Congressional Research Service
Informing the legislative debate since 1914

COVID-19: Household Debt During the Pandemic

October 22, 2020

Congressional Research Service
https://crsreports.congress.gov
R46578

CRS REPORT
Prepared for Members and
Committees of Congress

Congressional Research Service
Informing the legislative debate since 1914

SUMMARY

R46578

October 22, 2020

Cheryl R. Cooper, Coordinator
Analyst in Financial Economics

Maura Mullins
Research Librarian

Lida R. Weinstock
Analyst in Macroeconomic Policy

COVID-19: Household Debt During the Pandemic

The Coronavirus Disease 2019 (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 and has since fallen to 7.9% in September. Consequently, many Americans have lost income and faced financial hardship. Survey results suggest that since March 2020, half of all U.S. adults live in a household that has lost some employment income.

As of the second quarter of 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 by about $76 billion, the largest quarterly decline on record. Mortgage debt increased slightly, and other household debt remained relatively flat.

In addition, during the second quarter of 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. The CARES Act also provided fiscal relief, including direct income support, which was likely another important factor making it easier for consumers to pay their existing loan obligations. These actions 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, which could include extending loan forbearance programs, additional fiscal relief, or other policy options. Congress is currently debating whether COVID-19 pandemic relief provisions should be extended or whether the cost of these proposals outweigh their benefits. Active legislation that would modify, extend, or create new economic relief programs includes the Heroes Act (first version: H.R. 6800; second version: H.R. 925) in the House, and the American Workers, Families, and Employers Assistance Act (S. 4318) in the Senate.

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.

Contents

Introduction 1
Household Income During the COVID-19 Pandemic 2
Household Debt and Delinquency Trends 4
Consumer Loan Forbearance Trends 6
Policy Impacts on Household Finances 10
Consumer Loan Forbearance and Other Financial Policy Responses 10
Fiscal Policy Responses 11
Enhanced Unemployment Benefits 11
Economic Impact Payments 12
Future Household Finance Outlook 13
Future Macroeconomic Outlook Uncertainty 13
Future Public Policy Uncertainty 14
Consumer Credit Market Uncertainty 15

Figures

Figure 1. Percentage of Households Reporting Lost Income and Significantly Less Financial Security Since COVID-19 Crisis 3
Figure 2. Total Household Debt and Its Composition 5
Figure 3. Percentage of Delinquent Loans (30+ Days Late) by Loan Type: 6
Figure 4. Weekly Share of Mortgage Loans in Forbearance 8

Contacts

Author Information 17

Introduction

The Coronavirus Disease 2019 (COVID-19) pandemic[1] has had a large and persistent economic impact across the United States.[2] 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. 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*.[3] 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.[4] 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).[5] 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.[6] Since the COVID-19 pandemic began, many banks and credit unions have announced measures to offer various forms of assistance to affected consumers.

---

[1] For background on the Coronavirus Disease 2019 (COVID-19), see CRS In Focus IF11421, *COVID-19: Global Implications and Responses*, by Sara M. Tharakan et al.

[2] For background on the potential economic effects of the COVID-19 pandemic in the United States, see CRS Insight IN11388, *COVID-19: U.S. Economic Effects*, by Rena S. Miller and Marc Labonte.

[3] 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.

[4] 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.

[5] 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.

[6] 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.

The CARES Act also provided fiscal relief, which was likely another important factor making it easier for consumers to pay their existing loan obligations. These actions 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.[7] 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 and has since fallen to 7.9% in September.[8] 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.[9] Consequently, many Americans have lost income and faced financial hardship due to the impact of the pandemic.[10]

Survey results suggest that since March 2020, half of all adults live in a household that has lost some employment income.[11] **Figure 1** shows select 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 four waves during April, May, June, and July 2020. In the first wave of the survey, conducted in April, 39.2% of respondents indicated a reduction in personal income, or no income, as a result of the pandemic.[12] Waves 2, 3, and 4 saw some improvements to personal income loss as the percentage of respondents reporting

[7] 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.

[8] Bureau of Labor Statistics, *The Employment Situation—September 2020*, October 2, 2020, at https://www.bls.gov/news.release/pdf/empsit.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.

[9] 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.

[10] For more information on financial industry policy issues during the COVID-19 pandemic for consumers having trouble paying their bills, see CRS Insight IN11244, *COVID-19: The Financial Industry and Consumers Struggling to Pay Bills*, by Cheryl R. Cooper.

