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# COVID-19: Household Debt During the Pandemic

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## COVID-19: Household Debt During the Pandemic

The COVID-19 pandemic has had a large and persistent economic impact across the United States. Fear of infection, social distancing, and stay-at-home orders prompted business closures and a severe decline in demand for travel, accommodations, restaurants, and entertainment, among other industries. This led to a significant reduction in employment and a loss of income in many U.S. households. Unemployment rose rapidly to a peak at 14.7% in April 2020 and has since fallen to 6.0% in March 2021. Consequently, many Americans have lost income and faced financial hardship. Survey results suggest that since March 2020, about half of all U.S. adults live in a household that has lost some employment income.

During 2020, different types of consumer debt—consisting of mortgages, credit cards, auto loans, and student loans—have exhibited different patterns during the COVID-19 pandemic. Notably, credit card balances declined sharply in the second quarter by about \$76 billion, the largest quarterly decline on record. Mortgage debt increased, and other household debt remained relatively flat.

In addition, during 2020, the percentage of delinquent loans declined in most consumer debt markets. This pattern differs greatly from that of past recessions, such as the 2007-2009 Great Recession. Some of this decline is due to consumers entering into *loan forbearance* agreements when they are having trouble repaying their loans. Loan forbearance agreements allow borrowers to reduce or suspend payments for a short period of time, providing extended time for consumers to become current on their payments. These agreements do not forgive unpaid loan payments. Instead, borrowers must repay the amounts owed, and they typically enter into agreements that allow for repayment over an extended period of time.

Policy responses to the economic impacts of the COVID-19 pandemic have likely prevented many consumers from falling delinquent on their loan payments. Part of the congressional response was the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136), signed into law on March 27, 2020. The CARES Act established consumer rights to be granted forbearance for many types of mortgages (Section 4022) and for most federal student loans (Section 3513). The CARES Act's consumer protections, as well as other financial institution loan forbearance programs, likely helped avoid sharp increases in loan delinquencies.

Fiscal relief, including direct income support, was likely another important factor making it easier for consumers to pay their existing loan obligations. In addition to the CARES Act, Congress enacted other legislation to respond to the COVID-19 pandemic, including provisions in the FY2021 Consolidated Appropriations Act (CAA; P.L. 116-260) and the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2). Fiscal relief provisions in these laws included enhanced unemployment insurance and relief checks phased out for higher-income taxpayers.

Given the uncertain trajectory of future COVID-19 outbreaks and their economic impacts, whether these consumer debt usage and delinquency patterns will continue is unclear. Future public policy may be able to influence the course of the economic recovery in household debt markets, which could include extending loan forbearance programs, additional fiscal relief, or other policy options. In addition, consumers' future access to credit markets may become another risk factor. The congressional response to the COVID-19 pandemic has primarily focused on helping consumers make existing debt payments rather than focusing on access to new credit during the pandemic. If consumers find it difficult to access credit markets, the resulting reduction in consumer spending could harm the economic recovery.

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## Introduction

The COVID-19 pandemic has had a large and persistent economic impact across the United States.<sup>1</sup> Fear of infection, social distancing, and stay-at-home orders prompted business closures and a decline in demand for travel, accommodations, restaurants, and entertainment, among other industries. This led to a significant reduction in employment and a loss of income in many U.S. households. However, consumers have generally not fallen delinquent on their loan obligations, such as mortgages, credit cards, auto loans, and student loans. This pattern is unlike that of other economic recessions, such as the Great Recession caused by the 2007-2009 financial crisis.

Many consumers having trouble paying their bills have received *loan forbearance*.<sup>2</sup> Loan forbearance plans are agreements between borrowers and lenders that allow borrowers to reduce or suspend payments for a short period of time, providing extended time for borrowers to become current on their payments and repay the amounts owed to the lenders. These plans do not forgive unpaid loan payments and tend to be appropriate for borrowers experiencing temporary hardship.<sup>3</sup> In addition, many consumers who lost income received direct support from the government, which may have helped them pay their bills.

Policy responses to the economic impacts of the COVID-19 pandemic have likely prevented many consumers from falling delinquent on their loans. Specifically, the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136), which was signed into law on March 27, 2020, granted forbearance for many types of mortgages (Section 4022) and for most federal student loans (Section 3513).<sup>4</sup> In addition to this legislative response, financial regulatory agencies have responded to the COVID-19 pandemic using existing statutory authorities to encourage loan forbearance and other financial relief options for affected consumers.<sup>5</sup> Since the COVID-19 pandemic began, many banks and credit unions have announced measures to offer various forms of assistance to affected consumers.

Fiscal relief was likely another important factor making it easier for consumers to pay their existing loan obligations. In addition to the CARES Act, Congress enacted other legislation to respond to the COVID-19 pandemic, including provisions in the Consolidated Appropriations Act, 2021 (CAA; P.L. 116-260) and the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2).

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<sup>1</sup> For background on the potential economic effects of the COVID-19 pandemic in the United States, see CRS Report R46606, *COVID-19 and the U.S. Economy*, by Lida R. Weinstock.

<sup>2</sup> For more information on consumer loan forbearance during the COVID-19 pandemic, including CARES Act rights to forbearance, regulatory guidance, and impacts on consumers and financial institutions, see CRS Report R46356, *COVID-19: Consumer Loan Forbearance and Other Relief Options*, coordinated by Cheryl R. Cooper; and CRS Insight IN11359, *COVID-19: Financial Relief and Assistance Resources for Consumers*, by Maura Mullins and Jennifer Teefy.

<sup>3</sup> Loan forbearance agreements between consumers and financial institutions usually include a repayment plan, which is an agreement allowing a defaulted borrower to repay the amount in arrears and become current on the loan according to an agreed-upon schedule. Repayment plans take many shapes. For example, these plans may include a requirement that all suspended payments are to be due at the end of the loan forbearance period; the past due amount is to be added to the regular payment amount over the year after loan forbearance ends; or payments are to be added to the end of the loan's term. Interest or fees may or may not accrue during the loan forbearance period.

<sup>4</sup> For a summary of CARES Act provisions aimed broadly at stabilizing the economy and helping affected households and businesses, see CRS Report R46301, *Title IV Provisions of the CARES Act (P.L. 116-136)*, coordinated by Andrew P. Scott.

<sup>5</sup> Many financial regulatory agencies have updated their guidance to help financial firms support consumer needs during this time. Regulatory guidance does not force financial institutions to take any particular action for consumers (such as offering loan forbearance), but it can encourage them to offer various forms of support.

Fiscal relief provisions in these laws included direct income support in the form of enhanced unemployment insurance and relief checks phased out for higher-income taxpayers (called Economic Impact Payments), among other things.<sup>6</sup> These income transfer programs may have helped some consumers stay current on their consumer credit payments, particularly those who have lost income during the COVID-19 pandemic.

This report explores household debt since the COVID-19 pandemic began. First, it describes the effects the pandemic has had on unemployment and income losses, followed by a discussion of observed trends in household debt and delinquencies. Then, the report highlights two important policy impacts that influenced these trends: consumer loan forbearance and macroeconomic policy to support households during the economic recession. Lastly, the report discusses the uncertain outlook for household finances and consumer debt markets.

## Household Income During the COVID-19 Pandemic

The spread of COVID-19 and the ensuing public health crisis resulted in a dramatic increase in unemployment, which peaked at 14.7% in April 2020 and has since fallen to 6.0% in March 2021.<sup>7</sup> These rates are the highest since the Great Depression and are worse than the peak unemployment rate during the 2007-2009 Great Recession over a decade ago.<sup>8</sup> Consequently, many Americans have lost income and faced financial hardship due to the impact of the pandemic.

Survey results suggest that since March 2020, about half of all adults live in a household that has lost some employment income.<sup>9</sup> **Figure 1** shows selected results from the Federal Reserve Bank of Philadelphia's COVID-19 Survey of Consumers, an online survey conducted to gather information from respondents about income, employment, and financial security during the COVID-19 pandemic. So far, the survey has been administered in seven waves during April, May, June, July, September, and November 2020 and January 2021. In the first wave of the survey, conducted in April 2020, 39.1% of respondents indicated a reduction in personal income, or no income, as a result of the pandemic.<sup>10</sup> That rate fell to 32.7% in June 2020 and has since fluctuated between 31% and 33% (see **Figure 1**).<sup>11</sup>

This loss of income may be a large unexpected financial event for many families, and research suggests that many families may not have much emergency savings. For example, a 2019 Federal

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<sup>6</sup> For more information on the direct payments to individuals, see CRS Insight IN11605, *COVID-19 and Direct Payments: Comparison of First and Second Round of "Stimulus Checks" to the Third Round in the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)*, by Margot L. Crandall-Hollick.

<sup>7</sup> Bureau of Labor Statistics, *The Employment Situation—March 2021*, April 2, 2020, at <https://www.bls.gov/news.release/pdf/empst.pdf>. For more background on how unemployment is calculated and other related economic concepts, see CRS In Focus IF10443, *Introduction to U.S. Economy: Unemployment*, by Lida R. Weinstock.

<sup>8</sup> The official unemployment rates are possibly underestimates as well—the Bureau of Labor Statistics reported a likely error in how respondents classified being furloughed. For more, see CRS Insight IN11456, *COVID-19: Measuring Unemployment*, by Lida R. Weinstock.

