Office of the Comptroller of the Currency

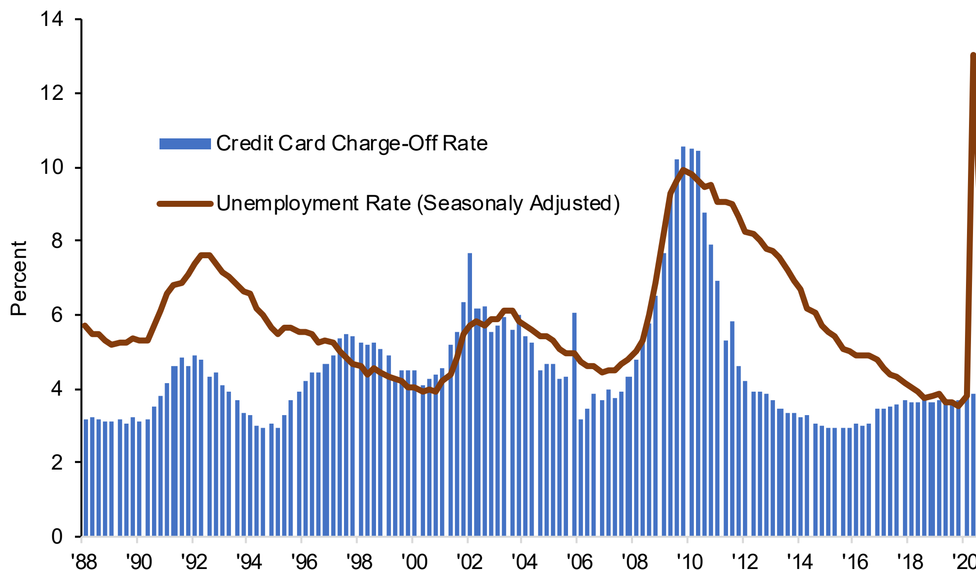
ON POINT

ECONOMIC AND POLICY INSIGHT FROM THE OCC

Credit Card Delinquencies Decline and Defaults Remain Resistant to the Pandemic

Historically, credit card delinquency and default rates have been highly correlated with the unemployment rate. During the Great Recession that began in 2008, credit card charge-offs doubled along with the unemployment rate, as shown in figure 1. Strong economic growth after the recession pushed credit card losses to and sustained them at low levels. Then the COVID-19 pandemic triggered a severe economic shock in 2020, and its effects have extended for months as businesses shuttered and unemployment rates shot up. But unlike past economic cycles, stimulus programs and other accommodations have so far helped mitigate the pandemic's economic and credit impacts on consumers. Data from various sources indicate that these actions have been effective in staving off credit card delinquencies and defaults.

