*The State of Low Income America:*

# CREDIT ACCESS &

# DEBT PAYMENT

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# Introduction

In February of 2020, the economy entered into a recession after a decade-long expansion. Lower income communities and communities of color have been disproportionately affected by the pandemic and the following recession, with job losses and COVID-19 deaths higher in these places. The CARES Act sought to support consumers in two ways: first, through large fiscal transfers to households, including stimulus payments and enhanced unemployment insurance; second, through moratoria on mortgage and student loan debt repayments and a temporary pause on the evictions of some renters. However, not all consumers are reached or covered by these debt relief programs, and renters are particularly at risk as direct fiscal transfers such as stimulus payments and enhanced unemployment insurance conclude.

*This brief outlines key takeaways about the debt holdings and credit access of low income Americans during the economic expansion and through the first half of 2020.*

It highlights four key areas to monitor in the near term:

1  As of mid-year, consumers across the income spectrum were contributing to savings and paying down their debt, and credit card balances declined sharply across the board.

2  The composition of debt balances varies by income. In lower income areas, mortgages comprise a smaller share, while auto and student loans are a relatively larger share of the total. Only 17% of borrowers in lower income neighborhoods have a mortgage. Overall, 57% of the outstanding debt in low-income neighborhoods is attributable to mortgage balances, compared to 70% in high income neighborhoods. Student loans are a larger share of outstanding balances in lower income areas (17%).

3  Repayment rates in low income areas have improved over the past few months, indicating that forbearance programs are reaching consumers in need. However, prior to the pandemic, delinquency rates were persistently high and merit close monitoring.

4  Comparing credit access among lower income regions, we find that communities in the South, Southwest, and Appalachian region are less likely to hold common debt products, including credit cards and student loans.

# About the Data

The data are primarily sourced from the New York Fed's Consumer Credit Panel, which is derived from 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 combine two definitions of low and moderate income levels as defined by the FFIEC and used by the American Consumer Survey (ACS). A "lower income" or "LMI" neighborhood is defined as an area in which the median family income is <80% of the metro area income. Note that these estimates are the best available, yet imprecise approximations of income. Borrowers vary in asset holdings within neighborhoods, and it is possible for a high-income borrower to live in a low-income neighborhood and vice-versa.

# National Snapshot

Overall, borrowers in lower income areas report the highest delinquency rates but hold only 16% of total debt. Total debt in middle- and high-income areas stand at $11.8 trillion while total debt in lower income areas is $2.2 trillion dollars. Accounting for the population sizes in each group, we find $65,400 of debt per adult in higher income areas and $32,167 of debt per adult in lower income areas.

Despite much larger gaps in income between these groups, the median debt balances (conditional on having the product) are fairly stable across income groups. The one notable exception is mortgages, which are tightly underwritten and correlated with house prices. Differences in housing-related balances are responsible for most of the gap between the two groups, as housing-related debt is the largest form of household debt in aggregate. Homeownership rates are higher in higher-income areas; additionally, house prices typically increase with income (as do mortgage balances).

**Median amount of debt on par with all groups for major products (June 2020)**

| Debt Product | Low Income | Moderate Income | Middle Income | High Income |
|---|---|---|---|---|
| Credit Card | $1,399 | $1,679 | $1,863 | $2,148 |
| Auto Loans | $13,592 | $14,254 | $14,608 | $14,852 |
| Student Loans | $15,887 | $17,666 | $19,067 | $21,578 |
| Mortgage | $118,536 | $119,414 | $134,003 | $216,410 |

*Source: FRBNY Consumer Credit Panel/Equifax; ACS 2014–2018.*
*Note: Numbers in table above conditional on a borrower owning a product.*

# Borrowers contributing to savings and paying down debt

As of June 2020, total consumer debt fell for the first time in over 10 years as borrowers paid down their credit cards,[1] contributed to savings, and took advantage of debt moratoria. The largest year-over-year declines to credit cards, conditional on borrowers living in low income areas, were in the northern half of the US.

**Year-over-year % change in credit card balances in lower income areas**

year-over-year
% change

-0.6−2.2
-2.4−-0.6
-3.5−-2.4
-5.0−-3.5
-8.6−-5.0
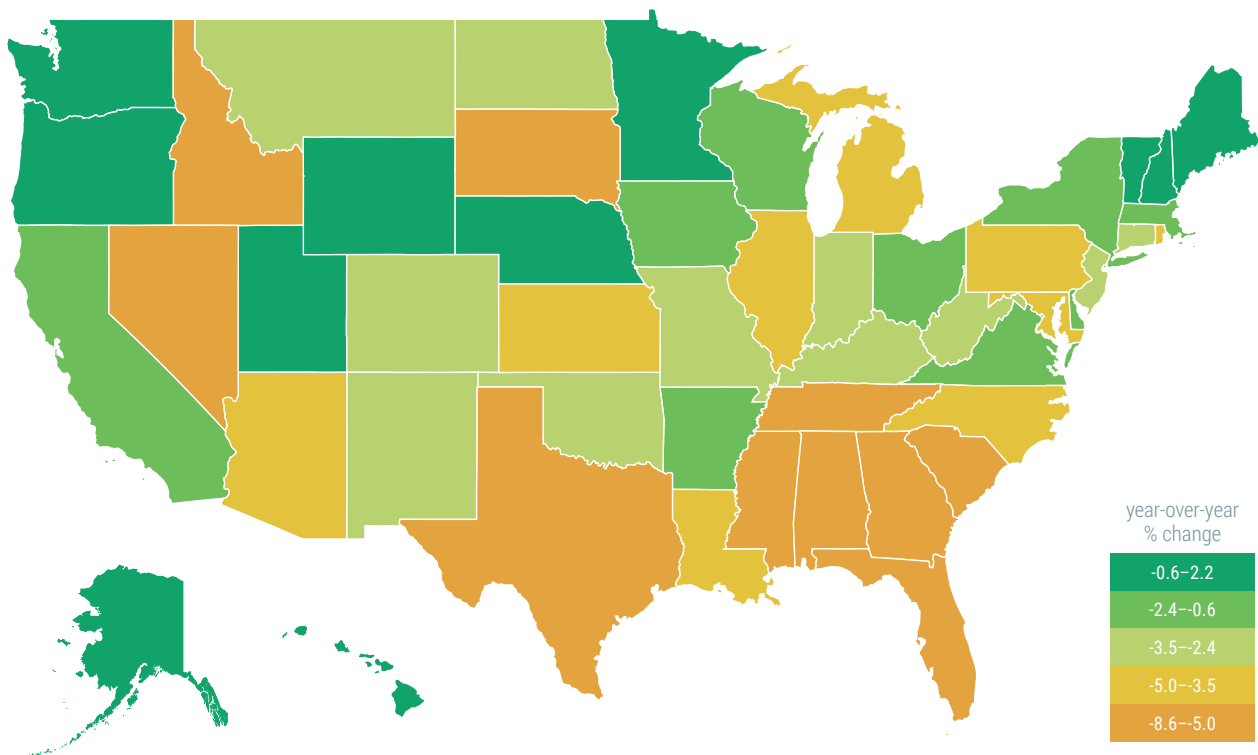
*Source: FRBNY Consumer Credit Panel/Equifax 2020Q2*
*Calculated in area where neighborhood income <80% of MSA income, ACS 2014−2018*