<sup>9</sup> For more information on income losses during the COVID-19 pandemic, see CRS Insight IN11457, *COVID-19 Pandemic's Impact on Household Employment and Income*, by Gene Falk.

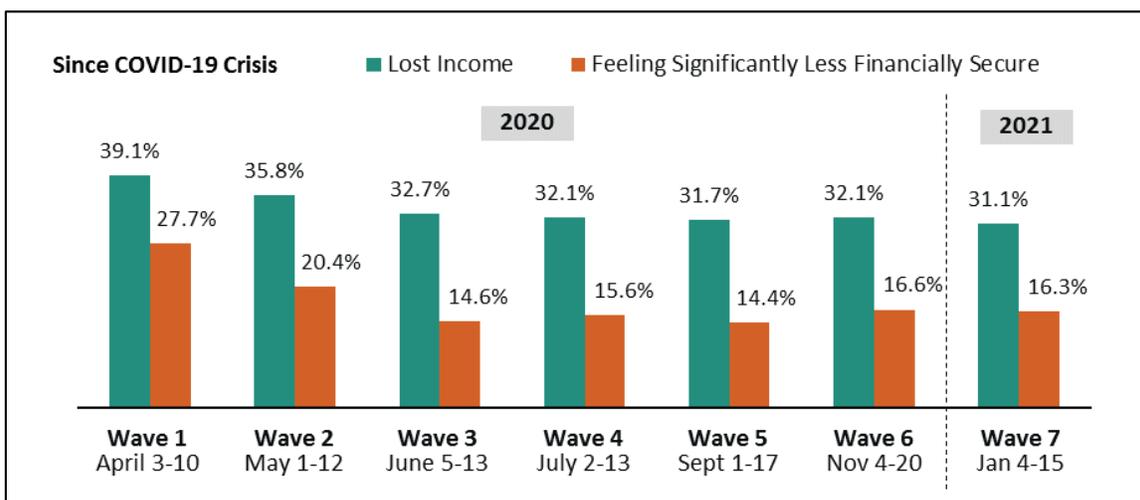
<sup>10</sup> Federal Reserve Bank of Philadelphia, Consumer Finance Institute Special Report, *CFI COVID-19 Survey of Consumers—Wave 7 Relief Programs, Vaccines, and the Effects of the Crisis on Renters and Mortgage Holders*, at <https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/reports/cfi-covid-19-survey-of-consumers-wave-7-updates.pdf>. See Table 4—Impact to personal Income (hereinafter Federal Reserve Bank of Philadelphia, "COVID-19 Survey of Consumers—Wave 7" 2021, see Table 4).

<sup>11</sup> Federal Reserve Bank of Philadelphia, "COVID-19 Survey of Consumers—Wave 7" 2021, see Table 4.

Reserve survey, before the COVID-19 pandemic, found that 37% of families reported not being able to cover a \$400 emergency expense with savings or the equivalent.<sup>12</sup> Therefore, this employment income loss has led some Americans to feel more insecure about their financial situation. When asked how the COVID-19 crisis affected their concern about their ability to make ends meet over the next 12 months, 27.7% of respondents in April 2020 indicated feeling significantly less secure than they did prior to the crisis; see **Figure 1**.<sup>13</sup> Responses to this question about financial security showed improvement in subsequent waves. The percentage of respondents reporting significant concern about their ability to make ends meet over the next 12 months decreased to 16.3% in January 2021.<sup>14</sup>

**Figure 1. Percentage of Households Reporting Lost Income and Significantly Less Financial Security Since COVID-19 Crisis**

April, May, June, July, September, and November 2020 and January 2021



**Source:** Federal Reserve Bank of Philadelphia, Consumer Finance Institute’s Special Report, COVID-19 Survey of Consumers—Wave 7, at <https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/reports/cfi-covid-19-survey-of-consumers-wave-7-updates.pdf>.

The income loss from the COVID-19 pandemic may impact the ability of some families to pay their loan obligations or other bills. Late loan payments can harm an individual’s credit score, which could reduce their access to credit in the future. Severe delinquency can also eventually lead to more serious consequences, such as debt collection, foreclosure, car repossession, or wage garnishment. For this reason, many policymakers are interested in understanding the impact of COVID-19 pandemic income losses on household debt and delinquency.

<sup>12</sup> Board of Governors of the Federal Reserve, *Report on the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020, May 2020*, pp. 2-3, at <https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-202005.pdf>.

<sup>13</sup> Federal Reserve Bank of Philadelphia, Consumer Finance Institute Special Report, *CFI COVID-19 Survey of Consumers—Wave 7 Relief Programs, Vaccines, and the Effects of the Crisis on Renters and Mortgage Holders*, at <https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/reports/cfi-covid-19-survey-of-consumers-wave-7-updates.pdf>, see Table 7—Financial Security and Outlook (hereinafter Federal Reserve Bank of Philadelphia, “COVID-19 Survey of Consumers—Wave 7” 2021, see Table 7).

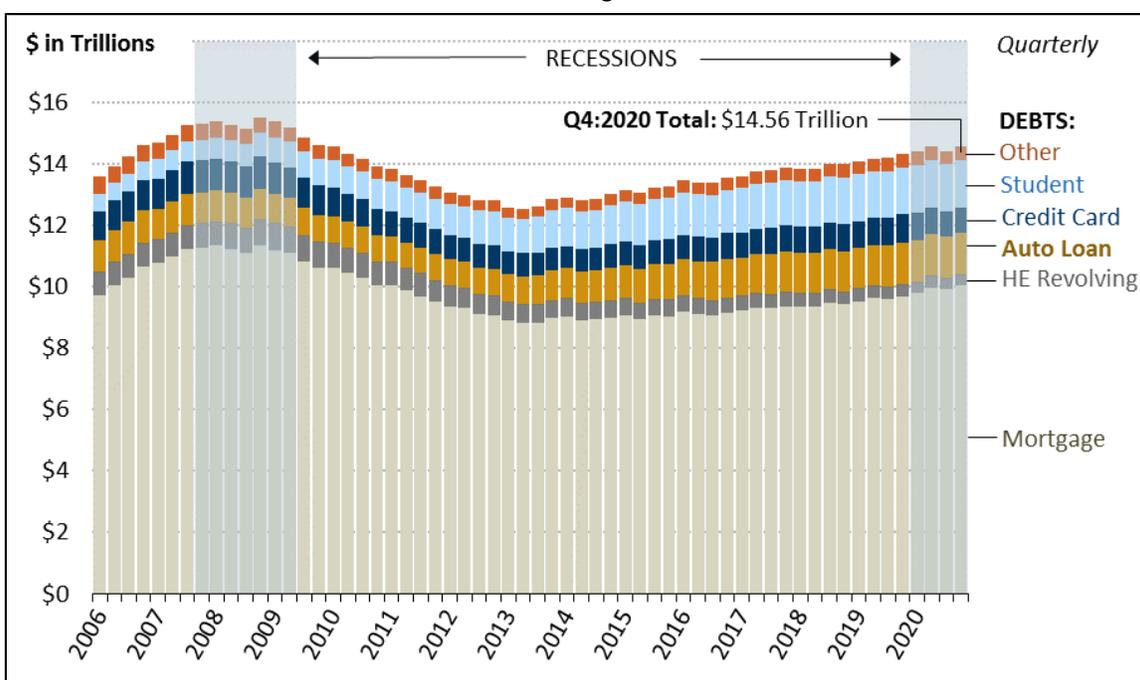
<sup>14</sup> Federal Reserve Bank of Philadelphia, “COVID-19 Survey of Consumers—Wave 7” 2021, see Table 7.

## Household Debt and Delinquency Trends

As of the fourth quarter of 2020, household debt totaled \$14.6 trillion.<sup>15</sup> By far, the largest type of household debt was mortgage debt at \$10.0 trillion.<sup>16</sup> The second largest type of debt was student loan debt totaling \$1.6 trillion, followed by auto loan debt at \$1.4 trillion, and credit card debt at \$819 billion.<sup>17</sup> **Figure 2** shows total household debt and its composition since 2006 using data from the Federal Reserve Bank of New York. It highlights household debt levels during the two most recent recessions, the Great Recession that began in late 2007 as a result of the 2007-2009 financial crisis and the current recession that began in early 2020 with the COVID-19 pandemic. After peaking in 2008, total household debt gradually decreased over a period of nearly five years until the middle of 2013, at which time household debt began increasing again.

**Figure 2. Total Household Debt and Its Composition**

I<sup>st</sup> Quarter 2006 through 4<sup>th</sup> Quarter 2020



**Source:** New York Federal Reserve Bank Consumer Credit Panel/Equifax, at <https://www.newyorkfed.org/microeconomics/hhdc/background.html>.

**Notes:** The data are inflation-adjusted to 2020Q4 dollars. HE revolving debt refers to home equity lending. Economic recessions are shaded in the graph.

