FEDERAL RESERVE BANK
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Household Risks in the United States

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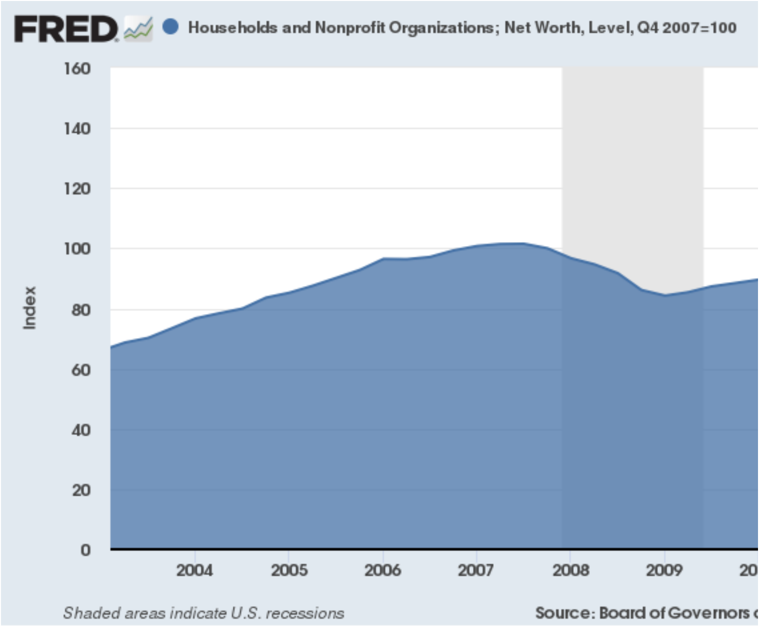
Outline of the discussion

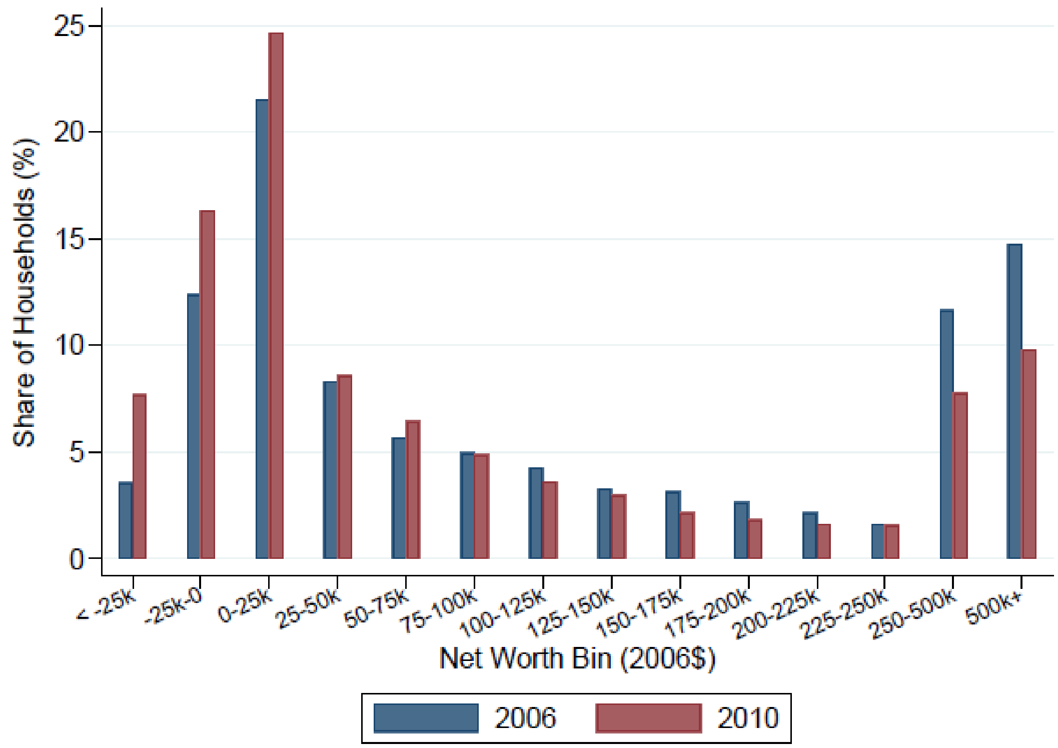
- Questions to entertain
  - What is the financial condition of U.S. households a decade after the Great Recession?
  - Are households able to access credit?
  - Are lenders able/willing to provide household credit?
  - Are there risks to financial stability lurking below the surface?
- Markets to look at: residential mortgages, auto loans, credit cards, student loans