Figure 1: Credit Card Charge-offs and Unemployment Rate

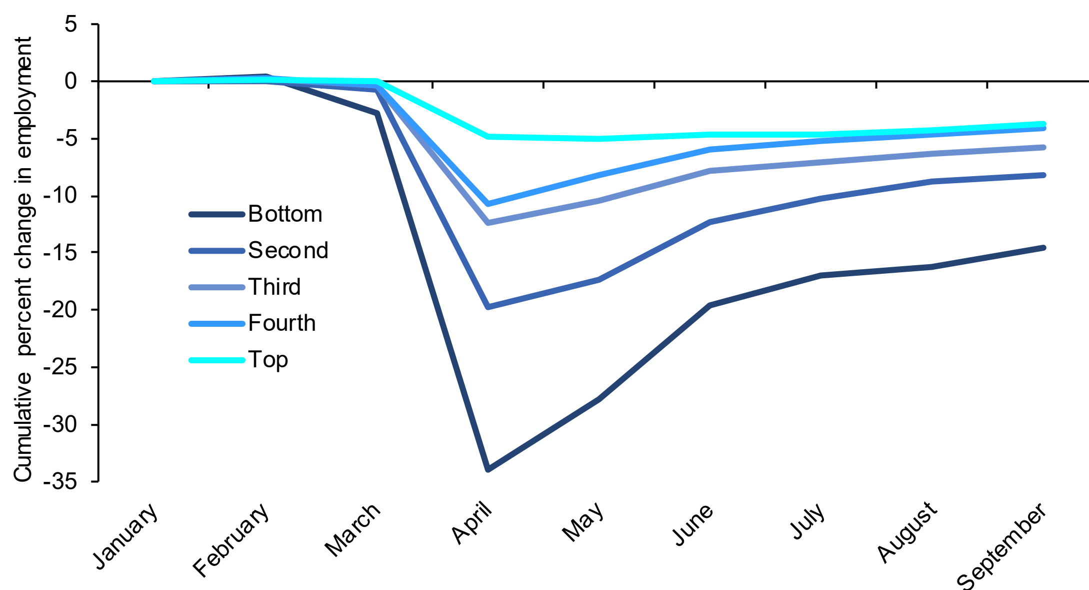


Source: Federal Reserve Board, Bureau of Labor Statistics (BLS)

Job Losses Have Not Translated into Income Losses, Especially for Low-Wage Earners

The COVID-19 recession affected different sectors of the economy to varying degrees. By April 2020, the number of employed workers within the bottom earning level quintile fell 34 percent from the pre-pandemic level, but the number of employed workers within the top earning level quintile fell by only 5 percent. (see figure 2). Since then, the re-employment of low-wage workers has continued to lag that of workers in higher-earning quintiles and the level of employment of the lowest-wage quintile remains 15 percent below its pre-crisis level.

Figure 2: Change in Employment by Earning Level Quintiles in 2020



Source: BLS

Note: Index where January 2020 employment level within each earnings quintile equals zero, subsequent periods reflect the cumulative percent change in employment since January 2020 within each quintile.

Despite the dire job picture for low-wage earners, federal and other COVID assistance programs have mitigated income loss. By July 2020 nearly 25 percent of U.S. adults reported that they or their partner have received assistance from either public or private sources since the start of the pandemic.[1] The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) expanded unemployment insurance coverage to previously ineligible workers and added 13 additional benefit weeks for all eligible workers.[2] The act authorized an extra $600 a week in addition to unemployment insurance through July 31, 2020, for eligible workers.[3] The CARES

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[1] Board of Governors of the Federal Reserve System, *Update on the Economic Well-Being of U.S. Households: July 2020 Results*, September 2020, p. 7.

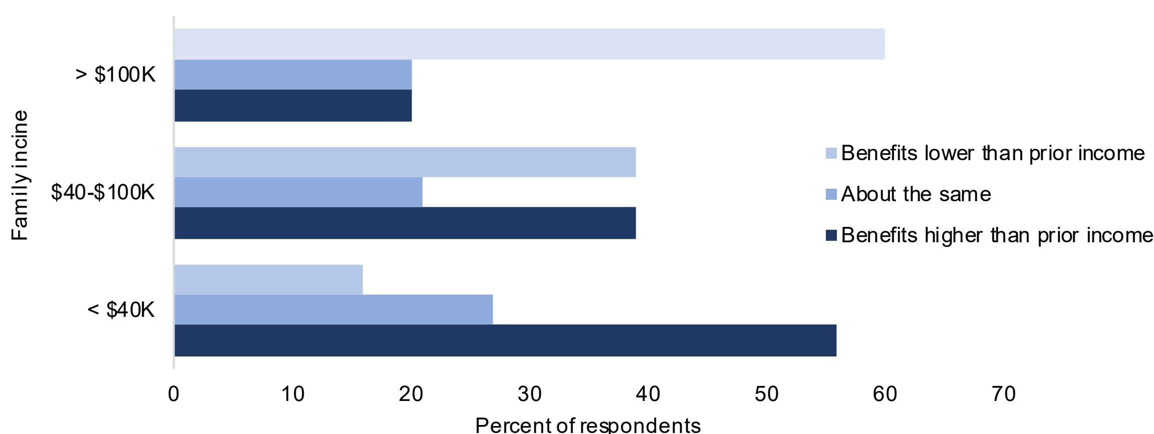
[2] Under the CARES Act, the Pandemic Unemployment Assistance (PUA) Program expanded unemployment benefits to the self-employed, independent contractors, and gig workers for up to 39 weeks. The Pandemic Emergency Unemployment Compensation (PEUC) Program extended unemployment benefits for 13 additional weeks.