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1    Andrew F. Haughwout, Donghoon Lee, Joelle Scally, and Wilbert van der Klaauw, "A Monthly Peek into Americans' Credit During the COVID-19 Pandemic," Federal Reserve Bank of New York Liberty Street Economics, August 6, 2020, https://libertystreeteconomics.newyorkfed.org/2020/08/a-monthly-peek-into-americans-credit-during-the-covid-19-pandemic.html.

# Lower income Americans less likely to hold major credit products

Borrowers living in lower income communities are less likely to hold mortgages, credit cards, and auto loans compared to borrowers in wealthier neighborhoods. Mortgages have been particularly difficult to obtain since the Great Recession, as tight lending standards have limited mortgages to all but the borrowers with prime credit scores above 720.

**Composition of debt**
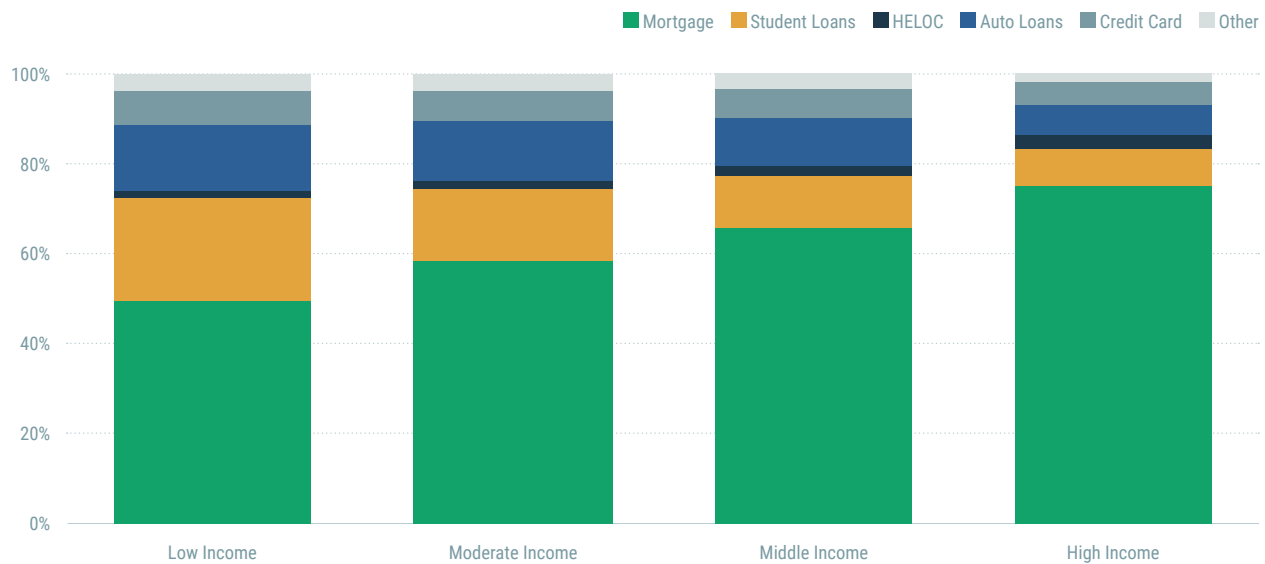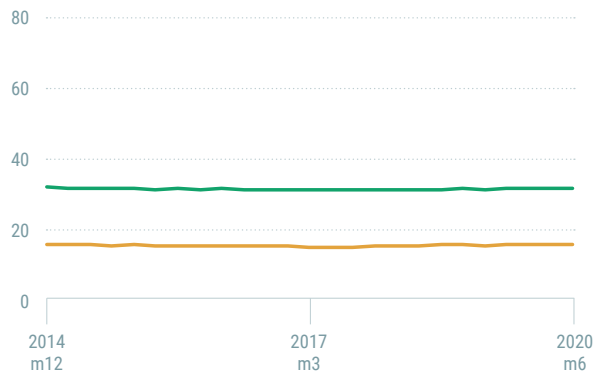


Source: FRBNY Consumer Credit Panel 2020Q2

In contrast, participation in student loans is similar between low income and high income America. As the purpose of the federal student loan program is to make funds available for all, student loan debt accounts for a quarter of all debt in low income areas, more than in other areas.