Effect of the Great Recession on household wealth



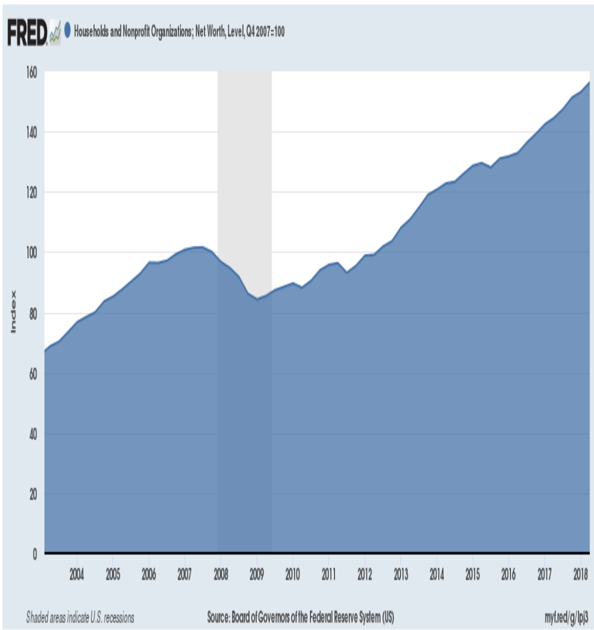
- Household net worth declined by about 16% relative to Q4 2007