[11] 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.

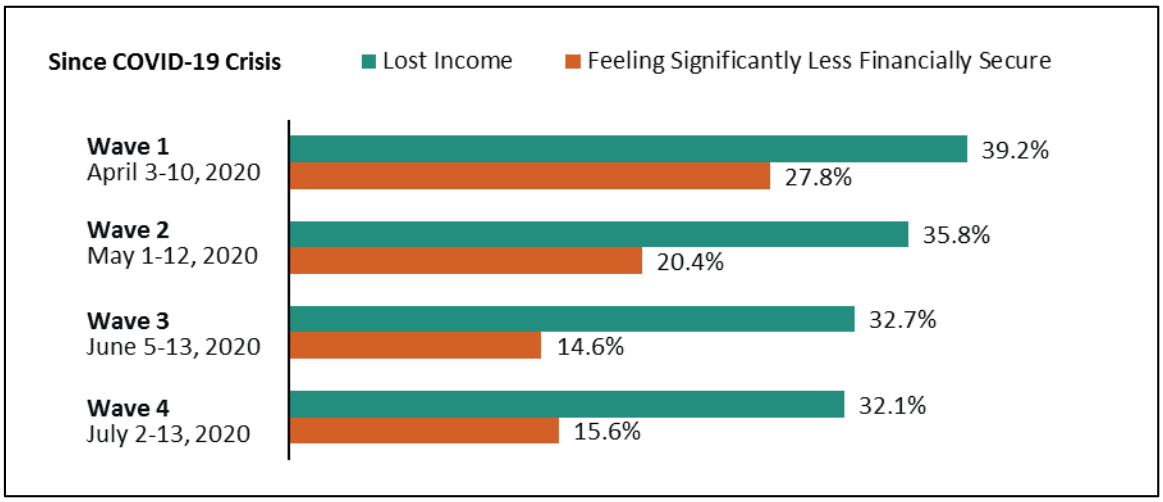
[12] Federal Reserve Bank of Philadelphia, Consumer Finance Institute Special Report, *CFI COVID-19 Survey of Consumers—Wave 4 Tracks How the Vulnerable Are Affected More by Job Interruptions and Income Disruptions*, at https://www.philadelphiafed.org/-/media/covid/cfi/cfi-covid-19-survey-of-consumers-wave4-updates.pdf, see Table 4—Impact to personal Income (hereinafter Federal Reserve Bank of Philadelphia, "COVID-19 Survey of Consumers—Wave 4" 2020, see Table 4).

a reduction in personal income, or no income, decreased to 35.8%, 32.7%, and 32.1%, respectively.[13]

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 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.[14] 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, 27.8% of respondents in April indicated feeling significantly less secure than they did prior to the crisis; see **Figure 1**.[15] 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 from 20.4% in May down to 14.6% in June. However, this percentage increased to 15.6% in July, indicating a slight reversal in the downward trend and an increased concern among respondents about their ability to make ends meet in the next 12 months.[16]

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

April, May, June, and July 2020



Source: Federal Reserve Bank of Philadelphia, Consumer Finance Institute's Special Report, COVID-19 Survey of Consumers—Wave 4, at https://www.philadelphiafed.org/-/media/covid/cfi/cfi-covid-19-survey-of-consumers-wave4-updates.pdf.

Notes: Data from Waves 1, 2, and 3 of the Consumer Finance Institute's Special Report, COVID-19 Survey of Consumers are available at https://www.philadelphiafed.org/-/media/covid/cfi/cfi-covid-19-survey-of-consumers.pdf, https://www.philadelphiafed.org/-/media/covid/cfi/cfi-covid-19-survey-of-consumers-wave2-

[13] Federal Reserve Bank of Philadelphia, "COVID-19 Survey of Consumers—Wave 4" 2020, see Table 4.

[14] 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.

[15] Federal Reserve Bank of Philadelphia, Consumer Finance Institute Special Report, *CFI COVID-19 Survey of Consumers—Wave 4 Tracks How the Vulnerable Are Affected More by Job Interruptions and Income Disruptions*, at https://www.philadelphiafed.org/-/media/covid/cfi/cfi-covid-19-survey-of-consumers-wave4-updates.pdf, see Table 5—Financial Security and Outlook (hereinafter Federal Reserve Bank of Philadelphia, "COVID-19 Survey of Consumers—Wave 4" 2020, see Table 5).

