

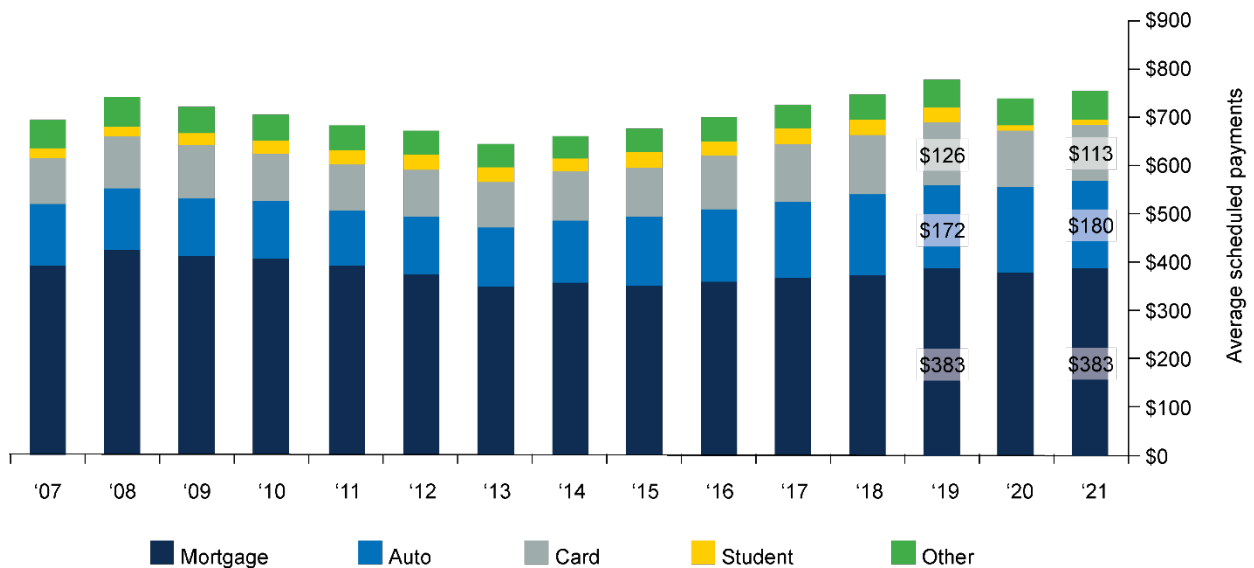
ON POINT

ECONOMIC AND POLICY INSIGHT FROM THE OCC

Rising Payments May Pressure Consumer Debt Burden and Delinquencies

Soaring home and consumer prices have raised concerns that consumer debt burdens may be increasing and could result in rising delinquencies. Analysis of the OCC Consumer Credit Panel/Equifax (CCP)¹ indicates that in June 2021 scheduled payments were still below the 2019 peak (figure 1) as payments declined during the economic upheaval of the pandemic. The decline in average scheduled payments was mostly due to the decline in student loan payments related to forbearance under the CARES Act. Scheduled payments for credit cards were also down 10 percent compared to 2019 as pandemic relief led to increased savings and the pay-down of credit card balances. The average scheduled 2021 mortgage payment is about the same as in 2019 as the rise in home prices was met with a corresponding fall in mortgage interest rates. Auto payments are the only form of retail debt in which 2021 payments are higher than 2019, reflecting escalating prices of new and used cars.