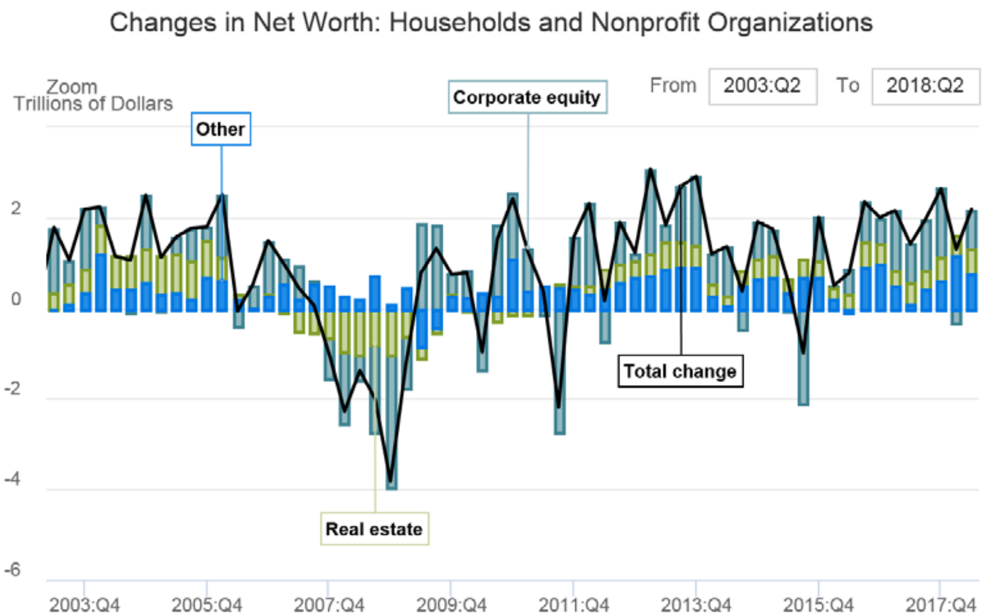
Widespread impact of the recession



- The Great Recession eroded wealth holdings throughout the wealth distribution

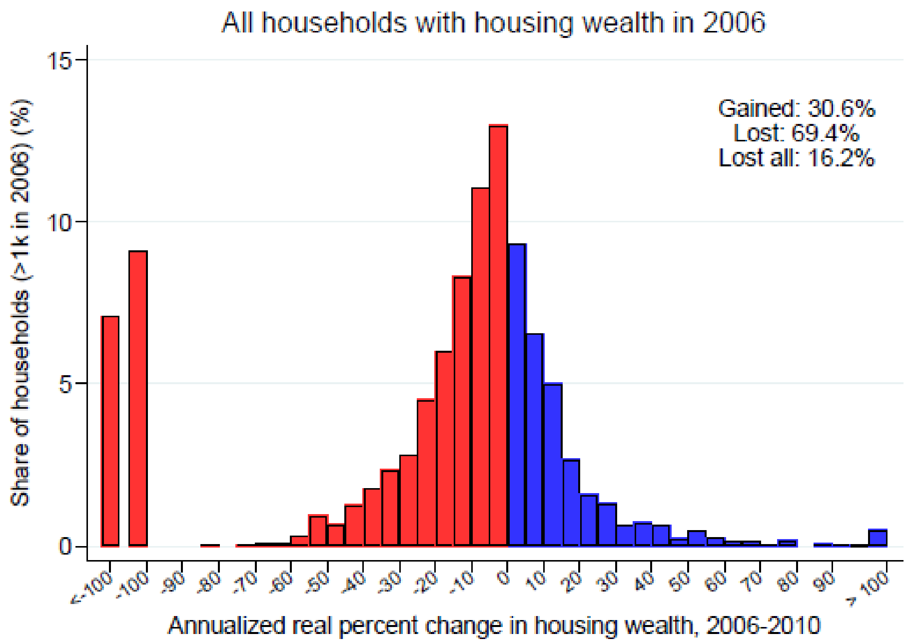
Balance sheet repair





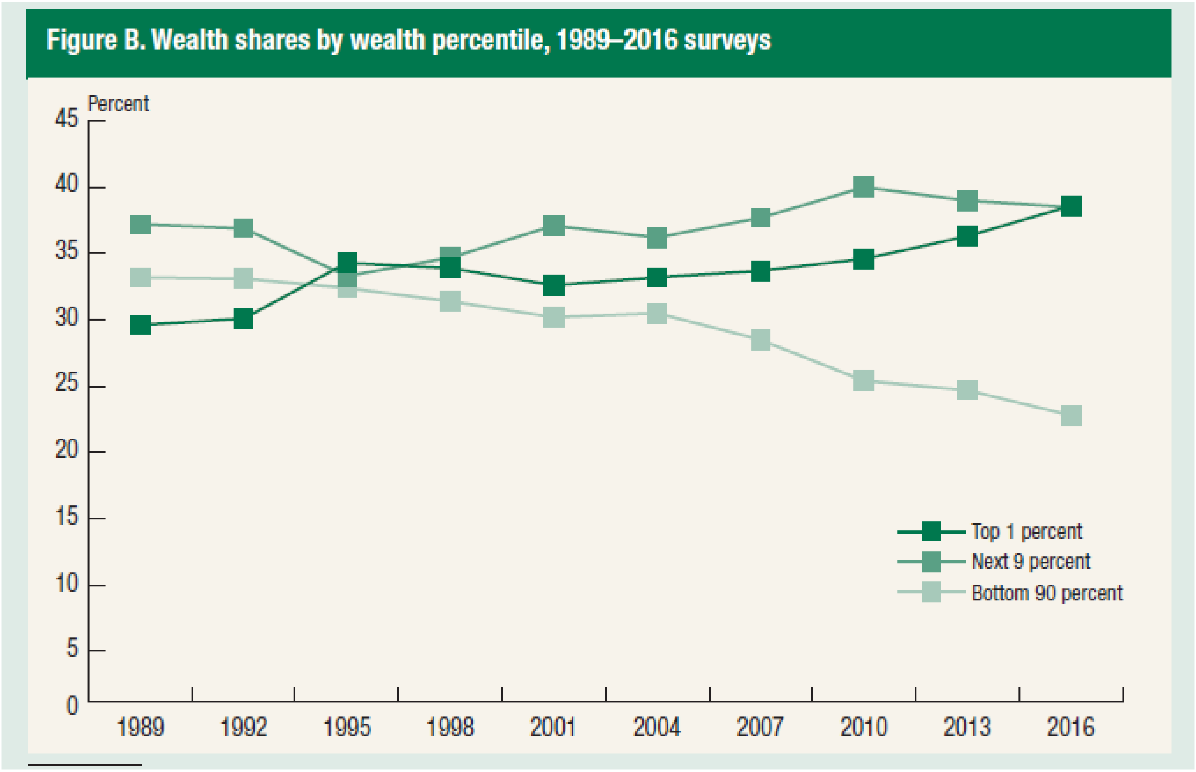
- Debt writeoff: $1.5 trillion in chargeoffs by 2013
- Deleveraging: slower growth in new debt
- Equity markets: S&P 500 doubled since 2007:Q4, 4x since the trough
- Full rebound of house prices