**Borrowers in lower income communities are less likely to have mortgages, credit cards, and auto loans**
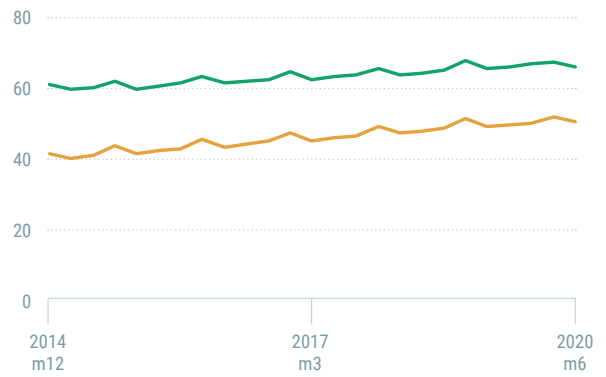
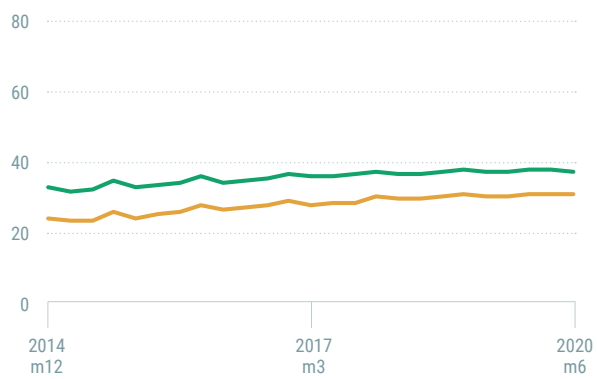— Low/Moderate  — Middle/High

### Mortgage
% adults with a mortgage



### Credit Card
% adults with a credit card



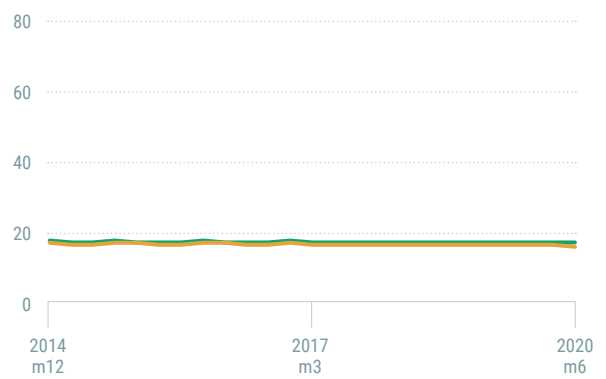### Auto Loan
% adults with an auto loan



### Student Loan
% adults with a student loan
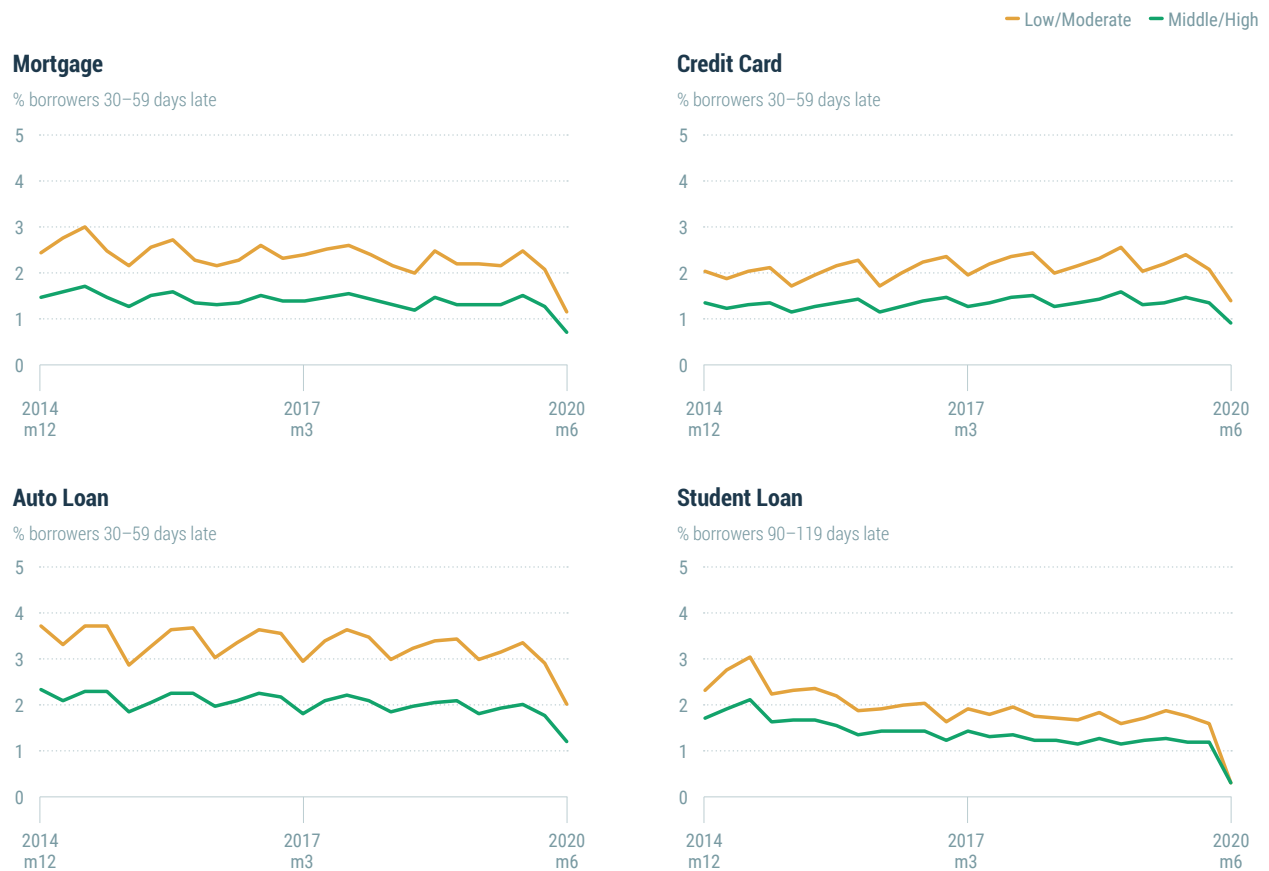


*Source: FRBNY Consumer Credit Panel/Equifax; ACS 2014–2018*

# Borrowers in low income communities struggle to pay off debt

Delinquency rates (including defaults) are generally higher in LMI areas; however, as forbearances have been made available—both those provided by the CARES Act and those voluntarily offered by lenders—delinquency rates have *declined* as troubled borrowers have the option to go into forbearance. However, borrowers in forbearance still owe any skipped payments.