[16] Federal Reserve Bank of Philadelphia, "COVID-19 Survey of Consumers—Wave 4" 2020, see Table 5.

updates.pdf, and https://www.philadelphiafed.org/-/media/covid/cfi/cfi-covid-19-survey-of-consumers-wave3-updates.pdf, respectively.

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.

Household Debt and Delinquency Trends

As of the second quarter of 2020, household debt totaled $14.3 trillion.[17] By far, the largest type of household debt was mortgage debt at $9.8 trillion.[18] The second largest type of debt was student loan debt totaling $1.5 trillion, followed by auto loan debt at $1.3 trillion, and credit card debt at $817 billion.[19] **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.

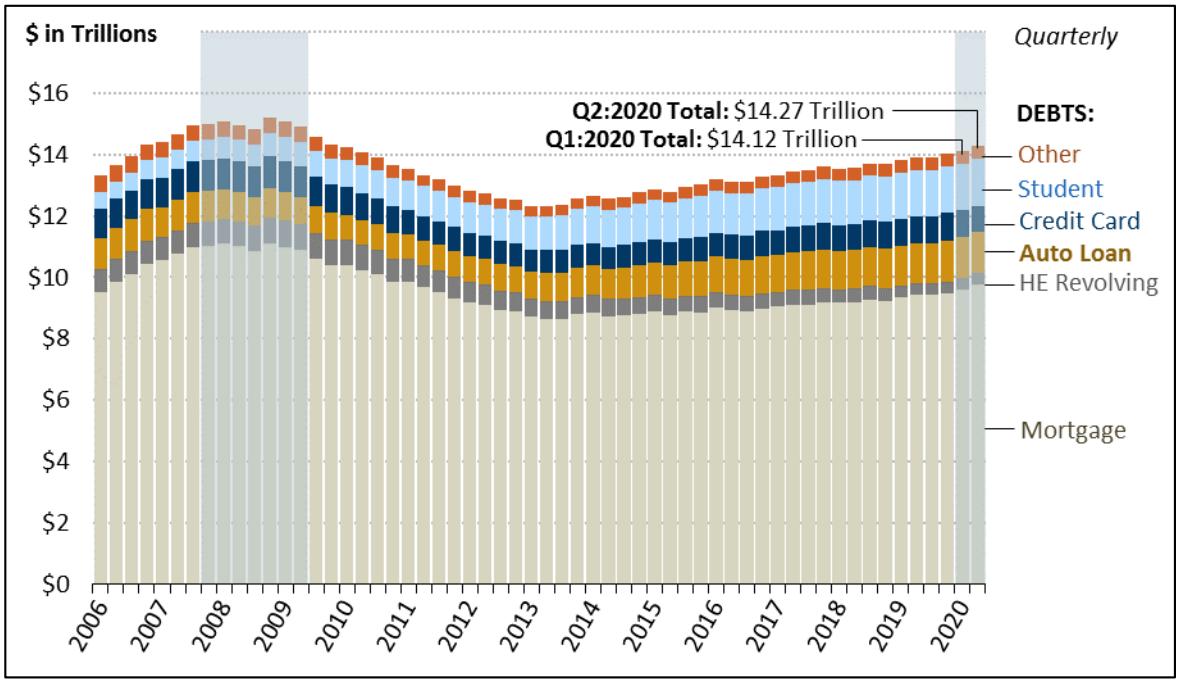
[17] Federal Reserve Bank of New York, *Household Debt and Credit (Based on New York Fed Consumer Credit Panel)*, Center for Microeconomic Data, Q2 2020, at https://www.newyorkfed.org/microeconomics/hhdc/background.html (hereinafter Federal Reserve Bank of New York, *Household Debt and Credit*, Q2 2020). For an overview of consumer financial markets, see CRS Report R45813, *An Overview of Consumer Finance and Policy Issues*, by Cheryl R. Cooper.

[18] Federal Reserve Bank of New York, *Household Debt and Credit*, Q2 2020.

[19] Federal Reserve Bank of New York, *Household Debt and Credit*, Q2 2020.

Figure 2. Total Household Debt and Its Composition

1st Quarter 2006-2nd Quarter 2020



Source: New York Fed Consumer Credit Panel/Equifax, at https://www.newyorkfed.org/microeconomics/hhdc/background.html.

Notes: The data are inflation-adjusted to 2020Q2 dollars. HE revolving debt refers to home equity lending. Economic recessions are shaded in the graph.