Repairs are uneven



- Households that lost houses did not participate in rebound
- Households that do not own equities did not participate
  - Equity ownership among HHs below median income is less than 30%; 94% for those in top 10 percent of income distribution (SCF 2016)
- Households that defaulted had impaired credit ratings for a long time

Growing disparity in wealth



- Another way to realize the uneven nature of household balance sheet repair is by looking at wealth inequality patterns
- Bottom 90% of households account for less than a quarter of all wealth

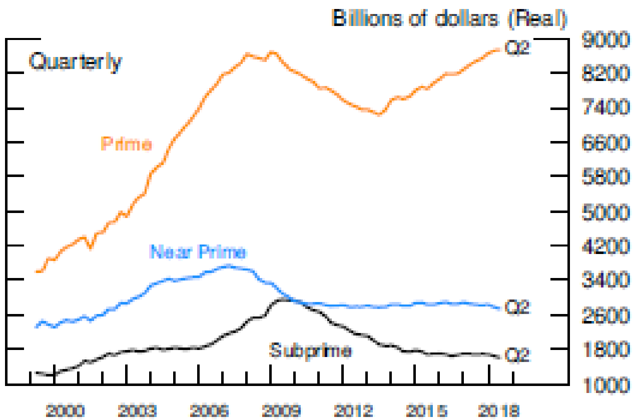
Access to credit

- We typically do not worry too much about the ability of the top 10% of households to access credit markets or to present direct financial risks
- What about the rest?

- Look at data from individual credit bureau reports
- Stratify data by measure of household creditworthiness
  - Prime (>720, ~ 55% of households in 2018)
  - Near prime (between 620 and 720, ~25% of households)
  - Below prime (<620, ~20% of HHs in 2018, down from near 30% in 2007)
  - These measures are strongly correlated with age, wealth, and income

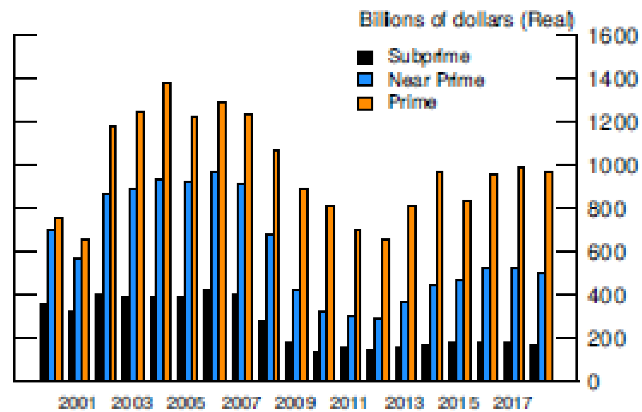
Debt growth

All Loan Balances



Note: Near prime is between 620 and 719, prime is greater than 719. Scores are measured contemporaneously. Student loan balances prior to 2004 were estimated.
Source: FRBNY CCP/Equifax.

New Extensions - All Loans

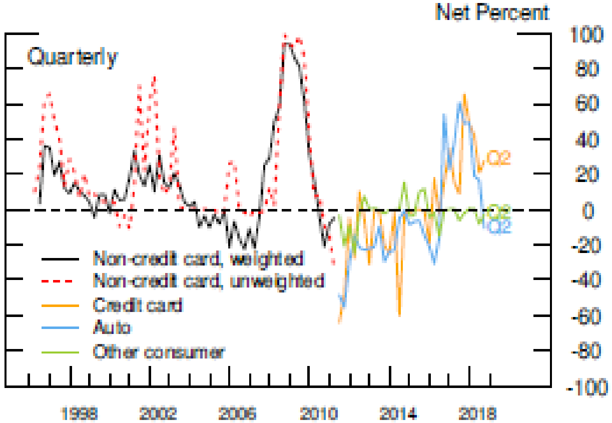


Note: Year-over-year change in balances for the 2nd quarter of each year, among those whose balance increased over this window. Near prime is between 620 and 719, prime is greater than 719. Scores were measured a year ago.
Source: FRBNY CCP/Equifax.