Many months into the pandemic, we see a decline in early delinquencies for the two most commonly held products in low income areas: credit cards and autos. Three percent of borrowers were 30–59 days late on any payment in June 2020,[2] driven by 1.4% delinquency rate among credit card holders, 1.2% of mortgage holders, 2.1% of auto loan holders, and 0.3% of student loan holders. Even though the dramatic decline of student loan delinquency is driven by moratoria on student loans, the delinquency rate before any corrections was high.[3]

**Delinquency rates in low income communities almost twice as high for most products**

— Low/Moderate  — Middle/High

**Mortgage**
% borrowers 30–59 days late



**Credit Card**
% borrowers 30–59 days late



**Auto Loan**
% borrowers 30–59 days late



**Student Loan**
% borrowers 90–119 days late



*Source: FRBNY Consumer Credit Panel/Equifax; ACS 2014–2018*

2    For student loans, we report on debt that was 90–119 days late due to uneven reporting in earlier delinquency categories.
3    Delinquency rates for student loans 90-119 days late was 1.89% for low- and moderate-income areas and 1.3% in middle- and high-income areas in 2019Q2.
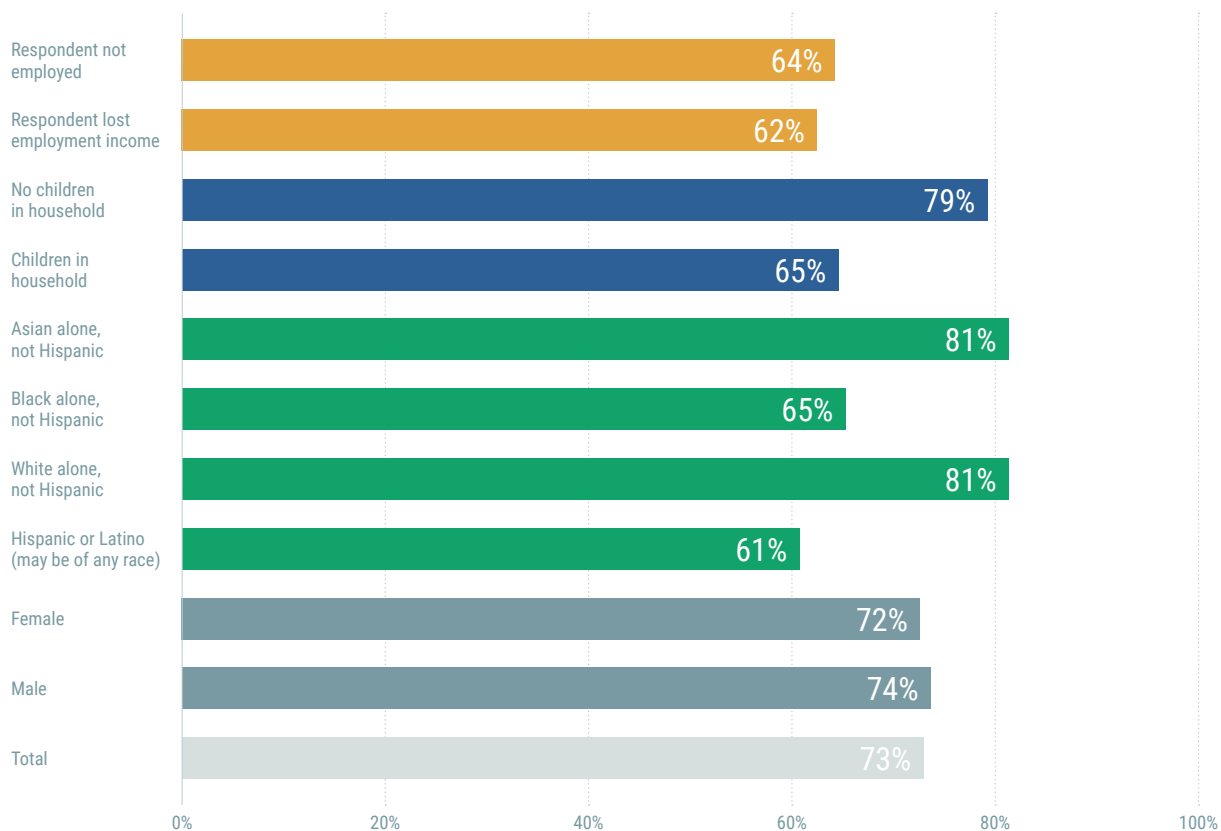
Delinquency rates in lower income neighborhoods are almost double those of higher income neighborhoods: the share of borrowers with a payment 30-59 days late was 1.2% in lower income neighborhoods versus 0.7% in middle and high income neighborhoods. Due to policies to support borrowers, delinquency rates between income groups are now more aligned than they were before the pandemic, but there is no indication that borrowers will be able make payments after moratoria end. In fact, in March of 2020, repayment rates were two times worse off in lower income neighborhoods, indicating that borrowers in need are taking up forbearance options.

## Key Finding 4
# Low income borrowers without a mortgage less likely to successfully weather income shocks

Although homeowners may apply for mortgage repayment deferment, renters can only defer rent on a case-by-case basis. According to recent data collected by the US Census Bureau, for the first two weeks of September, a quarter of renters reported little or no confidence in their ability to pay next month's rent. Hispanic and African American renters reported lower confidence, as did respondents with children under 18 in their household, and those who had experienced a decline in income.

**Renter confidence in ability to pay next month's rent**

| Category | Value |
|---|---|
| Respondent not employed | 64% |
| Respondent lost employment income | 62% |
| No children in household | 79% |
| Children in household | 65% |
| Asian alone, not Hispanic | 81% |
| Black alone, not Hispanic | 65% |
| White alone, not Hispanic | 81% |
| Hispanic or Latino (may be of any race) | 61% |
| Female | 72% |
| Male | 74% |
| Total | 73% |

*Source: Census Pulse Survey (September 2–14)*

Breaking down delinquency rates by rent status is important for low income areas, since over two-thirds of households rent and less than 1 in 5 borrowers have a mortgage. Even though about 70 percent of renters report they would like to own their own primary residence,[4] homeownership rates are more than two times lower than high income neighborhoods.