Although the current level of debt is around its 2008 peak, the composition of household debt has changed in the past decade. In 2008, mortgage debt (including home equity debt) was a much

<sup>15</sup> Federal Reserve Bank of New York, *Household Debt and Credit (Based on New York Fed Consumer Credit Panel)*, Center for Microeconomic Data, Q4 2020, at <https://www.newyorkfed.org/microeconomics/hhdc/background.html> (hereinafter Federal Reserve Bank of New York, *Household Debt and Credit*, Q4 2020). For an overview of consumer financial markets, see CRS Report R45813, *An Overview of Consumer Finance and Policy Issues*, by Cheryl R. Cooper.

<sup>16</sup> Federal Reserve Bank of New York, *Household Debt and Credit*, Q4 2020.

<sup>17</sup> Federal Reserve Bank of New York, *Household Debt and Credit*, Q4 2020.

larger proportion of household debt than it is now. Since the last recession, student loan debt has doubled and auto loan debt has also grown.

During the second and third quarters of 2020, the pandemic had affected different types of aggregate household debt balances differently. Notably, credit card balances declined sharply during the second quarter by about \$76 billion, the largest quarterly decline on record.<sup>18</sup> By contrast, there were increases in mortgage debt balances, but other household debt balances remained relatively flat in 2020.<sup>19</sup> These effects surprised some observers who thought that credit card debt would increase during the quarter due to lost income from the COVID-19 pandemic.<sup>20</sup> The Consumer Financial Protection Bureau (CFPB) finds credit card balance declines “across all groups, including consumers residing in both high- and low-income census tracts,” possibly due to a decline in consumer spending.<sup>21</sup> Moreover, consumers who were having financial difficulties before the pandemic also experienced credit card debt reductions.<sup>22</sup>

Despite many Americans losing income, consumers have generally not fallen delinquent on their loan obligations. This pattern is unlike during other economic recessions, such as the 2007–2009 Great Recession. In 2020, the percentage of delinquent loans declined in most consumer debt markets. **Figure 3** shows the percentage of delinquent loans that are 30 or more days late, by loan type, on a quarterly basis between the first quarter of 2006 and the most recent quarter of 2020. Whereas delinquency increased during the Great Recession, a similar pattern is not observed during the COVID-19 pandemic. Student loans experienced the largest decrease in delinquency during 2020, and delinquency rates for most other types of consumer debt also notably fell. Some of this decline is due to consumers entering into loan forbearance agreements (discussed in the next section).

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<sup>18</sup> Federal Reserve Bank of New York, *Household Debt and Credit*, Q4 2020.

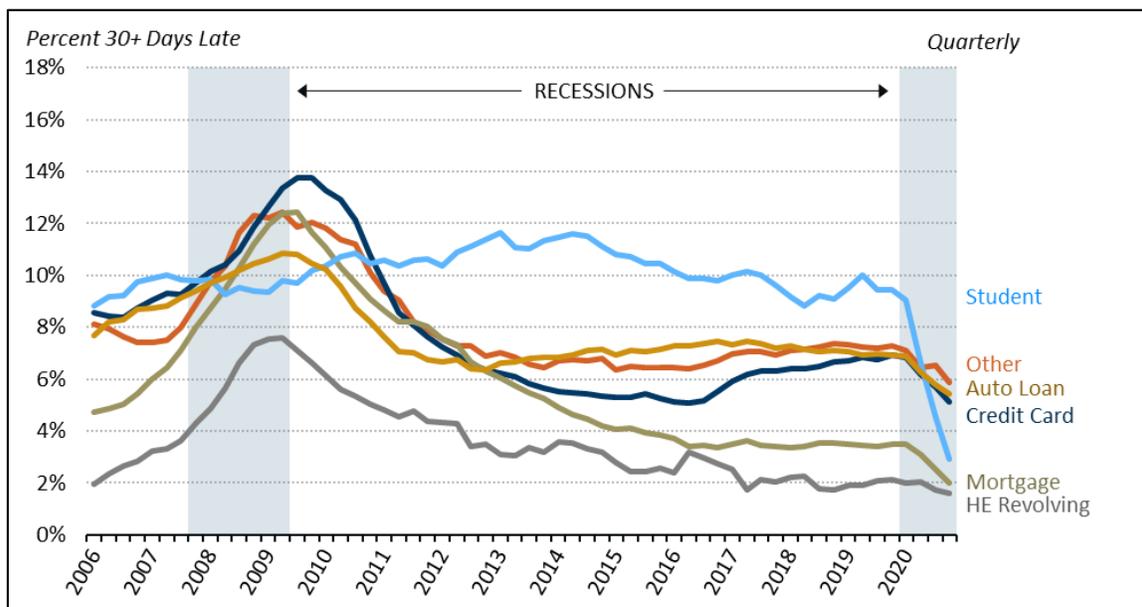
<sup>19</sup> Andrew F. Haughwout et al., *A Monthly Peek into Americans' Credit During the COVID-19 Pandemic*, Federal Reserve Bank of New York, Liberty Street Economics, August 6, 2020, at <https://libertystreeteconomics.newyorkfed.org/2020/08/a-monthly-peek-into-americans-credit-during-the-covid-19-pandemic.html>.

<sup>20</sup> Jeanna Smialek, “Credit Card Debt Plunges, Driving a Decline in Overall Household Debt,” *New York Times*, August 6, 2020.

<sup>21</sup> Ryan Sandler and Judith Ricks, *The Early Effects of the COVID-19 Pandemic on Consumer Credit*, Consumer Financial Protection Bureau (CFPB), CFPB Office of Research Special Issue Brief, August 2020, p. 3, at <https://www.consumerfinance.gov/data-research/research-reports/special-issue-brief-early-effects-covid-19-pandemic-on-consumer-credit/> (hereinafter Ryan Sandler and Judith Ricks, *Household Debt and Credit*, August 2020).

<sup>22</sup> Scott Fulford and Marie Rush, *Credit Card Debt Fell Even for Consumers Who Were Having Financial Difficulties Before the Pandemic*, CFPB, December 17, 2020, at <https://www.consumerfinance.gov/about-us/blog/credit-card-debt-fell-even-consumers-having-financial-difficulties-before-pandemic/>.

**Figure 3. Percentage of Delinquent Loans (30+ Days Late) by Loan Type:**  
1<sup>st</sup> Quarter 2006 through 4<sup>th</sup> Quarter 2020



**Source:** New York Federal Reserve Bank Consumer Credit Panel/Equifax, at <https://www.newyorkfed.org/microeconomics/hhdc/background.html>.

**Notes:** HE revolving debt refers to home equity lending. Economic recessions are shaded in the graph.

## Consumer Loan Forbearance Trends

Many consumers who would likely have experienced difficulty repaying their loans received *loan forbearance*.<sup>23</sup> Loan forbearance plans can prevent a consumer from becoming delinquent, giving the consumer time to repay the debts owed rather than potentially experiencing adverse consequences, such as credit score declines, debt collection, or foreclosure. As previously mentioned, the CARES Act established consumer rights to be granted forbearance for federally backed mortgages and for most federal student loans during the COVID-19 pandemic. In addition, many financial institutions voluntarily offered loan forbearance and other financial relief options for affected consumers having trouble paying other types of loan obligations, such as auto loans, credit cards, private student loans, and bank-owned mortgages. The CARES Act’s consumer protections and financial institutions’ loan forbearance programs arguably helped avoid sharp increases in loan delinquencies by making it possible for many loans to receive forbearance during 2020. Loans in forbearance are not classified as delinquent, although they may be driven by similar underlying circumstances for the borrower.

According to the Federal Reserve Bank of Philadelphia’s COVID-19 Survey of Consumers, as of January 2021, over 10% of survey respondents used mortgage forbearance at some point during the pandemic.<sup>24</sup> Consumers who had used mortgage forbearance were more likely to be living in

<sup>23</sup> For more information on consumer loan forbearance during the COVID-19 pandemic, including CARES Act rights to forbearance, regulatory guidance, and impacts on consumers and financial institutions, see CRS Report R46356, *COVID-19: Consumer Loan Forbearance and Other Relief Options*, coordinated by Cheryl R. Cooper; and CRS Insight IN11359, *COVID-19: Financial Relief and Assistance Resources for Consumers*, by Maura Mullins and Jennifer Teefy.

<sup>24</sup> Lauren Lambie-Hanson, James Vickery, and Tom Akana, *Recent Data on Mortgage Forbearance: Borrower Uptake*

urban areas and working in an industry impacted by the pandemic, such as leisure and hospitality.<sup>25</sup> Research suggests that lower-income and minority consumers<sup>26</sup> and those with lost income and receiving unemployment insurance during the pandemic<sup>27</sup> were more likely to use mortgage forbearance than was the rest of the U.S. population.

Many mortgage borrowers entered loan forbearance at the beginning of the COVID-19 pandemic in April 2020. According to the Mortgage Bankers Association's (MBA's) Forbearance and Call Volume Survey, the percentage of single-family mortgage loans estimated to be in forbearance as of the end of April 2020 was 4.47%.<sup>28</sup> Before the pandemic, the proportion of mortgage loans in forbearance was relatively small. According to the MBA, the total share of loans in forbearance increased from 0.25% to 2.66% between March 2 and April 1, 2020.<sup>29</sup> At the beginning of April 2020, following the passage of the CARES Act, MBA initiated a weekly survey of forbearance and call reporting. **Figure 4** shows the share of mortgage loans in forbearance each week starting in early April 2020 through the end of April 2021. The reported percentage of mortgages in forbearance increased in April and May, reaching a high of 8.55% as of June 7, 2020.<sup>30</sup> Since mid-June, the share of mortgage loans in forbearance has generally decreased each week, although it remains much higher than before the pandemic.