Although the current level of debt is close to 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 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.

As of the second quarter of 2020, the pandemic had affected different types of aggregate household debt balances differently. Notably, credit card balances declined sharply by about $76 billion, the largest quarterly decline on record.[20] By contrast, there were slight increases in mortgage debt balances, but other household debt balances remained relatively flat in the second quarter of 2020.[21] 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.[22] 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.[23]Despite many Americans losing income, consumers have

[20] Federal Reserve Bank of New York, *Household Debt and Credit*, Q2 2020.

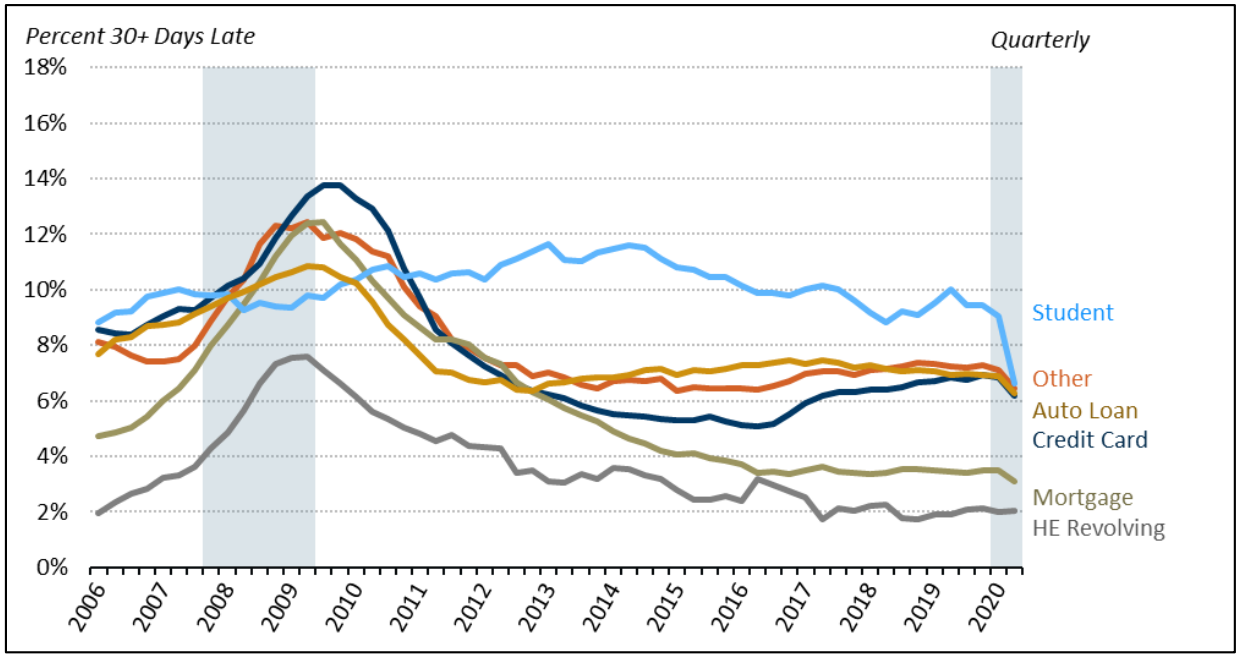
[21] Andrew F. Haughwout et al., *A Monthly Peek into Americans' Credit During the COVID-19 Pandemic*, Federal Reserve Bank of New York, Liberty Street Economics, August 6, 2020, at https://libertystreeteconomics.newyorkfed.org/2020/08/a-monthly-peek-into-americans-credit-during-the-covid-19-pandemic.html.

[22] Jeanna Smialek, "Credit Card Debt Plunges, Driving a Decline in Overall Household Debt," *New York Times*, August 6, 2020.

[23] Ryan Sandler and Judith Ricks, *The Early Effects of the COVID-19 Pandemic on Consumer Credit*, Consumer

generally not fallen delinquent on their loan obligations. This pattern is unlike during other economic recessions, such as the 2007-2009 Great Recession. In the second quarter of 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 the second quarter of 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).

Figure 3. Percentage of Delinquent Loans (30+ Days Late) by Loan Type:
1st Quarter 2006-2nd Quarter 2020



Source: New York Fed 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*.[24] Loan forbearance plans can prevent a consumer from becoming delinquent, giving the consumer time to repay the debts owed rather than potentially experiencing adverse

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).