- Prime debt (finally) back to 2007 levels, non-prime is similar to early 2000s, no net growth
- New extensions of mortgage loans are largely limited to prime HHs
- Auto loan balances increased for non-prime households between 2010 and 2016, but originations have slowed down since

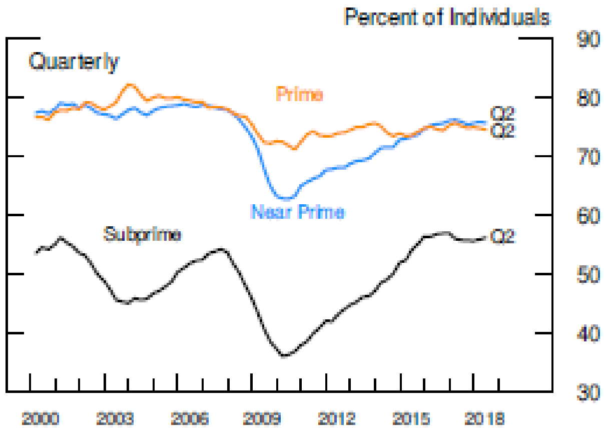
Supply of credit

Changes in Standards on Consumer Loans



Note: Net percent of banks reporting tightening standards. Starting in 2011:Q2, changes in standards for credit card, auto, and other consumer loans are reported separately.
Source: Senior Loan Officer Opinion Survey.

Success Rate in Getting New Credit in Past 12 Months by Credit Score

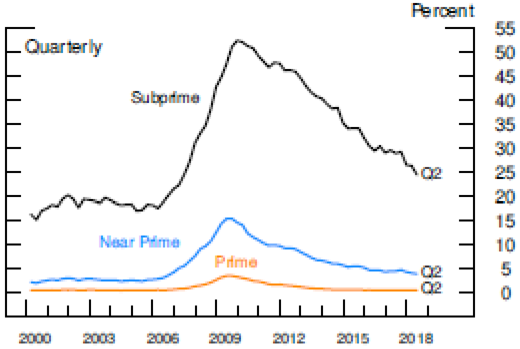


Note: Fraction opening a new account in past 12 months given at least one inquiry in past 12 months. Credit score is from 12 months ago. Near prime is between 620 and 719, prime is greater than 719.
Source: FRBNY CCP/Equifax.

- Surveys of loan officers (SLOOS) suggest some tightening in credit card standards
- Balanced standards for auto and other lending
- Yet, credit bureau data suggest substantial improvement in ability of subprime households to obtain credit

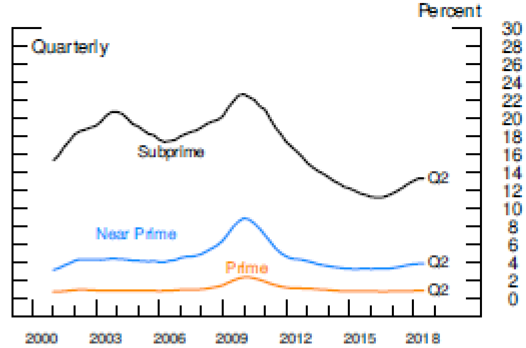
Delinquency rates

Delinquency Rates of Mortgage Loans



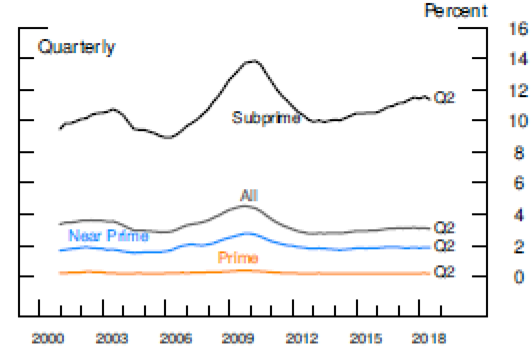
Note: Delinquency is at least 30 days past due, including severe derogatory. Near prime is between 620 and 719, prime is greater than 719. Credit scores are lagged four quarters.
Source: FRBNY CCP/Equifax.

Credit Card Delinquency Rates



Note: Delinquency measures the fraction of balances that are at least 30 days past due, excluding severe derogatory loans. Near prime is between 620 and 719, prime is greater than 719. Credit scores lagged four quarters. Four-quarter moving average.
Source: FRBNY CCP/Equifax.