**Percentage of households renting their homes**
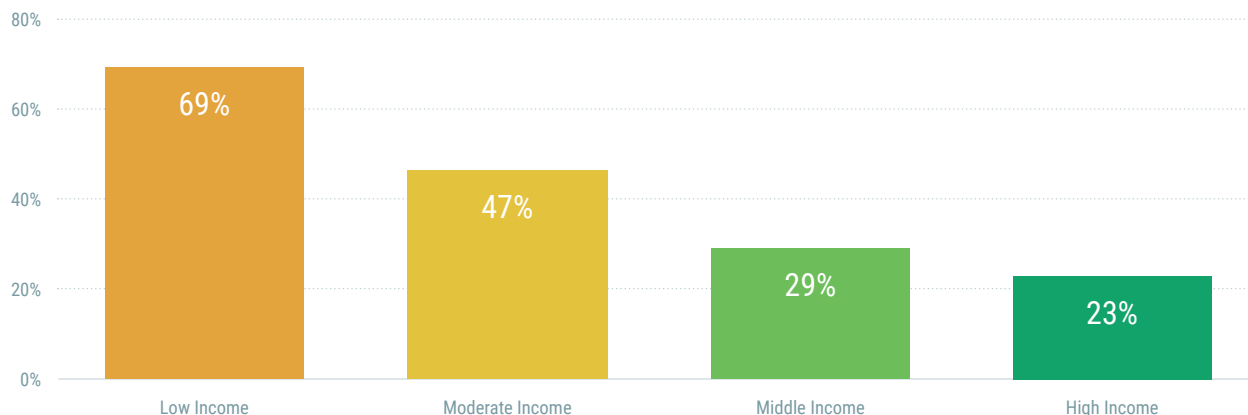


*Source: ACS 2018*

In our credit data, we cannot identify renters, but we use the presence of a debt secured by housing as a proxy for homeownership, and look at borrowers with and without a mortgage or HELOC. We find that early delinquency rates for borrowers without a mortgage are 0.5 percentage points higher for credit cards and 1 percentage point higher for auto loans. Despite the declines in delinquency rates in the past few months, renters will likely struggle to make payments as eviction protections are lifted and rent becomes a higher priority.

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## Delinquency rate by mortgage holder status
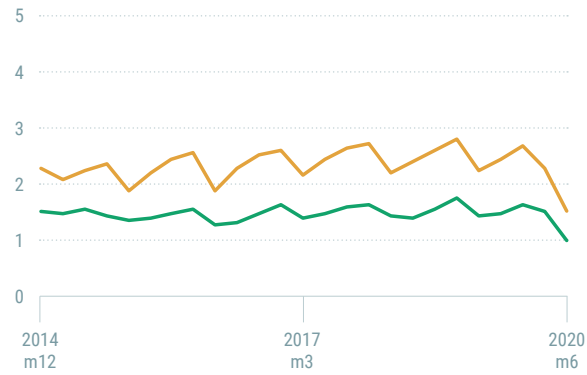
— Has Housing Debt  — No Housing Debt
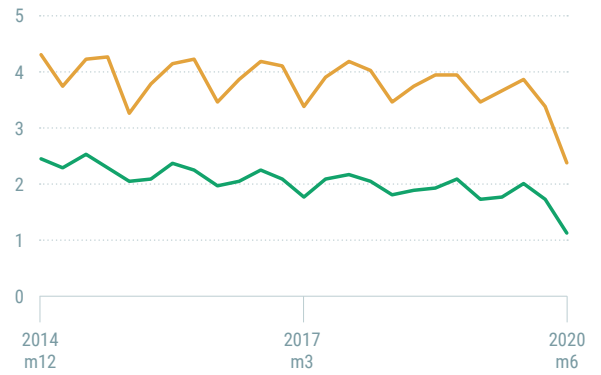
### Credit Card

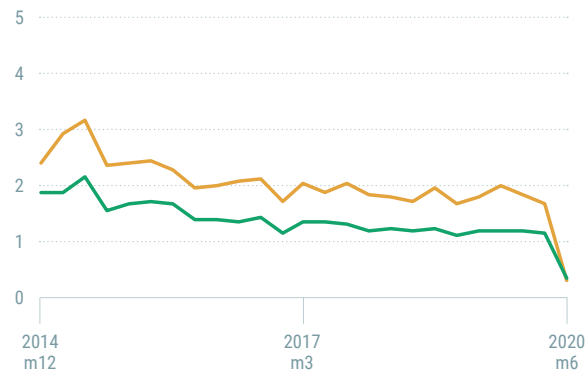% borrowers 30–59 days late



### Auto Loan

% borrowers 30–59 days late



### Student Loan

% borrowers 90–119 days late



*Source: FRBNY Consumer Credit Panel/Equifax*

# Available Credit on Credit Cards

Although credit cards can be an expensive form of credit, they can also be an important source of cash for those facing gaps in income, which is particularly important to residents of lower income communities, who are less likely to own a home and also less likely to have significant savings. However, borrowers in low-income neighborhoods have smaller credit lines available to them as the median available credit in the lowest income areas is only $1,602.