[24] 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.

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 the spring and summer of 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 in April 2020, 18.0% of respondents reported requesting a deferral or reduced payments on mortgages, rents, or utilities, 18.1% of respondents reported requesting a deferral on a non-mortgage debt, and 14.0% reported seeking a new loan due to the impacts of the COVID-19 crisis.[25] Not all of these consumers reported receiving the financial assistance they requested; about a quarter of respondents reported not receiving a requested deferral.[26]

Many mortgage borrowers entered loan forbearance at the beginning of the COVID-19 pandemic. According to 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 beginning of September was 7.0%.[27] 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.[28] At the beginning of April, 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 through the end of September. The reported percentage of mortgages in forbearance increased in April and May, reaching a high of 8.55% as of June 7, 2020.[29] Since mid-June, the share of mortgage loans in forbearance has generally decreased each week, although it remains much higher than before the pandemic.

[25] Federal Reserve Bank of Philadelphia, "COVID-19 Survey of Consumers," Consumer Finance Institute's Special Report, May 2020, pp. 8, 20, at https://www.philadelphiafed.org/-/media/covid/cfi/cfi-covid-19-survey-of-consumers.pdf (hereinafter Federal Reserve Bank of Philadelphia, "COVID-19 Survey of Consumers," 2020).

[26] Federal Reserve Bank of Philadelphia, "COVID-19 Survey of Consumers," 2020, p. 20.

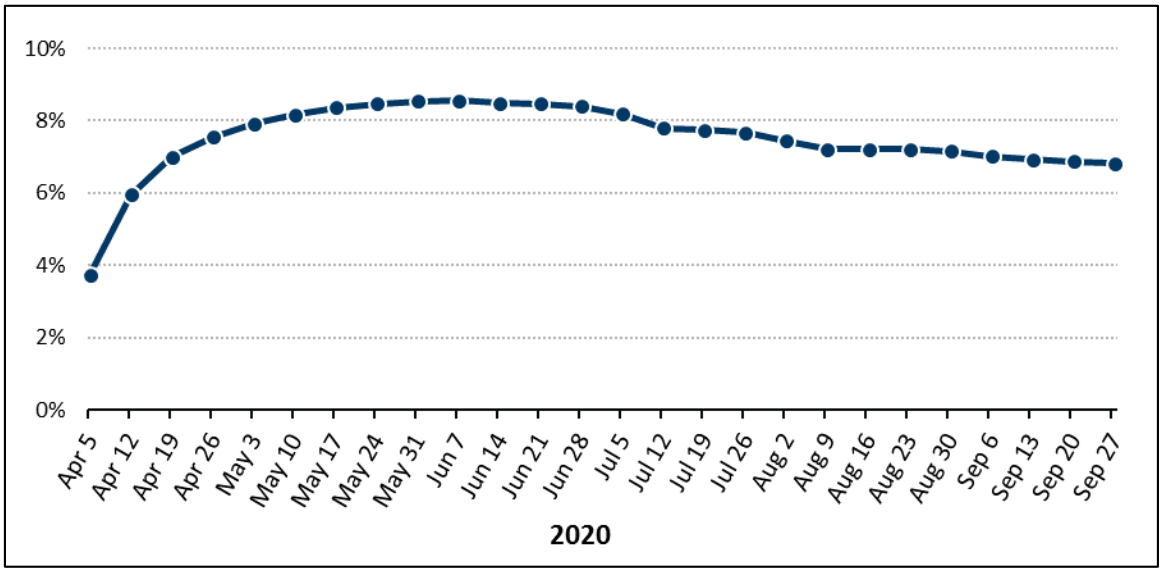
[27] Mortgage Bankers Association (MBA), "Share of Mortgage Loans in Forbearance Declines to 7.01%," press release, September 14, 2020, at https://www.mba.org/2020-press-releases/september/share-of-mortgage-loans-in-forbearance-declines-to-701.

[28] 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.

[29] 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-September 2020



Source: Mortgage Bankers Association's (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. The Trump Administration has set the federal student loan interest rate to zero, and borrowers will not be required to make payments due on their loans through the end of 2020, effectively putting all of these loans automatically in forbearance.[30] 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.[31] In addition, payment assistance was "more likely to be reported for borrowers

[30] 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. On August 8, 2020, President Trump directed the Department of Education to extend the "waiver of all interest" on federally held student loans through December 31, 2020. 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.