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*and Understanding of Lender Accommodations*, Federal Reserve Bank of Philadelphia, Consumer Finance Institute, March 2021, at [https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/reports/21\\_02\\_cfi\\_research-brief-mortgage-forbearance.pdf](https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/reports/21_02_cfi_research-brief-mortgage-forbearance.pdf) (hereinafter Lauren Lambie-Hanson, James Vickery, and Tom Akana, *Recent Data on Mortgage Forbearance*, 2021).

<sup>25</sup> Lauren Lambie-Hanson, James Vickery, and Tom Akana, *Recent Data on Mortgage Forbearance*, 2021.

<sup>26</sup> Xudong An et al., *Inequality in the Time of COVID-19: Evidence from Mortgage Delinquency and Forbearance*, Federal Reserve Bank of Philadelphia, Consumer Finance Institute, Research Department Working Paper 21-09, February 24, 2021, at <https://www.philadelphiafed.org/-/media/frbp/assets/working-papers/2021/wp21-09.pdf>.

<sup>27</sup> Chen Zhao, Diana Farrell, and Fiona Greig, *Did Mortgage Forbearance Reach the Right Homeowners? Income and Liquid Assets Trends for Homeowners during the COVID-19 Pandemic*, JP Morgan Chase & Co. Institute, December 2020, at <https://www.jpmorganchase.com/institute/research/household-debt/report-did-mortgage-forbearance-reach-the-right-homeowners>.

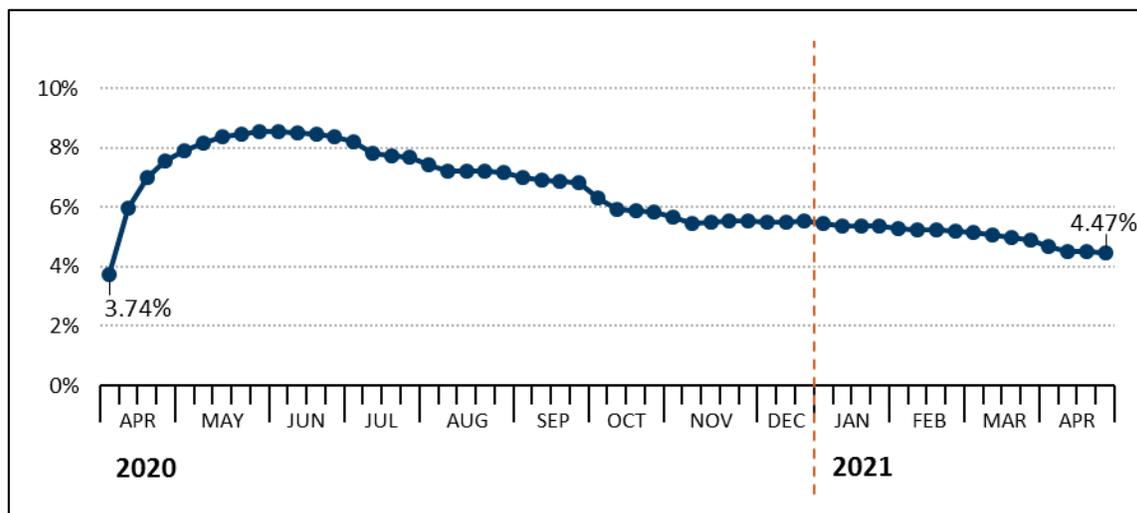
<sup>28</sup> Mortgage Bankers Association (MBA), "Share of Mortgage Loans in Forbearance Decreases to 4.50 Percent," press release, April 19, 2021, at <https://www.mba.org/2021-press-releases/april/share-of-mortgage-loans-in-forbearance-decreases-to-450-percent>.

<sup>29</sup> MBA, "MBA Survey Shows Spike in Loans in Forbearance, Servicer Call Volume," press release, April 7, 2020, at <https://www.mba.org/2020-press-releases/april/mba-survey-shows-spike-in-loans-in-forbearance-servicer-call-volume>.

<sup>30</sup> MBA, "Share of Mortgage Loans in Forbearance Increases to 8.55%," press release, June 15, 2020, at <https://www.mba.org/2020-press-releases/june/share-of-mortgage-loans-in-forbearance-increases-to-855>.

**Figure 4. Weekly Share of Mortgage Loans in Forbearance**

April 2020 through April 2021



**Source:** Mortgage Bankers Association (MBA), Weekly Forbearance and Call Volume Survey. See also MBA's press releases for survey highlights, at <https://www.mba.org/search/press-release-search?keywords=forbearance&start=0&rows=10>.

**Notes:** MBA's weekly survey covers more than three quarters of first-lien mortgages.

Forbearance increased not only for mortgage loans but for other consumer credit products as well. Federal student loan interest rates have been set to zero, and borrowers will not be required to make payments due on their loans through at least September 2021, effectively putting all of these loans automatically in forbearance.<sup>31</sup> Loan forbearance also rose in auto loan and credit card markets, where consumers do not have a right in the CARES Act to forbearance. However, many lenders may still offer it as an option to consumers. According to the CFPB, auto loans in forbearance increased from about 1.5% in February 2020 to about 3% in June 2020, and credit card loans in forbearance increased from about 1.5% in February 2020 to about 3.5% in June 2020.<sup>32</sup> In addition, payment assistance was “more likely to be reported for borrowers residing in areas with more COVID-19 cases, with majority-Black or majority-Hispanic populations, and with larger changes in unemployment since the start of the pandemic.”<sup>33</sup>

<sup>31</sup> Section 3513 of the CARES Act suspends all payments due and interest accrual for all loans made under the Direct Loan program and the Federal Family Education Loan program held by the Department of Education through September 30, 2020. This expiration date has been extended administratively, currently through September 2021. For more information about federal student loan debt relief in the context of COVID-19, see CRS Report R46314, *Federal Student Loan Debt Relief in the Context of COVID-19*, by Alexandra Hegji.

<sup>32</sup> The CFPB calculates payment assistance “as an account being reported with a zero scheduled payment due despite a positive balance.” The CFPB notes that “the variation in the incidence of consumer assistance reported... may have as much to do with how furnishers in each market report to the [credit bureaus] as it does with the incidence of actual assistance.” Ryan Sandler and Judith Ricks, *Household Debt and Credit*, August 2020, pp. 13-15. Other sources calculate estimates differently than the CFPB, and report different percentages. For example, Transunion creates a broader metric called “accounts in hardship,” which includes loans “affected by natural/declared disaster, accounts reported as in forbearance, accounts reported as deferred or payment due amount removal, or freezing of account status and/or past due amount.” Transunion reports 7.2% of auto accounts and 3.6% of credit card loans in hardship in June 2020. See Transunion, *Monthly Industry Snapshot: Financial Services*, at <https://www.transunion.com/monthly-industry-snapshot-fs>.

<sup>33</sup> Ryan Sandler and Judith Ricks, *Household Debt and Credit*, August 2020, p. 3; Lisa Dettling and Lauren Lambie-Hanson, *Why Is the Default Rate So Low? How Economic Conditions and Public Policies Have Shaped Mortgage and*

### Household Debt Trends: Current Recession Compared with the Great Recession

The current recession created by the COVID-19 pandemic differs from the Great Recession caused by the 2007-2009 financial crisis. Although the pandemic has caused lost income and financial insecurity, mortgage borrowers' household finances were generally stronger in light of stricter lending standards over the last several years.<sup>34</sup> For example, families have less mortgage debt and more equity in their homes. During the Great Recession, many families lost equity in their homes resulting from low- or zero-down payment requirements and falling home values. According to the Case-Shiller U.S. National Home Price Index, home prices across the United States fell more than 25% on average between the peak and the bottom of the housing bubble.<sup>35</sup> This led to many foreclosures, which destabilized local house prices and harmed local communities. In contrast, house prices have risen during the COVID-19 pandemic.<sup>36</sup>

Loan forbearance may be a more viable solution for families having trouble paying their mortgages during the COVID-19 pandemic than during the Great Recession, because more families have equity in their homes. According to the CFPB, only 1% of borrowers in forbearance had less than 5% of equity in their homes, and 17% of borrowers in forbearance had less than 20% of equity in their homes, suggesting that relatively few mortgage borrowers may be at risk for foreclosure at the moment.<sup>37</sup> Borrowers with equity in their homes can avoid foreclosure through loan forbearances, mortgage refinancing, or if no longer affordable, selling the home; borrowers with negative equity may not have these options.<sup>38</sup> During the Great Recession, by contrast, falling home prices meant that many families had negative equity, and therefore were more at risk of foreclosure.<sup>39</sup>

Student and auto loan debt, however, are higher now for most households than during the Great Recession. The federal government owns most student loan debt in the United States, and these loans have been effectively in loan forbearance during the pandemic, thus consumers have been able to choose not to pay on them. However, some consumers may have trouble paying back their student loans when forbearance expires. Car loans may also be vulnerable to becoming delinquent in the future. In recent years as auto lending has grown, some loans were made to subprime consumers who may be more likely to have trouble paying these loans back due to the economic downturn.<sup>40</sup> However, increased demand for used vehicles during the COVID-19 pandemic may limit potential credit losses in this market, by allowing some consumers the option to sell their cars rather than becoming delinquent on their auto loans.<sup>41</sup>

Auto Delinquencies During the COVID-19 Pandemic, Board of Governors of the Federal Reserve System, March 4, 2021, at <https://www.federalreserve.gov/econres/notes/feds-notes/why-is-the-default-rate-so-low-20210304.htm> (hereinafter Dettling and Lambie-Hanson, *Why Is the Default Rate So Low?*, 2021).

