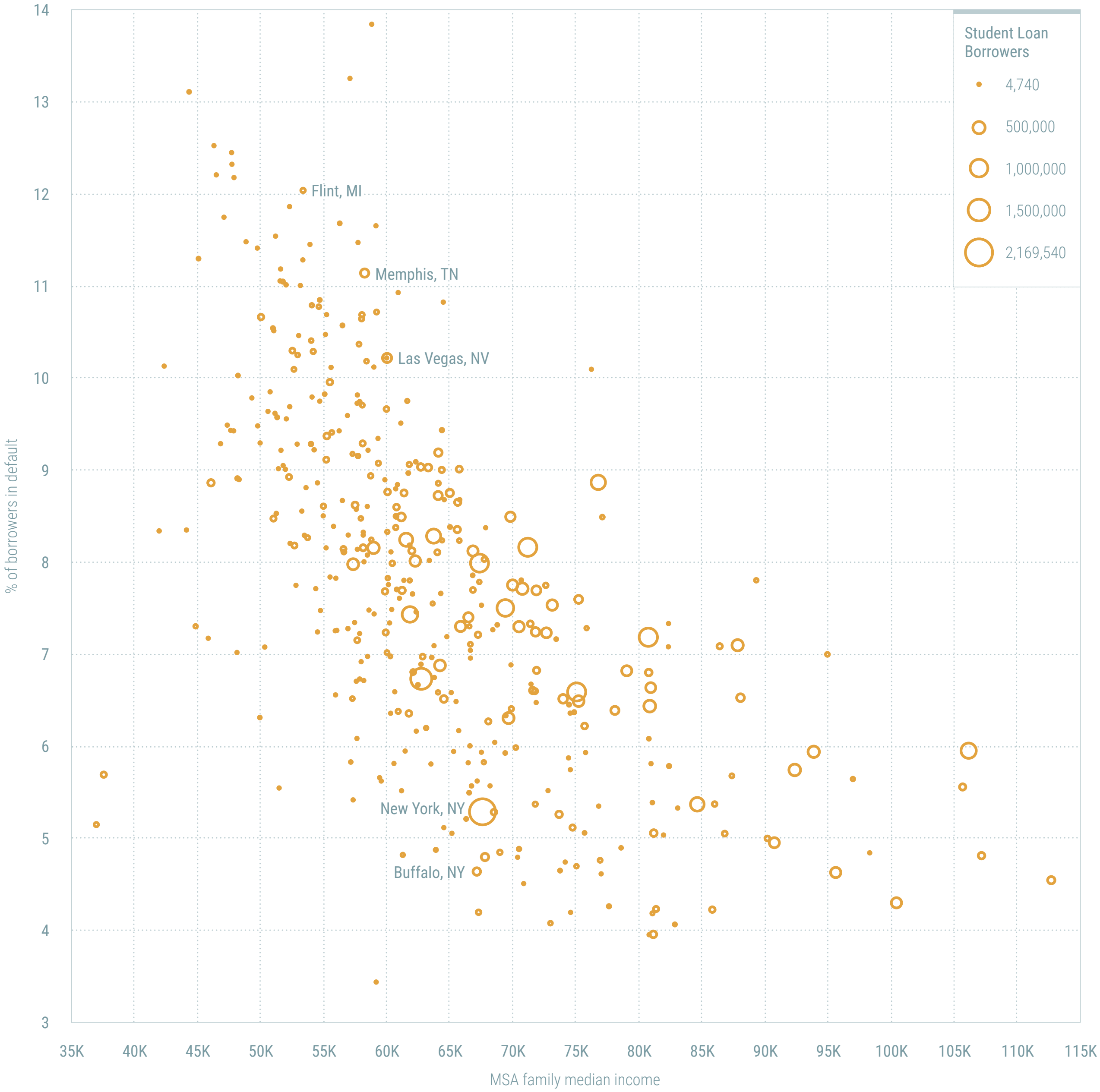
- Most student loans were eligible for CARES Act emergency relief, pausing loan repayment through May 1, 2022. This included the collection of defaulted loans.
- The share of borrowers in default declined during the pandemic due to the repayment pause on student loans, as some borrowers have been able to exit default while payments were paused.
- Default rates are more than three times higher among borrowers in low- and moderate-income areas than in high-income areas. This is even the case in the pandemic era, when loan rehabilitation has been easier during the payment pause.



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

Student Loan Defaults by Metropolitan Statistical Area (MSA)[7] and Family Income

- Default rates are negatively related to area income; lower-income metropolitan areas have higher student loan default rates.
- Controlling for income, significant differences in default rates exist across geographies, with some MSAs exhibiting particularly elevated default rates, including Flint, Michigan, and Las Vegas, Nevada.