[31] 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.

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."[32]

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.[33] 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.[34] This led to many foreclosures, which destabilized local house prices and harmed local communities. In contrast, house prices have not fallen during the COVID-19 pandemic.[35]

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 families have equity in their homes. According to Black Knight estimates, only 9% of borrowers in forbearance have less than 10% of equity in their homes, and almost 80% have at least 20% equity in their homes, suggesting that relatively few mortgage borrowers may be at risk for foreclosure at the moment.[36] 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.[37] During the Great Recession, by contrast, falling home prices meant that many families had negative equity, and therefore were more at risk of foreclosure.[38]

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. 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.[39] 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.[40]

---

[32] Ryan Sandler and Judith Ricks, *Household Debt and Credit*, August 2020, p. 3.

[33] See CRS InFocus CRS In Focus IF11413, *The Qualified Mortgage (QM) Rule and the QM Patch*, by Darryl E. Getter.

[34] 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.

[35] 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.

[36] Black Knight, Black Knight's August 2020 Mortgage Monitor: At Current Rate of Improvement, Delinquencies Will Remain Above Pre-Pandemic Levels Until 2022; Loss Mitigation and High Levels of Equity Help Mitigate Foreclosure Risk, October 5, 2020, p.16, at https://www.blackknightinc.com/black-knights-august-2020-mortgage-monitor/.

[37] 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.

[38] 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.

[39] 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.

[40] 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.[41] This response to the economic impacts of the pandemic have likely prevented many consumers from falling delinquent on their loan payments. 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 for up to a year (Section 4022) and for federal student loans (Section 3513), now through the end of 2020 due to administrative actions.[42] 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).[43] 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.[44] In response, many banks and credit unions have announced measures to offer various forms of assistance to affected consumers.

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

[41] 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.

[42] 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.

[43] 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.

[44] 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.

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.[45] 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.[46] 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.[47]

Fiscal Policy Responses

In addition to consumer loan forbearance rights, the CARES Act also provided fiscal stimulus that 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. For example, evidence suggests that these programs may be limiting disruptions in the housing market.[48] 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 in the CARES Act, providing unemployed workers with more support for an extended period of time, beyond what the worker would normally be eligible to receive. The act provided a weekly supplemental payment of $600 to those receiving benefits through the end of July and extended unemployment insurance benefits for 13 weeks. In addition, the act provided

[45] 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.

[46] 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-purchasefinancing-digitization.

[47] 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.

[48] 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.

unemployment benefits to some not normally eligible for unemployment insurance.[49] Estimates suggest that most workers received at least as much in benefits as they lost in wages.[50]

Following the expiration of the enhanced unemployment benefits at the end of July, President Trump issued a memorandum on August 8, 2020, which called on his Administration to approve a lost wages assistance program that would authorize state governors to provide $400 per week, $300 of which would be provided by the federal government as long as disaster relief funds last.[51] These unemployment benefits likely made it possible for some families with an unemployed worker to pay their bills during the spring and summer of 2020.

Economic Impact Payments

The CARES Act also provided one-time direct payments to households equal to $1,200 per adult individual and $500 per child, with amounts phased out for higher-income taxpayers.[52] Payments began in April 2020.[53] According to the IRS, more than 160 million economic impact payments were delivered by August 14, 2020.[54] Economic impact payments constituted more than 12% of total personal income in the United States in April 2020.[55]

Current research suggests that many consumers used their impact payments to pay monthly bills or 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 the funds to pay down debt, 33% said they mostly saved it, and 15% said they spent or planned to spend most of it.[56] 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. On average, individuals reported spending around 40% of the payment, but this rate was higher for those facing liquidity constraints, unemployed, living in larger households, less educated, and who received payments of less than $1,200.

---

[49] For more information on the unemployment insurance provisions in the CARES Act, see CRS In Focus IF11475, *Unemployment Insurance Provisions in the CARES Act*, by Katelin P. Isaacs and Julie M. Whittaker.

[50] 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.

[51] U.S. President (Trump), "Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019," *Weekly Compilation of Presidential Documents*, August 8, 2020. For more information on this memorandum, see CRS Legal Sidebar LSB10532, *President Trump's Executive Actions on Student Loans, Wage Assistance, Payroll Taxes, and Evictions: Initial Takeaways*, by Kevin M. Lewis, Sean M. Stiff, and Jay B. Sykes.

[52] 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.

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

[54] 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.

[55] 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.