<sup>34</sup> See CRS InFocus CRS In Focus IF11413, *The Qualified Mortgage (QM) Rule and the QM Patch*, by Darryl E. Getter.

<sup>35</sup> S&P Dow Jones Indices LLC, *S&P/Case-Shiller U.S. National Home Price Index [CSUSHPINSA]*, retrieved from FRED, Federal Reserve Bank of St. Louis, at <https://fred.stlouisfed.org/series/CSUSHPINSA>.

<sup>36</sup> S&P Dow Jones Indices LLC, *S&P/Case-Shiller U.S. National Home Price Index [CSUSHPINSA]*, retrieved from FRED, Federal Reserve Bank of St. Louis, at <https://fred.stlouisfed.org/series/CSUSHPINSA>.

<sup>37</sup> Erik Durbin et al., *Characteristics of Mortgage Borrowers During the COVID-19 Pandemic*, CFPB, May 2021, pp.7-8, at [https://files.consumerfinance.gov/f/documents/cfpb\\_characteristics-mortgage-borrowers-during-covid-19-pandemic\\_report\\_2021-05.pdf](https://files.consumerfinance.gov/f/documents/cfpb_characteristics-mortgage-borrowers-during-covid-19-pandemic_report_2021-05.pdf).

<sup>38</sup> Regulatory changes following the 2007-2009 financial crisis pertaining to mortgage servicing may also be making it easier to accommodate many consumers having trouble paying their mortgages. For more information on mortgage servicing, see CRS Insight IN11377, *Mortgage Servicing Rights and Selected Market Developments*, by Darryl E. Getter.

<sup>39</sup> For more information on the policy issues related to foreclosure and mortgage loan modifications, see CRS Report R40210, *Preserving Homeownership: Foreclosure Prevention Initiatives*, by Katie Jones.

<sup>40</sup> Jean Eaglesham and Ken Brown, "Auto-Lending Binge Threatens to Unwind When Stimulus Measures Ease," *Wall Street Journal*, August 7, 2020, at <https://www.wsj.com/articles/auto-lending-binge-threatens-to-unwind-when-stimulus-measures-ease-11596798003>; and AnnaMaria Andriotis and Ben Eisen, "Risky Borrowers Are Falling Behind on Car Payments," *Wall Street Journal*, April 5, 2021, at <https://www.wsj.com/articles/risky-borrowers-are-falling-behind-on-car-payments-11617615001>.

<sup>41</sup> Nathan Bomey, "Used Car Prices Spiking as COVID-19 Pandemic Shakes up the Market for New Cars," *USA Today*, August 5, 2020, at <https://www.usatoday.com/story/money/cars/2020/08/05/car-prices-coronavirus-pandemic-new-trucks-suvs/3297869001/>.

## Policy Impacts on Household Finances

The initial economic policy response to the COVID-19 pandemic was swift and large, as compared with that of previous recessions.<sup>42</sup> This response to the economic impacts of the pandemic have likely prevented many consumers from falling delinquent on their loan payments.<sup>43</sup> This section highlights two important policy impacts that influenced these trends: consumer loan forbearance and macroeconomic policy to support households during the economic recession.

### Consumer Loan Forbearance and Other Financial Policy Responses

For Americans having trouble paying their loan obligations due to the COVID-19 pandemic, Congress, financial regulators, and financial institutions responded by providing consumers relief options, such as loan forbearance. A consumer's ability to get a forbearance and the types of terms under the forbearance may be significantly influenced by what type of institution owns the loan. These various institutions—including banks and credit unions, private nonbank financial institutions, government-sponsored enterprises (GSEs), and the federal government—are subject to different laws, regulations, and business considerations. As mentioned earlier, the CARES Act establishes consumer rights to be granted forbearance for federally backed mortgages (Section 4022) and for federal student loans (Section 3513).<sup>44</sup> The law also protects the credit histories of consumers with forbearance agreements until 120 days after the national emergency declared by the President on March 13, 2020, terminates (Section 4021).<sup>45</sup> However, the act does not grant consumers loan forbearance for other types of consumer loan obligations, such as auto loans, credit cards, private student loans, and bank-owned mortgages. In these cases, financial institutions have discretion about when and how to offer loan forbearance or other relief options to consumers. Therefore, financial regulatory agencies have used existing statutory authorities to encourage loan forbearance and other financial relief options for affected consumers.<sup>46</sup> In response, many banks and credit unions have announced measures to offer various forms of assistance to affected consumers.

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<sup>42</sup> Romina Boccia and Justin Bogie, *This Is How Big the COVID-19 CARES Act Relief Bill Is*, The Heritage Foundation, April 20, 2020, at <https://www.heritage.org/budget-and-spending/commentary/how-big-the-covid-19-cares-act-relief-bill>.

<sup>43</sup> Dettling and Lambie-Hanson, *Why Is the Default Rate So Low?*, 2021.

<sup>44</sup> For more information on Title IV of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136), which contains a number of provisions aimed broadly at stabilizing the economy and helping affected households and businesses, see CRS Report R46301, *Title IV Provisions of the CARES Act (P.L. 116-136)*, coordinated by Andrew P. Scott. For more information about federal student loan debt relief in the context of COVID-19, see CRS Report R46314, *Federal Student Loan Debt Relief in the Context of COVID-19*, by Alexandra Hegji.

<sup>45</sup> For more information on the credit reporting industry, see CRS Report R44125, *Consumer Credit Reporting, Credit Bureaus, Credit Scoring, and Related Policy Issues*, by Cheryl R. Cooper and Darryl E. Getter.

<sup>46</sup> Many financial regulatory agencies have updated their guidance to help financial firms support consumer needs during this time. Regulatory guidance does not force financial institutions to take any particular action for consumers (such as offering loan forbearance), but it can encourage them to offer various forms of support. For more information on mortgage and bank regulators' responses to COVID-19, see CRS Insight IN11316, *COVID-19: Support for Mortgage Lenders and Servicers*, by Andrew P. Scott and Darryl E. Getter; and CRS Insight IN11278, *Bank and Credit Union Regulators' Response to COVID-19*, by Andrew P. Scott and David W. Perkins. In addition, the Federal Reserve has provided liquidity to support financial markets in response to COVID-19. For more information, see CRS Insight IN11259, *Federal Reserve: Recent Actions in Response to COVID-19*, by Marc Labonte.

Forbearance, particularly mortgage forbearance, may help consumers pay other bills. Mortgage debt is the largest debt obligation for many families. About two-thirds of all mortgage loans in the United States were held or insured by the federal government and, therefore, covered by the CARES Act's consumer right to be granted loan forbearance.<sup>47</sup> Therefore, many Americans may be able to access loan forbearance on their mortgage debt. For a family who lost income during the COVID-19 pandemic, skipping monthly payments on a mortgage or other loan may allow the family to have enough money for food and other expenses during the month. In this way, access to loan forbearance on one loan may help a consumer stay current on other loans, providing needed financial relief.

Although many Americans took advantage of loan forbearance, some households affected by COVID-19 may not have requested or received loan forbearance. Some consumers' loans may fall outside of those with rights under the CARES Act. In addition, many consumers may not be aware of the forbearance or credit reporting benefits in the CARES Act, which may make it more difficult for them to access these benefits.<sup>48</sup> According to a Federal Reserve Bank of Philadelphia survey, as of June 2020, less than a third of American consumers were aware of the CARES Act right to mortgage forbearance for federally backed mortgages and fewer were aware of the credit reporting accommodations.<sup>49</sup> The survey in January 2020 suggests that some people who may benefit from forbearance may not know how forbearance plans work and whether they qualify.<sup>50</sup>

## Fiscal Policy Responses

In addition to consumer loan forbearance rights, the fiscal relief was likely another important factor making it easier for consumers to pay their existing loan obligations. In addition to the CARES Act, Congress also enacted other legislation to respond to the COVID-19 pandemic, including provisions in the CAA and ARPA. Fiscal relief provisions in these laws included income support for households, such as enhanced unemployment insurance and relief checks. These income transfer programs may have helped some consumers make their consumer credit payments on time, particularly those who lost income during the COVID-19 pandemic. Evidence suggests that these programs—along with other COVID-19 pandemic relief provisions, such as the Paycheck Protection Program—increased total personal income over the course of 2020 and the beginning of 2021.<sup>51</sup> Personal income grew most notably in April 2020 and January and March 2021—the months in which the bulk of economic impact payments were sent.<sup>52</sup> That personal income would increase at all is highly unusual during a recession and likely contributed

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<sup>47</sup> For ownership of all mortgage loans in the United States, see Federal Reserve, "Financial Accounts of the United States—Z.1, 2020: Q1 release," June 11, 2020, at <https://www.federalreserve.gov/releases/z1/>. Mortgage loans held or insured by the federal government are not reported by age of mortgage borrower.