Figure 1: Total Scheduled Payments Are Down From 2019 but Not for All Loan Types

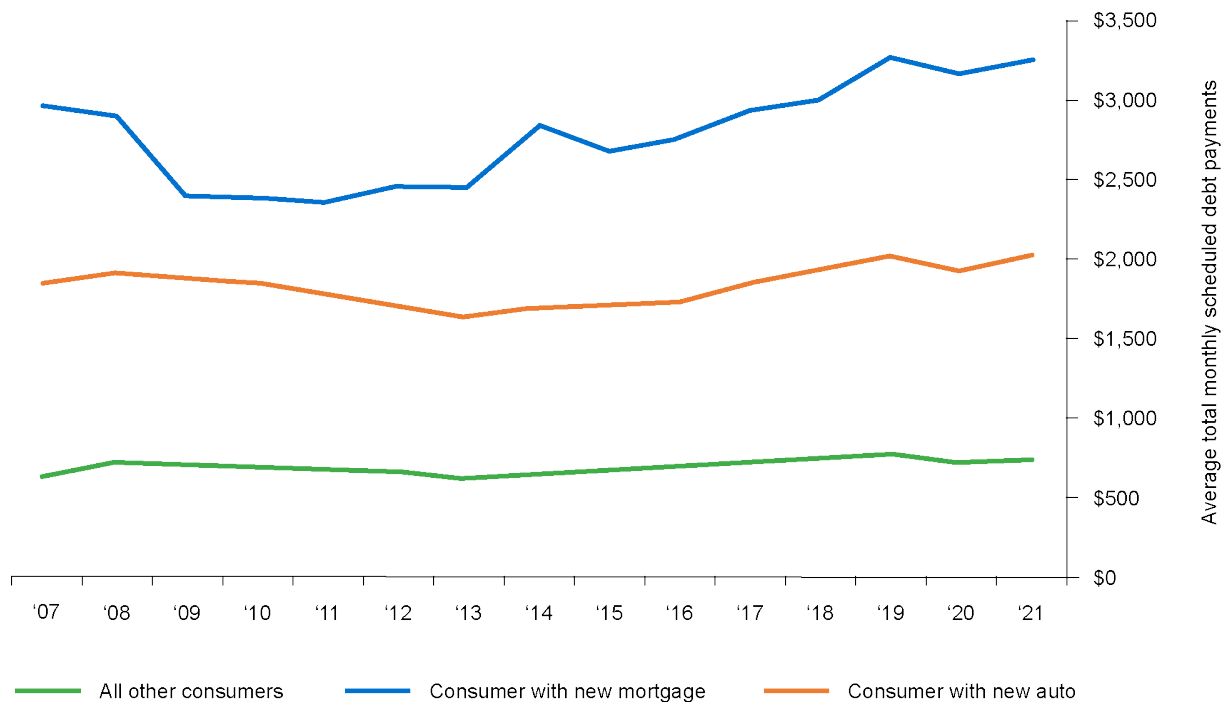


Source: OCC Consumer Credit Panel/Equifax

¹ The OCC Consumer Credit Panel/Equifax is an initial sample of 2 million individuals with annual snapshots of their anonymized credit report data from 2005-2021.

In comparison with 2020, the average total scheduled payments increased modestly by 1.8 percent in 2021. However, the average reflects all consumers, those who have held loans for years and those who only recently obtained loans. Since auto and home price escalation is a recent phenomenon, its impact would be felt in the latter group of consumers. Indeed, consumers who obtained an auto loan or mortgage over the past year have seen their payments rise to a greater extent (figure 2). Despite falling mortgage interest rates during the first two years of the pandemic, those who obtained a mortgage in 2021 saw their total scheduled payment ratio increase by 2.5 percent. Similarly, those who purchased a car in 2021 have seen their scheduled payments climb by 4.9 percent. The recent rise in interest rates could exacerbate the consumer debt burden, especially for borrowers taking on new loans in 2022.

Figure 2: Total Monthly Payments Are Rising for Consumers With Newer Mortgage or Auto Loans