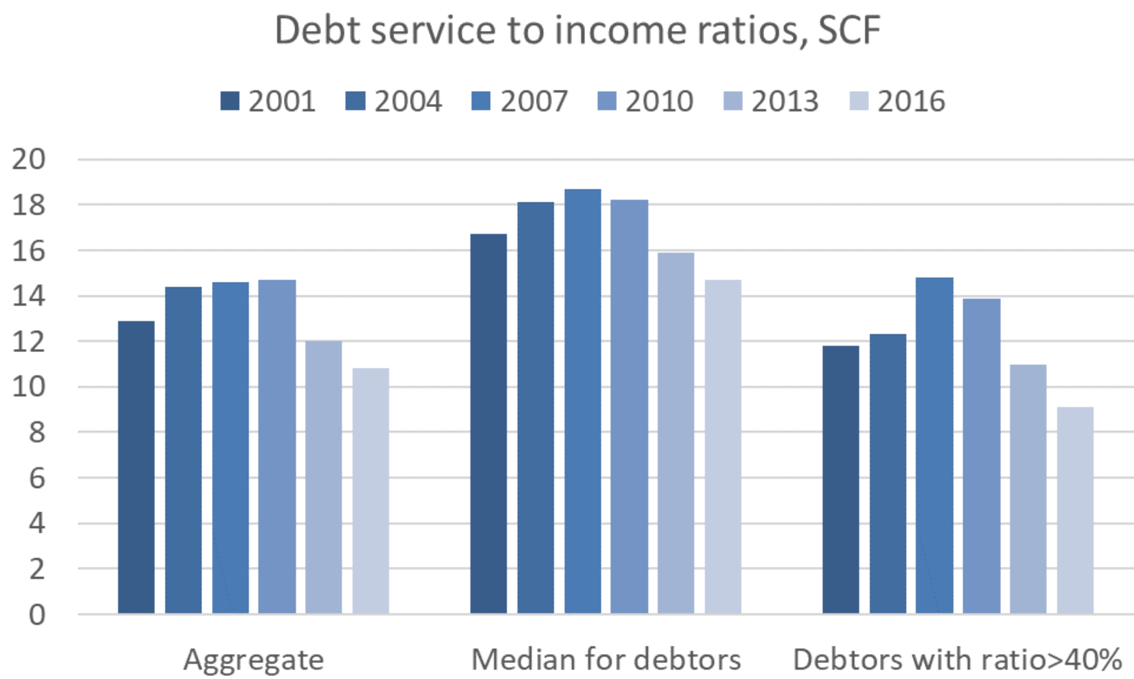
Auto Loan Delinquency Rates



Note: Delinquency is at least 30 days past due, excluding severe derogatory loans. Near prime is between 620 and 719, prime is greater than 719. Credit scores are lagged four quarters. Four-quarter moving average.
Source: FRBNY CCP/Equifax.

- Delinquency rates have remained remarkably steady and low, even for non-prime borrowers
- These rates reflect tighter underwriting standards post-crisis as well as robust economic conditions

Debt service burdens



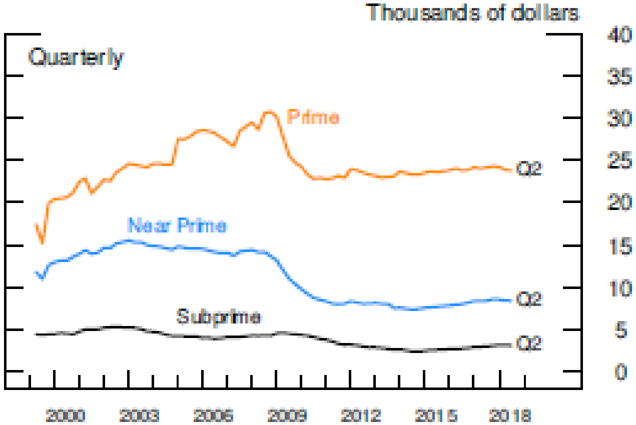
- Payment-to-income ratios for the median debtor fell to 14.7% in 2016 from 18.7% in 2007
- Share of debtors with very high payment ratios (> 40%) shrank accordingly
- Similar trends for debt/income and debt/assets ratios
- All are below their 2004 levels

Risks to financial stability

- Things look good in aggregate. Are there risks below the surface?
- Credit card lending, especially to subprime borrowers
  - Approval rates have surpassed pre-crisis levels
- Mortgage lending
  - House price growth is slowing
  - Credit standards are easing somewhat
- Student loans
  - Default rates remain stubbornly high