<sup>48</sup> Douglas Duncan, *COVID-19: The Need for Consumer Outreach and Home Purchase/Financing Digitization*, Fannie Mae, Perspectives Blog, August 12, 2020, at <https://www.fanniemae.com/research-and-insights/perspectives/covid-19-need-consumer-outreach-and-home-purchase-financing-digitization>.

<sup>49</sup> Federal Reserve Bank of Philadelphia, Consumer Finance Institute Special Report, *CFI COVID-19 Survey of Consumers—Wave 3 Reveals Improvements, but Not for Everyone*, pp. 11-13, 31, at <https://www.philadelphiafed.org/-/media/covid/cfi/cfi-covid-19-survey-of-consumers-wave3-updates.pdf>.

<sup>50</sup> Lambie-Hanson, Vickery, and Akana, *Recent Data on Mortgage Forbearance*, 2021, p. 3.

<sup>51</sup> For more information on the Paycheck Protection Program (PPP), see CRS Report R46397, *SBA Paycheck Protection Program (PPP) Loan Forgiveness: In Brief*, by Robert Jay Dilger and Sean Lowry.

<sup>52</sup> Bureau of Economic Analysis, *Effects of Selected Federal Pandemic Response Programs on Personal Income, March 2021*, April 30, 2021, at <https://www.bea.gov/sites/default/files/2021-04/effects-of-selected-federal-pandemic-response-programs-on-personal-income-march-2021.pdf>.

to household debt patterns. For these reasons, some research suggests that fiscal programs in the CARES Act may be limiting disruptions in the housing market.<sup>53</sup>

This section discusses two income transfer programs in the CARES Act—enhanced unemployment benefits and economic impact payments—and discusses how they may have helped some consumers meet their loan obligations.

## Enhanced Unemployment Benefits

Families with unemployed workers may be the most likely to have trouble paying their bills during the pandemic. Unemployment insurance can substitute for lost income and help families meet payment obligations.

As Americans became unemployed at historic rates, Congress enhanced federal unemployment benefits, providing unemployed workers with more support for an extended period of time, beyond what the worker would normally be eligible to receive. During the COVID-19 pandemic, unemployed workers have received a weekly supplement most weeks, and some workers who were not normally eligible for unemployment insurance were able to receive unemployment benefits.<sup>54</sup> Estimates suggest that most workers received at least as much in benefits as they lost in wages.<sup>55</sup> These unemployment benefits likely made it possible for some families with an unemployed worker to pay their bills.

## Economic Impact Payments

The CARES Act also provided direct payments to households equal to \$1,200 per adult individual and \$500 per child, with amounts phased out for higher-income taxpayers.<sup>56</sup> Payments began in April 2020.<sup>57</sup> According to the IRS, more than 160 million economic impact payments were delivered by August 14, 2020.<sup>58</sup> Economic impact payments constituted more than 12% of total personal income in the United States in April 2020.<sup>59</sup>

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<sup>53</sup> Chris Cunningham and Kris Gerardi, *COVID-19 Mortgage Relief—The Role of Income Support*, Federal Reserve Bank of Atlanta, MacroBlog, May 27, 2020, at <https://www.frbatlanta.org/blogs/macroblog/2020/05/27/covid-19-mortgage-relief-the-role-of-income-support>.

<sup>54</sup> For more information about unemployment insurance during the 116<sup>th</sup> Congress, see CRS Report R45478, *Unemployment Insurance: Legislative Issues in the 116th Congress*, by Julie M. Whittaker and Katelin P. Isaacs. For more information about unemployment insurance in the ARPA, see CRS In Focus IF11786, *Unemployment Insurance Provisions in the American Rescue Plan Act of 2021*, by Katelin P. Isaacs and Julie M. Whittaker.

<sup>55</sup> Peter Ganong, Pascal Noel, and Joseph Vavra, *US Unemployment Insurance Replacement Rates During the Pandemic*, University of Chicago, Becker Friedman Institute for Economics, Working Paper no. 2020-62, August 24, 2020.

<sup>56</sup> For more information on the direct payments to individuals in the CARES Act, see CRS Insight IN11282, *COVID-19 and Direct Payments to Individuals: Summary of the 2020 Recovery Rebates/Economic Impact Payments in the CARES Act (P.L. 116-136)*, by Margot L. Crandall-Hollick.

<sup>57</sup> U.S. Congress, House Committee on Ways and Means, *Expected Timeline for Economic Impact Payments*, 116<sup>th</sup> Cong., April 16, 2020, at <https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/2020.04.16%20Rebate%20Payment%20Timeline%20FINAL.pdf>.

<sup>58</sup> Internal Revenue Service, “IRS takes new steps to ensure people with children receive \$500 Economic Impact Payments,” press release, August 14, 2020, at <https://www.irs.gov/newsroom/irs-takes-new-steps-to-ensure-people-with-children-receive-500-economic-impact-payments>.

<sup>59</sup> Bureau of Economic Analysis, *Effects of Selected Federal Pandemic Response Programs on Personal Income, June 2020*, July 31, 2020, at <https://www.bea.gov/system/files/2020-07/effects-of-selected-federal-pandemic-response-programs-on-personal-income-june-2020.pdf>.

Provisions in the CAA and in ARPA also included direct payments to households. The second round of payments in the CAA provided direct payments equal to \$600 per eligible individual and \$600 per qualifying child, with amounts phased out for higher-income individuals. The third round of payments in the ARPA provided direct payments equal to \$1,400 per eligible individual and \$1,400 for each dependent (including dependents above the age of 17), with amounts phased out for higher income levels.<sup>60</sup> The bulk of the second round of payments were delivered in January 2021 and third round payments in March 2021.<sup>61</sup>

Current survey research suggests that many consumers used their impact payments to pay down debt. A National Bureau of Economic Research working paper using a large-scale survey of consumers found that 52% of respondents said they used first-round funds to pay down debt, 33% said they mostly saved it, and 15% said they spent or planned to spend most of it.<sup>62</sup> Those who reported using the economic impact payments to pay off debts were more likely to be unemployed, have COVID-19-related earnings losses, or have a mortgage, compared with other groups. . The Federal Reserve Bank of New York Survey of Consumer Expectations found that respondents spent or expected to spend 34.5% of the first round of stimulus toward debt, 37.4% of the second round of stimulus toward debt, and 33.7% of the third round of stimulus toward debt.<sup>63</sup> According to the Census Household Pulse Survey for the period of March 17-29, 2021, for households that had received stimulus payments in the past seven days, roughly 50% reported using it mostly to pay off debt.<sup>64</sup>

### **Fiscal Stimulus During a Recession**

Consumer spending is a key driver of short-run economic growth in the U.S. economy. As happened with the COVID-19 pandemic, significant drops in consumer spending can cause drops in aggregate demand (overall spending), of which consumer spending is a significant component. Such a fall in aggregate demand will generally result in slower wage growth, decreased employment, lower business revenue, and lower business investment. Lost jobs and wage income can cause more reductions in consumer spending, leading to a more severe recession.

Conventional macroeconomic theory generally supports the use of fiscal stimulus in the form of short-term government spending increases or tax decreases designed to temporarily spur economic activity.<sup>65</sup> According to this theory, fiscal stimulus can mitigate the decline in aggregate demand, reduce employment gaps, and guide the economy back to the full-employment more quickly than would otherwise occur. Fiscal policy, such as taxes and transfers, can directly support a household's income. Fiscal policy also affects household income and spending indirectly, through its effect on aggregate demand, leading to reduced unemployment and higher income. In these ways, fiscal stimulus can help a household sustain its regular spending and more easily pay its loan obligations.

<sup>60</sup> For more information on the direct payments to individuals, see CRS Insight IN11605, *COVID-19 and Direct Payments: Comparison of First and Second Round of "Stimulus Checks" to the Third Round in the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2)*, by Margot L. Crandall-Hollick.

<sup>61</sup> Bureau of Economic Analysis, *Effects of Selected Federal Pandemic Response Programs on Personal Income, March 2021*, April 30, 2021, at <https://www.bea.gov/sites/default/files/2021-04/effects-of-selected-federal-pandemic-response-programs-on-personal-income-march-2021.pdf>.

<sup>62</sup> Olivier Coibion, Yuriy Gorodnichenko, and Michael Weber, "How Did U.S. Consumers Use Their Stimulus Payments?" National Bureau of Economic Research, Working Paper no. 27693, August 2020, pp. 2-3.

<sup>63</sup> Olivier Armantier et al., "An Update of How Households Are Using Stimulus Checks," Liberty Street Economics, April 7, 2021, at <https://libertystreeteconomics.newyorkfed.org/2021/04/an-update-on-how-households-are-using-stimulus-checks.html>.

<sup>64</sup> U.S. Census Bureau, *Week 27 Household Pulse Survey: March 17-March 29*, Household Pulse Survey, April 7, 2021, at <https://www.census.gov/data/tables/2021/demo/hhp/hhp27.html>.