Source: OCC Consumer Credit Panel/Equifax

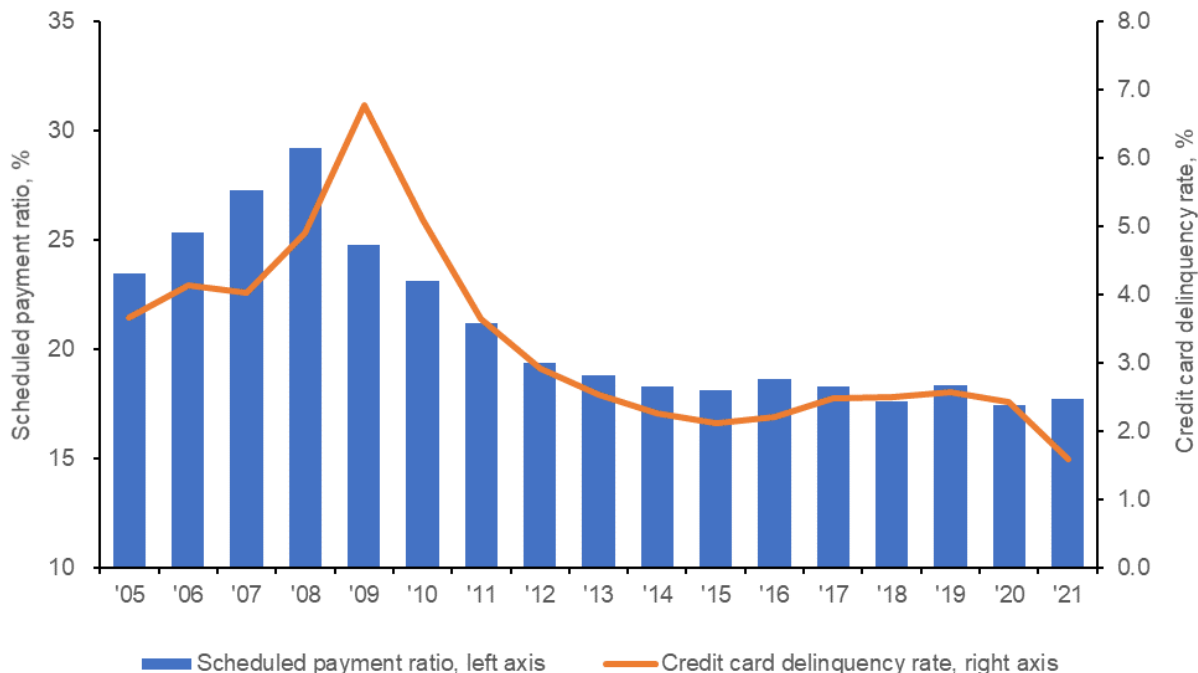
This indicates that increases in home and auto prices began affecting debt payments beginning in 2021. Further increases in the scheduled payments are expected as 2022 home prices and mortgage interest rates are still rising, ongoing supply chain issues continue to exert pressure on car prices, and credit card balances grow. At the same time, pandemic stimulus is no longer boosting consumers' income, and though unemployment has declined to pre-pandemic levels, wage growth has not kept up with inflation. Wages and salaries increased 4.5 percent in 2021 while the consumer price index rose by more than 7 percent during the same time, causing a decline in real wages. The combination of increasing scheduled payments and slow income growth is putting upward pressure on consumers' debt burden.

Intuitively, it makes sense that delinquencies would increase with increases in debt burden. But do the data bear this out?

Scheduled Payments Are Predictive of Delinquencies and Score Movement

The scheduled payments data from the CCP can be used to examine the links between consumer debt burden and delinquencies. Figure 3 shows the scheduled payment ratio from 2005 to 2021. The ratio is calculated by dividing total scheduled payments by income. The scheduled payment ratio peaked at close to 30 percent in 2008. Since 2014, it has been fairly stable, hovering around 18 percent. In 2020, the ratio slightly declined but inched up in 2021 though remaining at a low level. Figure 3 also depicts credit card delinquencies, which peaked in 2009 at over 6 percent and have declined since, reaching a historically low level of less than 2 percent in 2021, as stimulus payments bolstered household cash flow and allowed credit card debt to be retired.² As is evident from this chart, credit card delinquencies tend to rise and fall lagging the changes in the consumer debt burden. The removal of cash stimulus payments in 2022 is already contributing to the rise in credit card delinquency rates.³

Figure 3: Scheduled Payment Ratio and Consumer Credit Card Delinquencies Are at Historical Lows