[56] 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.

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.[57] 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.

Future Household Finance Outlook

During the summer of 2020, some industry reports described declines in consumer loan forbearance requests in mortgage, auto, credit card, and other consumer credit markets.[58] However, it is unclear whether this pattern will continue. 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

The path of economic recovery from the COVID-19 pandemic is highly uncertain. The economic outlook is largely being driven by a public health crisis that is, in and of itself, difficult to predict. To a large extent, the economy is unlikely to fully recover until the pandemic has ended. Fears of the virus and social distancing measures make it unlikely that commerce can regain its pre-pandemic pace while COVID-19 still poses a threat. Workers in certain industries, such as retail, restaurant, and travel, may not recover their jobs until local health regulations allow normal operations and consumers demand these services again. Therefore, economic activity may depend on factors such as when a vaccine will be readily available or 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 July 2020, that both real gross domestic product will remain below its potential and the unemployment rate will remain above the 2019 rate for the remainder of the decade (i.e., through 2030).[59] The forecast assumes no policy changes and is subject to change. Other forecasts are

[57] 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.

[58] 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.

[59] Congressional Budget Office, *An Update to the Economic Outlook: 2020 to 2030*, July 2, 2020, at https://www.cbo.gov/publication/56442.

more optimistic about the rate of recovery, although they also suggest that the effects of COVID-19 on unemployment may be long lasting.[60]

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. In addition, the July expiration of the CARES Act's supplemental unemployment insurance payments could also result in more consumers eventually being unable to stay current on their loans. President Trump's memorandum extends a lower supplemental payment for some unemployed workers, but reports suggest that these supplemental payments started to expire as of the end of August in some states.[61] A recent research study suggests that in August, without the benefit supplement, many unemployed workers may have depleted their savings and reduced their spending.[62]

Some families losing unemployment insurance funds may have more trouble paying their monthly consumer loan obligations with a reduced benefit.[63] Industry reports suggest concerns about future delinquencies or defaults on consumer loans without additional government stimulus, such as unemployment aid.[64] CBO stated that "if the additional $600 per week was extended ... the extension would allow people to make more payments on loans and therefore have greater access to credit in the future than they would have otherwise."[65]

Congress is currently debating whether COVID-19 pandemic relief provisions should be extended or whether the cost of these proposals outweigh their benefits.[66] Active legislation that would modify, extend, or create new stimulus programs includes

---

[60] For example, see Board of Governors of the Federal Reserve System, *FOMC Economic Projections*, June 10, 2020, at https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20200610.pdf; and Wall Street Journal, *Economic Forecasting Survey*, June 1, 2020, at https://www.wsj.com/graphics/econsurvey/. For more information on the current unemployment rate outlook, and what those changes would mean for the economy, see CRS Insight IN11460, *COVID-19: How Quickly Will Unemployment Recover?*, by Lida R. Weinstock.

[61] Jeff Stein and Eli Rosenberg, "Trump's $300 Unemployment Funding is Already Running Out, Leaving Millions in Crisis Again," *Washington Post*, September 11, 2020; and Elisabeth Buchwald, "More than 30 States are Preparing to Distribute an Extra $300 in Unemployment Benefits—But How Long Will that Last?" *MarketWatch*, August 31, 2020 at https://www.marketwatch.com/story/more-than-30-states-have-distributed-an-extra-300-in-unemployment-benefits-but-how-long-will-that-last-2020-08-27.

[62] Diana Farrell et al., *The Unemployment Benefit Boost: Trends in Spending and Saving when the $600 Supplement Ended*, JPMorgan Chase & Co. Institute, Policy Brief, October 2020, at https://institute.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/Institute-UI-Benefits-Boost-Policy-Brief_ADA.pdf.

[63] Economists from Goldman Sachs estimated that the expiration of the $600 supplemental payment could result in a $70 billion hit to personal income in August, with the additional $300 benefit possibly covering up to $35 billion of that, if fully implemented in August. If personal income was lowered by the full $70 billion, economists estimate this would translate to a reduction in consumer spending power by about 6.5% of personal consumption expenditures (PCE) in August. Blake Taylor, "US Daily: The New $300 Benefit: Too Little Too Late for August Spending," *Goldman Sachs Economics Research*, August 23, 2020.

[64] Jon Prior, "Lenders Fear Mass Defaults Unless Unemployment Benefits are Extended," *American Banker*, July 23, 2020.