<sup>65</sup> For more information on fiscal policy, see CRS In Focus IF11253, *Introduction to U.S. Economy: Fiscal Policy*, by Lida R. Weinstock; and CRS Report R45723, *Fiscal Policy: Economic Effects*, by Marc Labonte.

## Future Household Finance Outlook

Evidence suggests that after an initial increase in consumer loan forbearance requests in the spring of 2020, the number of new forbearance requests have declined since then.<sup>66</sup> However, it is unclear whether these consumers will be in a good position to meet their financial obligations when loan forbearance ends. The CFPB estimates that 2 million households are over three months behind on their mortgages (most in loan forbearance), and over 8 million households are behind on their rent, and these households are more likely to be lower-income and racial or ethnic minorities than the U.S. population.<sup>67</sup> Future economic projections look uncertain, as it is difficult to predict the trajectory of future COVID-19 outbreaks and their subsequent economic impacts.

This section of the report discusses major uncertainties relating to the outlook for household debt and consumer credit markets. The first subsection describes current macroeconomic uncertainties; the second subsection discusses the importance of future public policy; and the last subsection discusses uncertainties in consumer credit markets.

### Future Macroeconomic Outlook Uncertainty

Although the economy has begun to recover from the effects of the COVID-19 pandemic, how long it will take for the economy to fully recover is uncertain. Gross domestic product (GDP) and unemployment improved in the latter half of 2020 but still remained depressed and elevated, respectively, from prior to the pandemic. The recovery has also slowed somewhat since the third quarter of 2020: Real GDP rose by a historic annualized 33.4% in the third quarter of 2020, by 4.3% in the fourth quarter, and by 6.4% in the first quarter of 2021.<sup>68</sup> Unemployment fell to 6.9% in October 2020 from a high of 14.8% in April 2020 but has only fallen to 6.0% as of March 2021.<sup>69</sup> To a large extent, the economy is unlikely to fully recover until the pandemic has ended. Therefore, economic activity may depend on factors such as when most of the U.S. population will be vaccinated, how effective the vaccine is against new variants, or other advances in treatment. In this case, forecasting when employment will recover may be difficult. Yet current projections suggest possible long-run economic impacts. The Congressional Budget Office (CBO) forecasts, as of February 2021, that real GDP will remain below its potential until 2025 and the unemployment rate will remain elevated for several years, dropping below 5% by 2023 and below 4% by 2026.<sup>70</sup> The forecast assumes no policy changes (and therefore does not take ARPA into account) and is subject to change. Other forecasts are more optimistic about the rate of recovery.<sup>71</sup>

<sup>66</sup> Jon Prior, “PNC Sees Steep Decline in Forbearance Requests. Will It Last?,” *American Banker*, July 15, 2020; and Jim Dobbs, “Big Banks Keeping Consumer Loan Losses in Check, at Least for Now,” *American Banker*, July 14, 2020.

<sup>67</sup> CFPB, *Housing Insecurity and the COVID-19 Pandemic*, March 2020, pp. 1-2, 13, at [https://files.consumerfinance.gov/f/documents/cfpb\\_Housing\\_insecurity\\_and\\_the\\_COVID-19\\_pandemic.pdf](https://files.consumerfinance.gov/f/documents/cfpb_Housing_insecurity_and_the_COVID-19_pandemic.pdf).

<sup>68</sup> Bureau of Economic Analysis, *Gross Domestic Product, First Quarter 2021*, April 29, 2021, at [https://www.bea.gov/sites/default/files/2021-04/gdp1q21\\_adv.pdf](https://www.bea.gov/sites/default/files/2021-04/gdp1q21_adv.pdf).

<sup>69</sup> Bureau of Labor Statistics, *The Employment Situation—March 2021*, April 2, 2021, at <https://www.bls.gov/news.release/empisit.nr0.htm>.

<sup>70</sup> Congressional Budget Office, *An Overview of the Budget and Economic Outlook: 2021-2031*, February 1, 2021, at <https://www.cbo.gov/publication/56965>.

<sup>71</sup> For example, see Board of Governors of the Federal Reserve System, *FOMC Economic Projections*, March 17, 2021, at <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20210317.pdf>.

## Future Public Policy Uncertainty

Future public policy will affect the course of the economic recovery generally and developments in household debt markets more specifically. Mortgage and student loan forbearance programs are still in effect, but when these programs expire, some consumers may fall delinquent on their loans. According to the Philadelphia Federal Reserve Bank survey, people with student loans were more likely than other Americans to experience job loss, reduced hours, or reduced income during the pandemic and more likely to report concerns about their ability to make ends meet.<sup>72</sup> Therefore, when student loan forbearance expires, some consumers may have trouble paying back those loans.

Households that rent may find it more difficult than homeowners to recover as the economy recovers. Renters did not have access to loan forbearance to pay their housing costs, unlike many homeowners with mortgages. In addition, research suggests that renters may have been more likely to lose labor income during the pandemic than were mortgage holders.<sup>73</sup> According to the Philadelphia Federal Reserve Bank survey, as of January 2020, nearly 8% of renters reported currently owing back rent, and many of these renters expected to use economic impact payments or emergency rental assistance programs to help with repayment.<sup>74</sup> These programs may help some consumers pay these rental debts, but it is unclear how many renters may still struggle to repay rental debts going forward.

In addition, unemployment insurance policy may impact consumers' ability to pay back their loans. If unemployment remains elevated when enhanced unemployment insurance expires, some people may have or continue to have trouble paying their monthly consumer loan obligations. However, if employment rebounds quickly, this policy factor might be less of a risk to consumer credit markets.

## Consumer Credit Market Uncertainty

Promoting loan forbearance as a solution for consumers having trouble meeting their loan obligations made sense when the COVID-19 pandemic was expected to be short-lived. However, if the economic impacts of the COVID-19 pandemic persist for a longer period of time, then loan forbearance may only be delaying some consumers from becoming delinquent and defaulting on their loans, rather than preventing this outcome. If so, these consumers may not be able to avoid the serious consequences of loan default, such as debt collection, foreclosure, car repossession, or wage garnishment. However, some argue that consumers in mortgage loan forbearance may not necessarily default or foreclose on their mortgages when forbearance expires, because many consumers in government mortgages may have repayment options and equity in their homes.<sup>75</sup>

<sup>72</sup> Tom Akana, *CFI COVID-19 Survey of Consumers—Wave 6*, Federal Reserve Bank of Philadelphia, Consumer Finance Institute, January 2020, pp. 8-9, at <https://www.philadelphiafed.org/consumer-finance/consumer-credit/cfi-covid-19-survey-of-consumers-wave6-updates>.

<sup>73</sup> Fiona Greig, Chen Zhao, and Alexandra Lefevre, *Renters vs. Homeowners: Income and Liquid Asset Trends during COVID-19*, JP Morgan Chase & Co. Institute, March 2021, at <https://www.jpmorganchase.com/institute/research/household-debt/renters-homeowners-income-and-liquid-asset-trends-during-covid-19>.

<sup>74</sup> Tom Akana, *CFI COVID-19 Survey of Consumers—Relief Programs, Vaccines, and the Effects of the Crisis on Renters and Mortgage Holders*, Federal Reserve Bank of Philadelphia, Consumer Finance Institute, February 2020, p. 10, at <https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/reports/cfi-covid-19-survey-of-consumers-wave-7-updates.pdf>.

<sup>75</sup> Michael Neal and Laurie Goodman, *The Predicted Foreclosure Surge Likely Won't Happen, Even Among Financially Vulnerable Borrowers*, Urban Institute, February 11, 2021, at [https://www.urban.org/urban-wire/predicted-](https://www.urban.org/urban-wire/predicted-foreclosure-surge-likely-won-t-happen-even-among-financially-vulnerable-borrowers)

For lenders, if the economic impacts of the COVID-19 pandemic continue to cause prolonged disruptions, questions exist about whether loans in forbearance will become current or whether they will eventually need to be charged off.<sup>76</sup> Large numbers of missed consumer loan payments—due to forbearance or delinquency—could have significant negative consequences for financial institutions and the financial system that affects the future availability of credit.<sup>77</sup> It is unclear, however, if the share of household debt at risk of default may be enough to pose systemic risk to the financial system.<sup>78</sup>

In addition, financial institutions will likely find it logistically complicated to resolve consumer loans when loan forbearance ends. Particularly in the mortgage market, forbearance may end for many mortgages around the same time, and for those consumers who cannot pay at that time, there are concerns about whether mortgage servicers will be able to modify these mortgages or whether a wave of home foreclosures will occur.<sup>79</sup> In response, the CFPB proposed new regulations around loss mitigation and foreclosure as COVID-19 pandemic loan forbearance expires.<sup>80</sup>

In addition to impacts on current loans, CARES Act protections related to the credit reporting system may also impact consumers' ability to access credit in the future, possibly in positive and negative ways. Consumers can harm their credit scores when they miss consumer loan payments, and lower credit scores can impact their access to future credit.<sup>81</sup> Section 4021 of the CARES Act requires financial institutions to report to the credit bureaus that consumers are current on their credit obligations if they enter into an agreement to defer, forbear, modify, make partial payments, or get any other assistance on their loan payments from a financial institution and fulfil those

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foreclosure-surge-likely-wont-happen-even-among-financially-vulnerable-borrowers.