Sources: OCC Consumer Credit Panel/Equifax, Federal Reserve/Haver Analytics

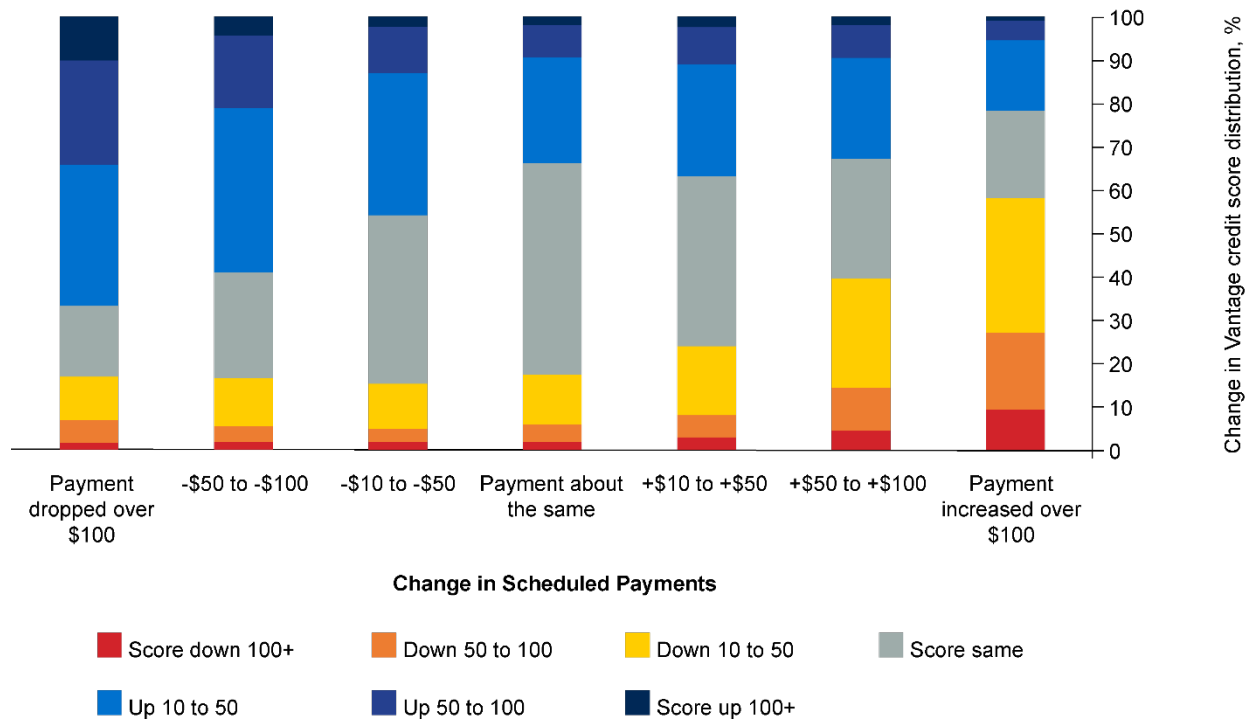
Note: Snapshot as of end of June for each corresponding year. Credit card delinquency rate is seasonally adjusted for all insured commercial banks.

² U.S. Census Bureau, Household Pulse Survey, table 1. Categories of consumer spending by respondents who received or expected to receive a stimulus payment June 11–June 16, 2020, in Thesia Garner, Adam Safir, and Jake Schild, “[Receipt and Use of Stimulus Payments in the Time of the Covid-19 Pandemic](#),” Beyond the Numbers, Bureau of Labor Statistics, August 2020.

³ The credit delinquency rate for balances held at all insured commercial banks increased from 1.53 percent in the fourth quarter of 2021 to 1.73 percent in the first quarter of 2022, per call report data seasonally adjusted by FRED®, Federal Reserve Bank of St. Louis.

Data from the CCP also show that increases in the debt burden are associated with deteriorating credit scores, which signals more consumer debt delinquencies in general, not just credit card delinquencies. Figure 4 shows results from an analysis examining changes in credit scores when the debt burden changes. On average, increases in scheduled payments have a negative effect on a credit score. Figure 4 illustrates the distribution of the change of credit score from 2017 to 2018 by the change in average monthly scheduled payments. Almost 60 percent of consumers whose payments increased by more than \$100 saw their score decline by more than 10 points as shown in the right-most bar of the chart. Conversely, when payments go down, borrowers are more likely to see their scores increase.

Figure 4: Increases in Scheduled Payments Lower Credit Score



Source: OCC Consumer Credit Panel/Equifax

Note: Historical analysis of relationship between the change in Vantage credit score distribution and change in scheduled payments measured over the 2017 to 2018 period.

The Point?

As scheduled payment rates increase due to inflation and rising interest rates, consumer credit scores may deteriorate and delinquencies rise.