**Median credit card balance available**
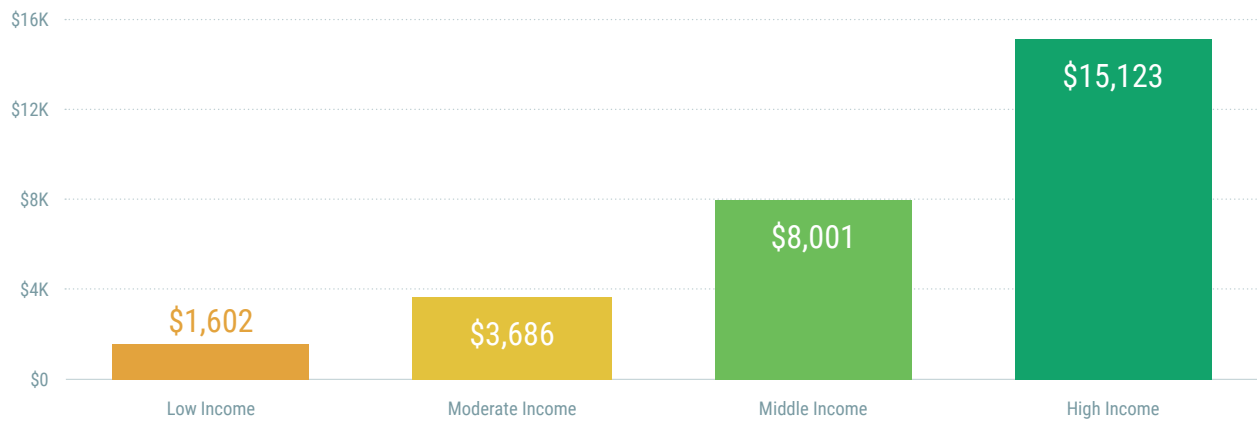


*Source: FRBNY Consumer Credit Panel/Equifax 2020Q2*

Further, borrowers in low income areas may not have a sufficient credit score for building their credit portfolio after moratoria end. Credit scores are highly correlated with income, and are important both for credit access and for basic necessities such as renting an apartment or opening a utility account. The median score of 658 in lower income suggests that many borrowers are unlikely to have access to affordable credit as those with scores above 720.

**Median credit score** (Equifax Riskscore)
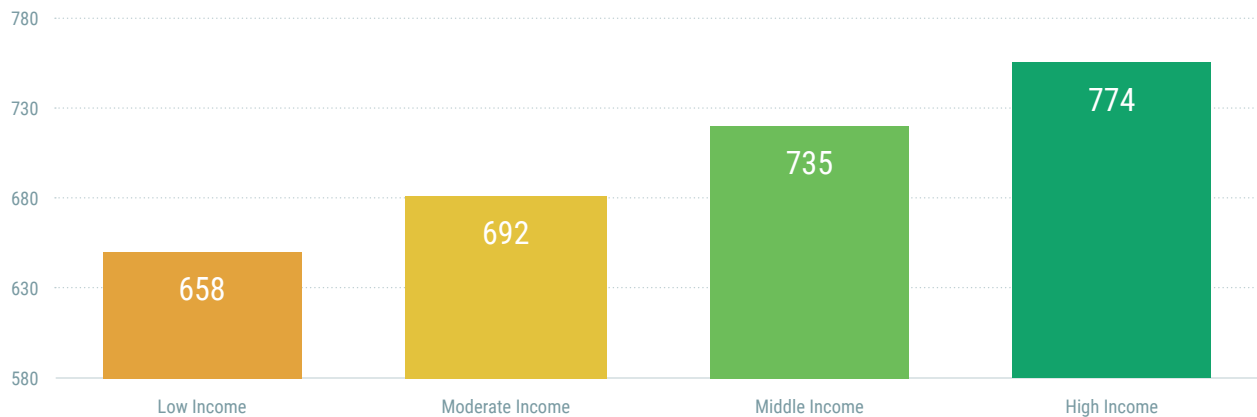


*Source: FRBNY Consumer Credit Panel/Equifax 2020Q2*

# Participation rates in lower income neighborhoods highlight regional disparities

Although there are many similarities among lower income neighborhoods, participation in major credit products differs regionally. Focusing on well-populated counties, conditional on borrowers living in lower income communities, we highlight a few regional trends.