<sup>76</sup> For example, some lenders are interested in how public policy may impact consumer debt repayment patterns. See Bruce Cundiff, *Forbearance and Deferrals may Influence the Debt Payment Hierarchy*, Visa, Visa Business and Economic Insights, June 2020, at <https://usa.visa.com/dam/VCOM/regional/na/us/partner-with-us/documents/payment-hierarchy-insight-june-2020.pdf>.

<sup>77</sup> For more information on banks' exposure to consumer loan defaults during the COVID-19 pandemic, see CRS Insight IN11336, *Bank Exposure to COVID-19 Risks: Mortgages and Consumer Loans*, by David W. Perkins and Raj Gnanarajah. For more information on banking developments during Q2 2020, see CRS Insight IN11636, *COVID-19 Impact on the Banking Industry: Conditions at the End of 2020*, by David W. Perkins and Raj Gnanarajah. For a broader overview of banking industry risks and policy responses during the COVID-19 pandemic, see CRS Report R46422, *COVID-19 and the Banking Industry: Risks and Policy Responses*, coordinated by David W. Perkins.

<sup>78</sup> A Wells Fargo report estimates that approximately 6% of household debt outstanding may be at risk. See Jay Bryson, Tim Quinlan, and Shannon Seery, *Household Debt at Risk Amid Job Losses*, Wells Fargo Securities, Economics Group: Special Commentary, August 26, 2020, at <https://www.wellsfargo.com/com/insights/economics/special-reports/>.

<sup>79</sup> Kate Berry, "The Mounting Costs of Protracted Mortgage Forbearance," *American Banker*, March 25, 2020, at <https://www.americanbanker.com/news/the-mounting-costs-of-protracted-mortgage-forbearance>.

<sup>80</sup> CFPB, "Protections for Borrowers Affected by the COVID-19 Emergency Under the Real Estate Settlement Procedures Act (RESPA), Regulation X," 86 *Federal Register* 18840-18881, April 9, 2021.

<sup>81</sup> For more information on the credit reporting industry, see CRS Report R44125, *Consumer Credit Reporting, Credit Bureaus, Credit Scoring, and Related Policy Issues*, by Cheryl R. Cooper and Darryl E. Getter.

requirements.<sup>82</sup> Before this law was enacted, lenders could choose whether to report loans in forbearance as paid on time; with this law, the option is no longer voluntary for the lender.<sup>83</sup>

Although this CARES Act protection allows consumers with loan forbearance agreements to protect their on-time credit histories, the provision may also lead to some unintended consequences.<sup>84</sup> Financial institutions may find credit scores less predictive of whether a consumer is currently creditworthy, in part due to deferrals being treated the same as on-time payments.<sup>85</sup> This situation could make it more difficult for consumers to access new credit, particularly those currently meeting their loan obligations.<sup>86</sup>

So far, most of the response to the COVID-19 pandemic in consumer debt markets has focused on helping consumers make existing debt payments, rather than focusing on access to credit, as the pandemic is ongoing. Evidence suggests that credit markets have already tightened and it may be more difficult for consumers to access new credit now than before the pandemic. According to the CFPB, new credit applications dropped dramatically in March 2020, but while mortgage applications have more than recovered, credit card applications were still 30% below their pre-pandemic levels as of September 2020.<sup>87</sup> According to the Federal Reserve's senior loan officer survey in the summer and fall of 2020, banks tightened credit standards for all types of household lending, including mortgages, credit cards, and auto loans.<sup>88</sup> Therefore, consumers may have

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<sup>82</sup> The covered period for this section starts on January 31, 2020, and extends to the later of 120 days after enactment or 120 days after the national emergency declared by the President on March 13, 2020, terminates. If the consumer were delinquent before the covered period, then the furnisher would maintain the delinquent status unless the consumer brings the account or obligation current. For more information, see CFPB, *Statement on Supervisory and Enforcement Practices Regarding the Fair Credit Reporting Act and Regulation V in Light of the CARES Act*, April 1, 2020, at [https://files.consumerfinance.gov/f/documents/cfbp\\_credit-reporting-policy-statement\\_cares-act\\_2020-04.pdf](https://files.consumerfinance.gov/f/documents/cfbp_credit-reporting-policy-statement_cares-act_2020-04.pdf).

<sup>83</sup> Some consumers may still experience harm to their credit record because the CARES Act does not give consumers a right to be granted forbearance for many types of consumer loans. Although many financial institutions have announced efforts to provide assistance to affected consumers, lenders have discretion whether to enter into an assistance agreement with an individual consumer. Therefore, the ability of consumers to protect their credit scores could vary. Before the CARES Act passed, lenders had various options to mitigate the impact on consumers' credit scores and future credit access following disasters or catastrophic events. For example, furnishers may use special codes to report delinquencies due to special circumstances. See CFPB, *Natural Disasters and Credit Reporting: Quarterly Consumer Credit Trends*, November 2018, at [https://files.consumerfinance.gov/f/documents/bcfp\\_quarterly-consumer-credit-trends\\_report\\_2018-11\\_natural-disaster-reporting.pdf](https://files.consumerfinance.gov/f/documents/bcfp_quarterly-consumer-credit-trends_report_2018-11_natural-disaster-reporting.pdf). In addition, if lenders and consumers enter into loan forbearance agreements, then furnishers have the option to report to the credit bureaus that these consumers are current on their credit obligations.

<sup>84</sup> Section 4021 of the CARES Act requires loan forbearances to be reported to the credit bureaus in the same way, but "it does not address how model developers or individual lenders treat any particular variables or information on the back end." See FinRegLab, *Covid-19 Credit Reporting & Scoring Update*, Research Brief, July 2020, at <https://finreglab.org/wp-content/uploads/2020/07/FinRegLab-Research-Brief-Covid-19-Credit-Reporting-Scoring-Update.pdf> (hereinafter FinRegLab, *Covid-19 Credit Reporting & Scoring Update*, July 2020).

<sup>85</sup> Current macroeconomic uncertainties may also make credit scores less predictive of future consumer defaults. See AnnaMaria Andriotis, "Flying Blind Into a Credit Storm": Widespread Deferrals Mean Banks Can't Tell Who's Creditworthy," *Wall Street Journal*, June 29, 2020.

<sup>86</sup> FinRegLab, *Covid-19 Credit Reporting & Scoring Update*, July 2020, p. 7.

<sup>87</sup> Éva Nagypál, Christa Gibbs, and Scott Fulford, *The Early Effects of the COVID-19 Pandemic on Credit Applications*, CFPB, CFPB Office of Research Special Issue Brief, April 2020, p. 1, at <https://www.consumerfinance.gov/data-research/research-reports/covid-19-early-effects-credit-applications/>; Scott Fulford, Christa Gibbs, and Éva Nagypál, *Credit Applications Remain Depressed for Credit Card and Auto Loans*, CFPB, December 23 2020, at <https://www.consumerfinance.gov/about-us/blog/credit-applications-remain-depressed-for-credit-cards-and-auto-loans/>.

<sup>88</sup> Board of Governors of the Federal Reserve System, *Senior Loan Officer Opinion Survey on Bank Lending Practices*, July and October 2020, at <https://www.federalreserve.gov/data/sloos.htm>.

needed higher credit scores, larger down payments, or other more stringent requirements to qualify for new credit. However, in the winter of 2021, some banks reported easing credit standards in non-mortgage credit markets, such as credit cards and auto loans.<sup>89</sup> In addition, in the credit card market, although evidence suggests limited reductions in credit card limits, the COVID-19 pandemic has likely led to more credit card account closures and fewer credit-limit increases.<sup>90</sup> While some creditors may be tightening standards across the board over concerns that mandatory credit reporting provisions may result in inaccurate assessments of credit risk,<sup>91</sup> others argue that broader macroeconomic uncertainties may be driving this trend.<sup>92</sup> For example, some lenders may be reluctant to make new loans given that many borrowers could still be vulnerable to potential job losses and need future forbearance, which generates costs for lenders. If limited access to credit continues, it could make it more difficult for consumers to buy homes, cars, or other large purchases, harming the economic recovery.

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<sup>89</sup> Board of Governors of the Federal Reserve System, *Senior Loan Officer Opinion Survey on Bank Lending Practices*, January 2021, at <https://www.federalreserve.gov/data/sloos.htm>.

<sup>90</sup> Ryan Sandler and Judith Ricks, *Household Debt and Credit*, August 2020, p. 3; and Larry Santucci, *How Has the COVID-19 Pandemic Affected the Supply of Consumer Credit?: A Preliminary Look at the U.S. Credit Card Market*, Federal Reserve Bank of Philadelphia, Consumer Finance Institute Special Report, August 2020, p. 3, at <https://www.philadelphiafed.org/-/media/covid/cfi/cfi-credit-cards-and-covid-19.pdf>.

<sup>91</sup> FinRegLab, *Covid-19 Credit Reporting & Scoring Update*, July 2020, p. 7.

<sup>92</sup> FinRegLab, *Covid-19 Credit Reporting & Scoring Update*, July 2020, p. 16.