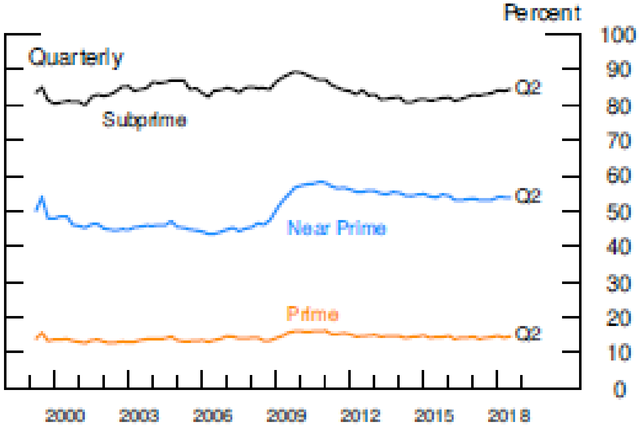
Subprime credit card trends

Credit Card Limits Per Capita



Note: Near prime is between 620 and 719, prime is greater than 719. Includes those with zero credit limit.
Source: FRBNY CCP/Equifax.

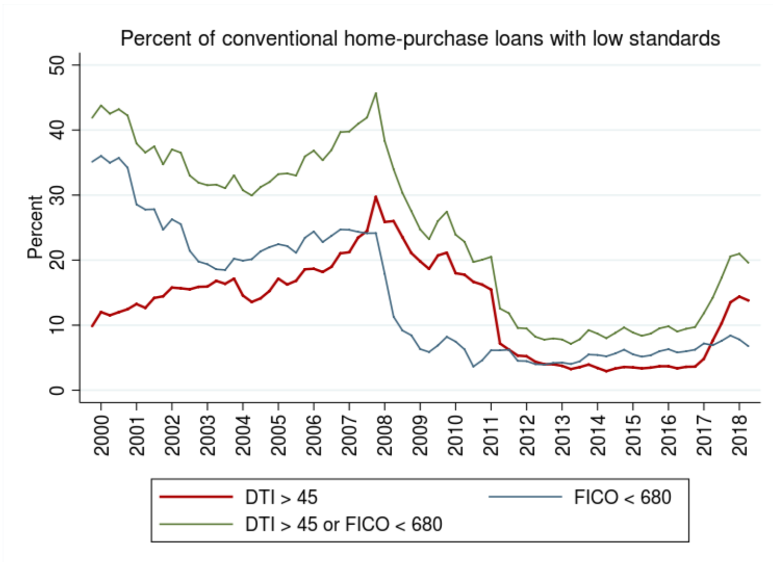
Credit Card Utilization Rates

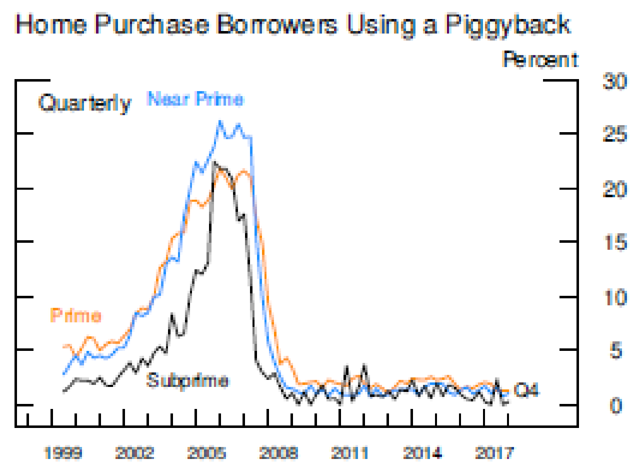


Note: Near prime is between 620 and 719, prime is greater than 719.
Source: FRBNY CCP/Equifax.

- Credit card debt is easier to obtain for subprime borrowers and they still use up most of it (utilization rates ~ 90%)
- But, credit limits for subprime borrowers remain very low, and there are fewer such borrowers in the population