Mortgage participation is greatest in the Northeast and West, although participation levels overall are quite low. Borrowers in lower income communities in the southern half of the US are particularly less likely to have a mortgage.
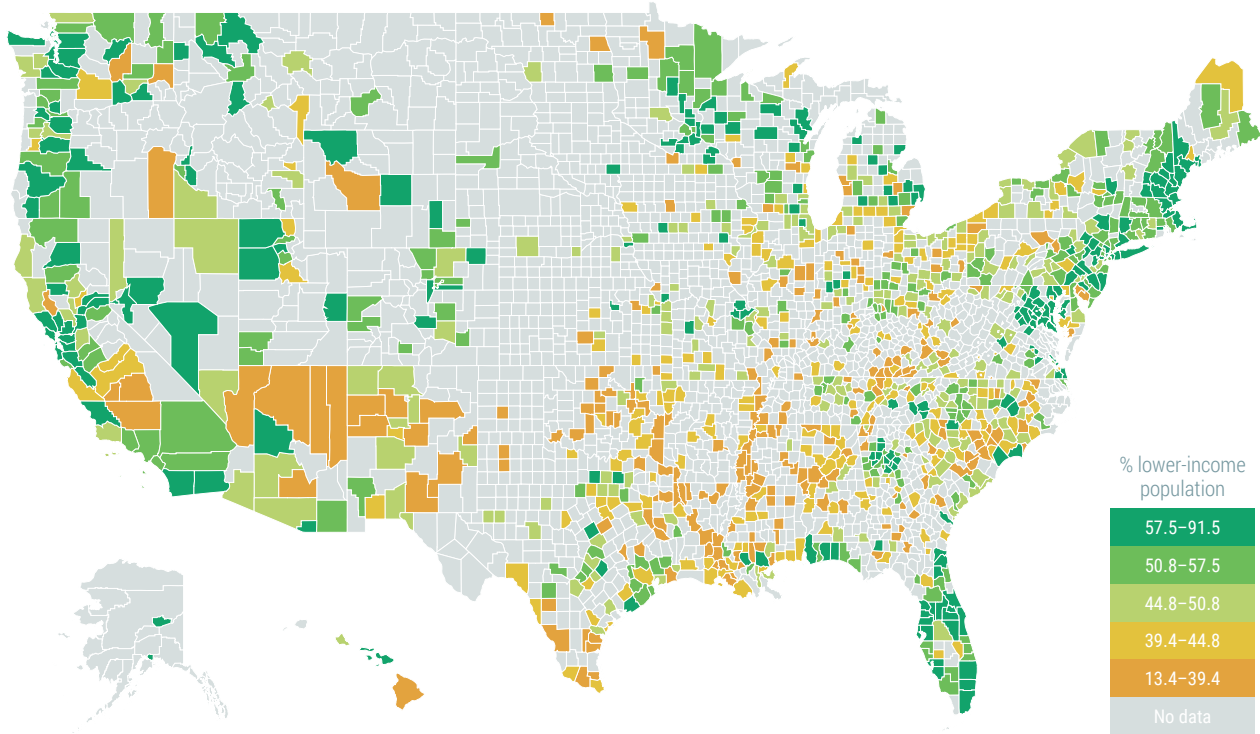
**Mortgage participation rate in lower income neighborhoods**
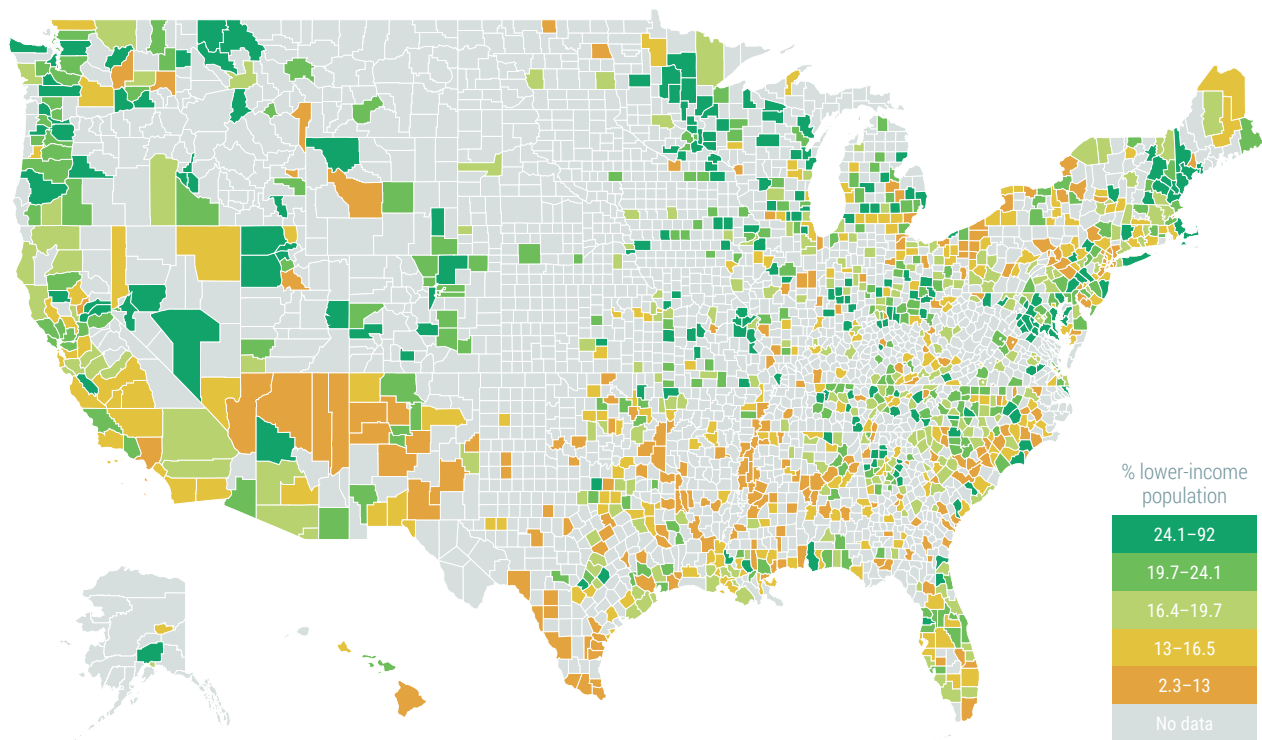


% lower-income population

| | |
|---|---|
| 24.1–92 | |
| 19.7–24.1 | |
| 16.4–19.7 | |
| 13–16.5 | |
| 2.3–13 | |
| No data | |

*Source: FRBNY Consumer Credit Panel/Equifax, 2020Q2*
*Population 18+ in areas where neighborhood income <80% of MSA income, ACS 2014–2018*

Compared to other products, borrowers are most likely to own a credit card. Borrowers in low income counties in the South and Appalachian region are less likely to have a credit card.
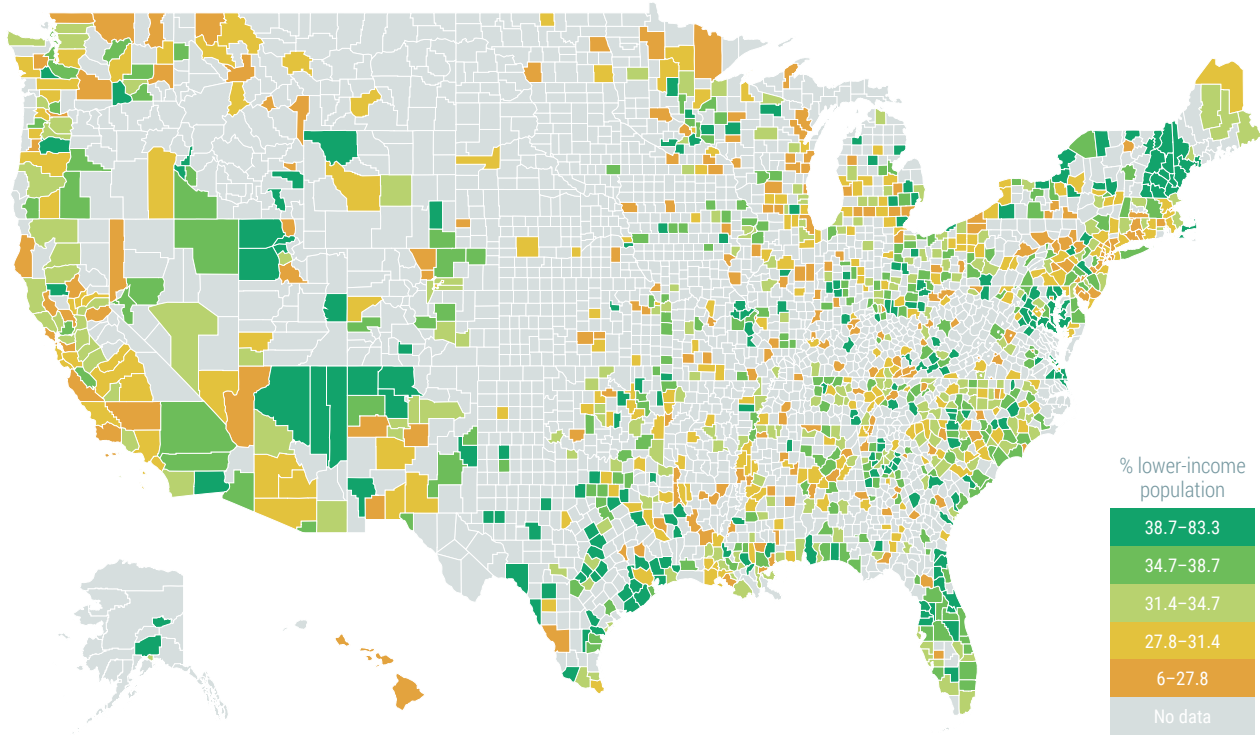
**Credit card participation rate in lower income neighborhoods**