[65] Phillip L. Swagel, *Economic Effects of Additional Unemployment Benefits of $600 per Week*, Congressional Budget Office, June 4, 2020, pp. 4-5, at https://www.cbo.gov/system/files/2020-06/56387-CBO-Grassley-Letter.pdf.

[66] For more information about the economic impact of COVID-19 pandemic relief provision extensions, see CRS Insight IN11475, *Economic Activity and the Expiration of COVID-19 Relief Provisions*, by Grant A. Driessen and Lida R. Weinstock.

- the Heroes Act (first version: H.R. 6800; second version: H.R. 925) in the House, which first passed on May 15, 2020, then again on October 1, 2020; and
- the American Workers, Families, and Employers Assistance Act (S. 4318) in the Senate, which was introduced on July 27, 2020.

Both bills include additional relief payments to individuals[67] and additional unemployment insurance benefits.[68] In addition, the Heroes Act would expand consumer rights to loan forbearance and other payment relief during the COVID-19 pandemic.[69]

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 consumers from becoming delinquent and defaulting on their loans, rather than preventing this outcome. If so, consumers may not be able to avoid the serious consequences of loan default, such as debt collection, foreclosure, car repossession, or wage garnishment.

For lenders, if the economic impacts of the COVID-19 pandemic continue to cause prolonged disruptions and the CARES Act rights to loan forbearance expire, lenders may find that voluntarily extending loan forbearance becomes a less viable option. Questions exist about whether deferrals will become current or whether they will eventually need to be charged off.[70] 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.[71] 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.[72]

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

[67] For more information on relief payments to individuals in these bills, see CRS Insight IN11397, *COVID-19: Summary of the Direct Payments Proposed in the Heroes Act (H.R. 6800)*, by Margot L. Crandall-Hollick; CRS Insight IN11473, *COVID-19: Summary of Direct Payments in the American Workers, Families, and Employers Assistance Act (S. 4318)*, by Margot L. Crandall-Hollick; and CRS Insight IN11513, *COVID-19 and Direct Payments to Individuals: Comparison of Recent Proposals for a Second Round of Payments*, by Margot L. Crandall-Hollick.

[68] For more information on different unemployment insurance legislative proposals, see CRS Report R45478, *Unemployment Insurance: Legislative Issues in the 116th Congress*, by Julie M. Whittaker and Katelin P. Isaacs.

[69] For more information, see CRS Insight IN11405, *Heroes Act (H.R. 6800/H.R. 925): Selected Consumer Loan Provisions*, by Cheryl R. Cooper.

[70] 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.

[71] 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 IN11500, *COVID-19 Impact on the Banking Industry: Conditions in the Second Quarter 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.

[72] 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/.

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.[73] 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 requirements.[74] 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.[75]

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.[76] 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.[77] This situation could make it more difficult for consumers to access new credit, particularly those currently meeting their loan obligations.[78]

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 between the first and last weeks of March 2020, as "auto loan inquiries dropped by 52 percent ... new mortgage inquiries dropped by 27 percent, and revolving credit card inquiries declined by 40 percent."[79] According to the Federal

[73] 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.

[74] 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/cfpb_credit-reporting-policy-statement_cares-act_2020-04.pdf.

[75] 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. 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.

[76] 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, 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).

[77] 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.

[78] FinRegLab, *Covid-19 Credit Reporting & Scoring Update*, July 2020, p. 7.

[79] 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/.

Reserve's senior loan officer survey in July, banks tightened credit standards for all types of household lending, including mortgages, credit cards, and auto loans.[80] Therefore, consumers may have needed higher credit scores, larger down payments, or other more stringent requirements to qualify for new credit. 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.[81] 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,[82] others argue that broader macroeconomic uncertainties may be driving this trend.[83] 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.

Author Information

Cheryl R. Cooper, Coordinator
Analyst in Financial Economics

Lida R. Weinstock
Analyst in Macroeconomic Policy

Maura Mullins
Research Librarian

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.

[80] Board of Governors of the Federal Reserve System, *Senior Loan Officer Opinion Survey on Bank Lending Practices*, July 2020, at https://www.federalreserve.gov/data/sloos/sloos-202007.htm.

[81] 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.

[82] FinRegLab, *Covid-19 Credit Reporting & Scoring Update*, July 2020, p. 7.

[83] FinRegLab, *Covid-19 Credit Reporting & Scoring Update*, July 2020, p. 16.