Measures of risk in mortgages

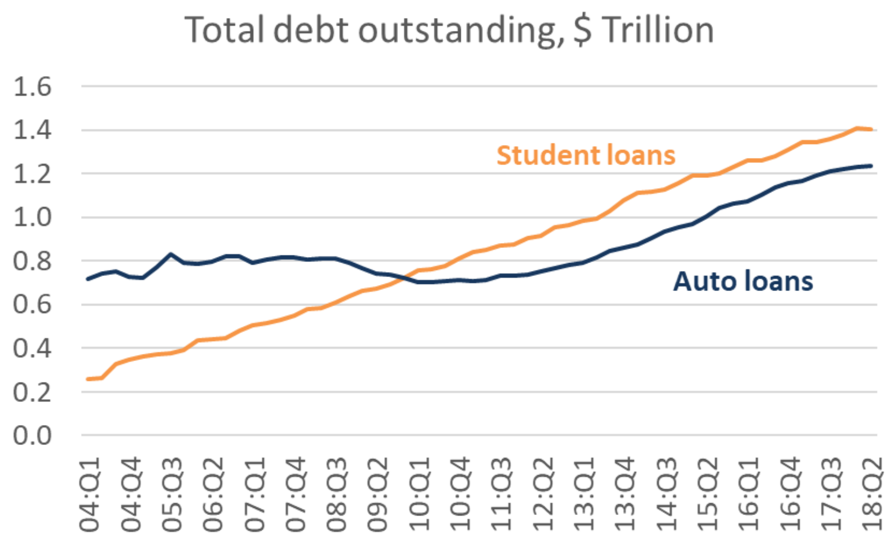




Note: Individuals opening a small and large mortgage simultaneously and moving as a fraction of all who open a mortgage and move. Near prime is between 620 and 719, prime is greater than 719.
Source: FRBNY CCP/Equifax.

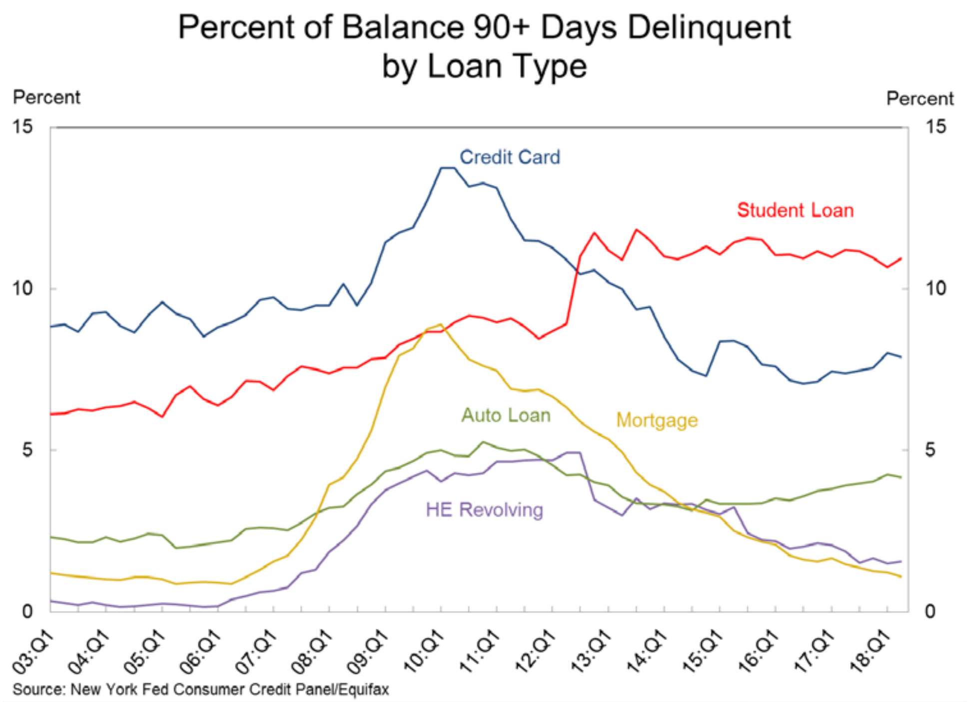
- GSEs have eased some lending standards, notably maximum allowed debt-to-income ratios
- But this triggered immediate pushback from investors in credit risk transfer securities
- Other credit standards (e.g., piggyback loans) show few signs of easing

Student loans



- Continue to grow rapidly, though less so: $T in 2009, $1.5 T in 2018
- Unique form of household borrowing: government guarantees and funds nearly 100% of loans, no underwriting
- Loans have to be repaid within 10 years after graduation, although some forbearance plans are possible
- Loans not dischargeable in bankruptcy
- Some evidence that they weigh down on young adults

Delinquent balances



- Student loans are in a class of their own when it comes to delinquency rates
- Defaults are concentrated among non-graduates and attendees of non-selective for-profit institutions
- But losses are borne nearly entirely by the government

Summary

- U.S. households have substantially repaired their collective balance sheets through deleveraging and rapid growth in assets
- However, this rebuilding process has been uneven
- Households that did not participate in asset growth, whether housing or equities, responded through lower debt holdings
  - Partly due to less demand, partly due to less supply especially if accompanied by low credit scores
- Risks to financial system from households appear subdued at the moment
  - Strong economy and generally sensible lending standards contribute to low delinquency rates