% lower-income population

| | |
|---|---|
| 57.5–91.5 | |
| 50.8–57.5 | |
| 44.8–50.8 | |
| 39.4–44.8 | |
| 13.4–39.4 | |
| No data | |

*Source: FRBNY Consumer Credit Panel/Equifax, 2020Q2*
*Population 18+ in areas where neighborhood income <80% of MSA income, ACS 2014–2018*

By contrast, auto loan participation rates in lower income areas in the US do not show a clear regional trend. In areas with large mass transit systems that do not require everyday auto use (New York City, Seattle, Chicago), auto loan participation rates are lower. In general, however, rates remain at high levels.

**Auto loan participation rate in lower income neighborhoods**



% lower-income population

- 38.7–83.3
- 34.7–38.7
- 31.4–34.7
- 27.8–31.4
- 6–27.8
- No data

*Source: FRBNY Consumer Credit Panel/Equifax, 2020Q2*
*Population 18+ in areas where neighborhood income <80% of MSA income, ACS 2014–2018*

There is a clear East/West split in student loan participation rates in lower income communities, although the poorest rural areas in the Southwest and Appalachian regions are least likely to have a student loan.

**Student loan participation rate in lower income neighborhoods**
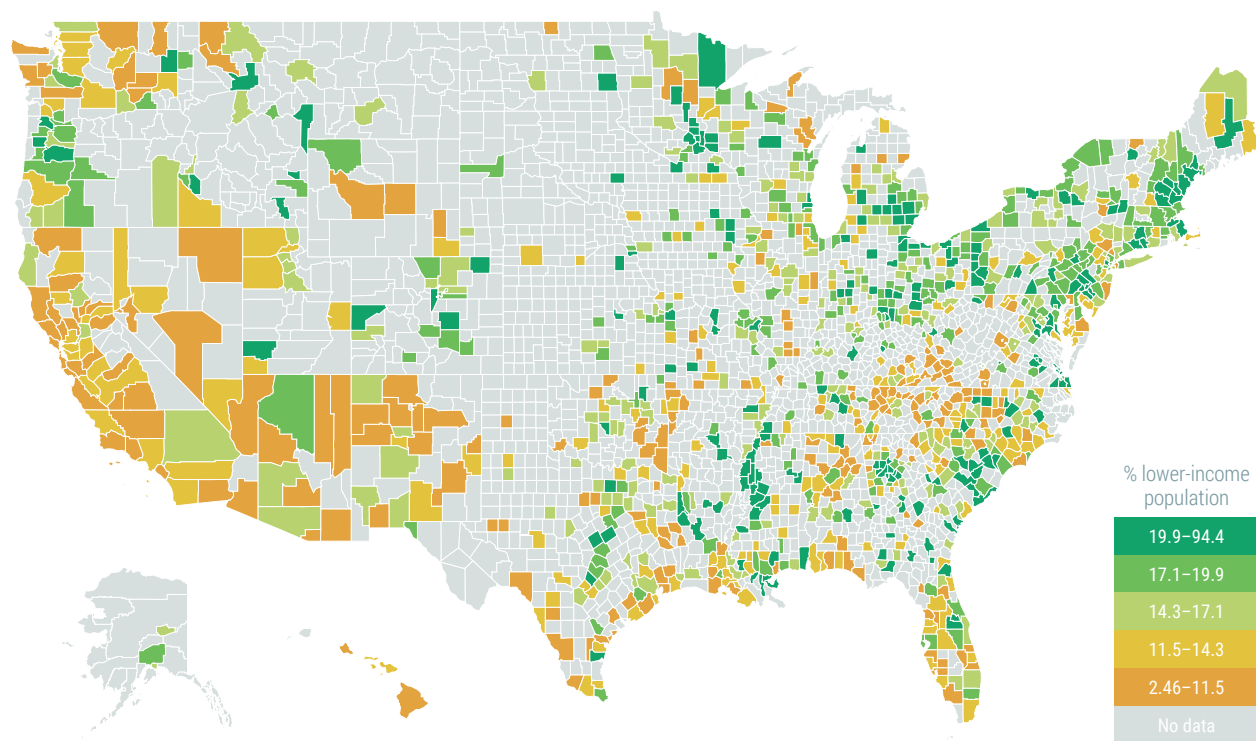


% lower-income population

19.9–94.4
17.1–19.9
14.3–17.1
11.5–14.3
2.46–11.5
No data

*Source: FRBNY Consumer Credit Panel/Equifax, 2020Q2*
*Population 18+ in areas where neighborhood income <80% of MSA income, ACS 2014–2018*

# Conclusion

There are large differences in the composition of consumer debt holdings between upper and lower income areas. The most notable difference is in mortgages—because borrowers in lower income areas are less likely to have a mortgage, mortgage balances comprise a smaller share of the overall debt balance in lower income areas, while auto loans and student loans do not vary as much from low- to high-income areas.

Higher delinquency rates in LMI areas suggest that, before the moratoria, borrowers were more likely to struggle with keeping current on their debt payments. The decline in delinquency rates since the onset of the pandemic indicates that the moratoria enacted by lenders (both through the CARES Act and voluntarily by lenders) provided relief for borrowers who may be struggling to fill gaps in income. However, as these moratoria are lifted, whether borrowers are able to stay current on their debts remains to be seen, and these concerns are particularly acute for renters, who comprise the overwhelming majority of LMI Americans. Monitoring the experiences of borrowers in LMI areas will remain critical as the pandemic and the various policies supporting consumers evolve.