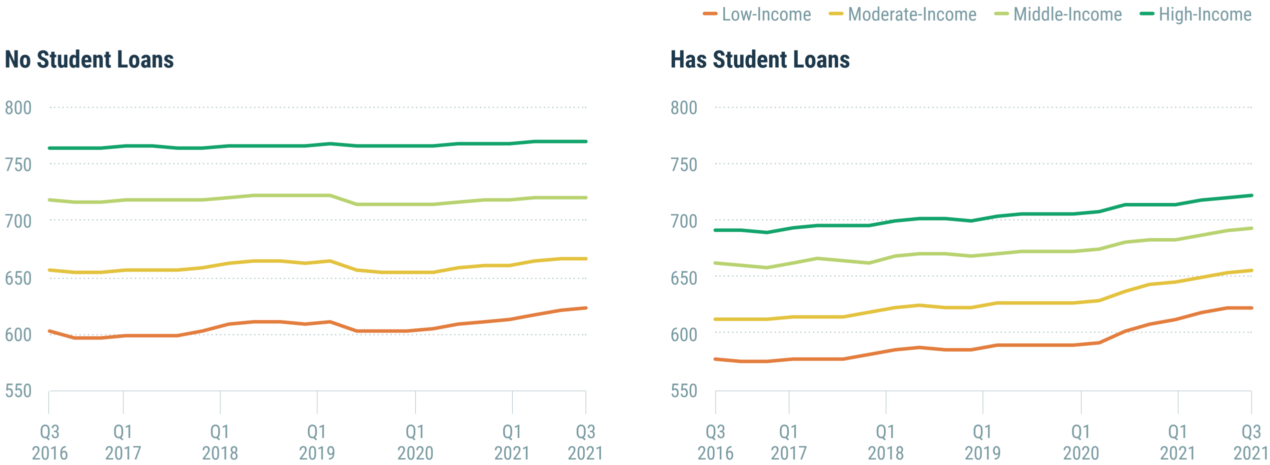


Source: New York Fed Consumer Credit Panel/Equifax; Census Bureau.

7 A metropolitan statistical area (MSAs) is a region that consists of a city and surrounding communities that are linked by social and economic factors, as established by the U.S. Office of Management and Budget.

Median Credit Score by Student Borrower Status

- During the pandemic, all income groups have seen a rise in median credit scores.
- Borrowers with student loans have seen a sharper increase in their credit scores compared to borrowers without student loans (mortgages, auto loans, credit cards).
- The median risk scores of borrowers with student loans are lower than those without student loans, reflecting, in part, the younger age profile of student loan borrowers. The exception to this is among borrowers in low-income areas, where the scores of student loan borrowers have improved to the level of non-borrowers during the course of the pandemic.
- While student loan payments are paused, federal borrowers have been marked current on their credit reports. This temporary removal of delinquencies lifted the credit scores of previously delinquent borrowers, particularly in the low- and middle-income areas where delinquency and default were higher pre-pandemic.
- The median credit scores of student loan borrowers in lower-income areas increased more sharply relative to high-income areas. This is because, pre-pandemic, these borrowers were more likely to be behind on their student loan payments, and thus were more likely to benefit from the pause.



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

Note: Borrowers are classified as student loan borrowers if they had at least one student loan between 2016–2021. Credit score is Equifax Risk Score 3.0.

Conclusion

Low-income communities have experienced disproportionate physical and economic harm from the COVID-19 pandemic. Given the negative impacts of the pandemic on lower-income households, the data presented here from our Consumer Credit Panel show how government support has been effective in helping households avoid negative credit outcomes so far. Sizable fiscal transfers served as a lifeline for many Americans through the first part of the pandemic,[8] providing an additional cushion that enabled cash-strapped households to smooth consumption and continue debt payments. And the debt repayment moratoria on student loans and mortgages provided further relief to many households. However, the improvements on credit reports achieved by the relief may disguise underlying vulnerabilities when all support programs have ended, and consumers have used up the additional savings accumulated over the last year.

Going forward, we will continue to monitor the finances of low-income households and how these households are able to weather the end of supportive pandemic-related policies.

8 Olivier Armantier, Leo Goldman, Gizem Koşar, Jessica Lu, Rachel Pomerantz, and Wilbert van der Klauuw, How Have Households Used Their Stimulus Payments and How Would They Spend the Next? - Liberty Street Economics (newyorkfed.org).