[3] The CARES Act authorized the initial $600 per week payments of Federal Pandemic Unemployment Compensation (FPUC) through July 31, 2020. The Consolidated Appropriations Act of 2021 reauthorized

Act also included economic impact payments (EIPs) of up to $1,200 for individuals or $2,400 for married couples and up to $500 for each qualifying child.

According to a 2020 survey released by the Federal Reserve Board, nearly 40 percent of workers receiving unemployment insurance said they received more money than they earned previously, and 23 percent said they received about the same amount. (See figure 3.) Adults in low-income families were more likely to say their unemployment insurance benefits were greater than their previous earnings. Only 16 percent of respondents in low-income families said their income was less than their wages before the pandemic. According to this same survey, 70 percent of responders said they can handle a $400 emergency expense using cash compared with 63 percent back in October 2019. In other words, although *employment* dropped for all households (especially the lower-income households) because of the pandemic, *income* is the same or higher for a majority of households.

Figure 3. Unemployment Insurance Benefits Relative to Pre-layoff Wages, by Family Income



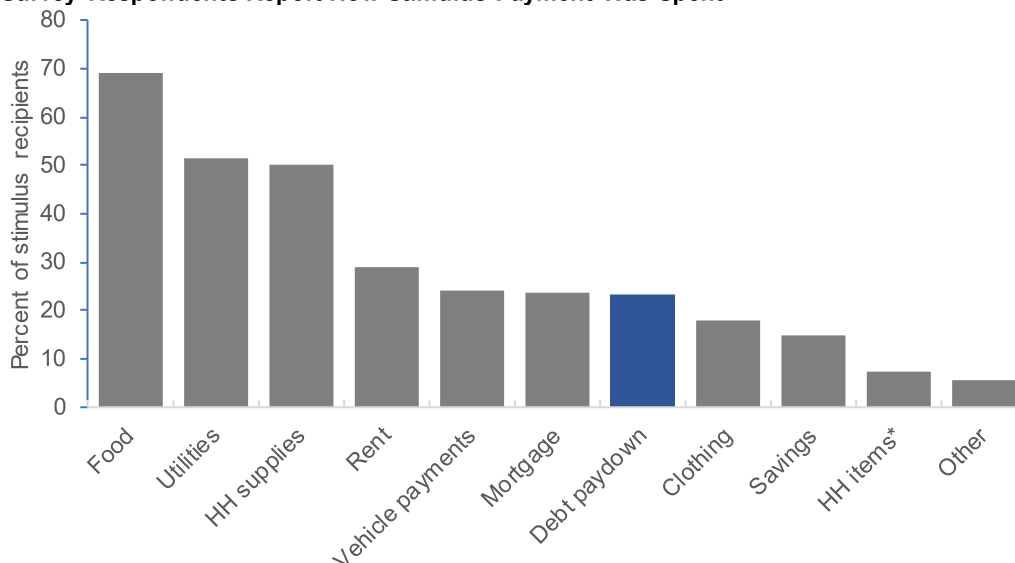
Source*:* Board of Governors of the Federal Reserve System, *Update on the Economic Well-Being of U.S. Households: July 2020 Results*, July 2020.

Some Stimulus Used to Pay Down Debt

The U.S. Census Bureau, in conjunction with other government agencies, conducted a survey on how Americans spent their stimulus checks. Most adults in households receiving a stimulus check said they either used or planned to use most of it on household expenses. However, nearly a quarter of those who received the first stimulus payment during the pandemic used at least some of the assistance to pay down credit cards, student loans, or other debts, as shown in figure 4.

the payment at a lower rate of $300 per week from Dec. 26, 2020, through March 14, 2021. The American Rescue Plan Act extended that amount through Sept. 6, 2021.

Figure 4. Survey Respondents Report How Stimulus Payment Was Spent



*Household (HH) items include TVs, electronics, furniture, appliances.

Source: U.S. Census Bureau, Household Pulse Survey, June 25-30, 2020. Technical documentation for week 9 of the survey.

Note: Survey permitted reporting multiple categories of consumer spending for each respondent. The Internal Revenue Service (IRS) of the Treasury Department began sending the first stimulus payments (also known as EIPS), out via direct deposit or mail on April 15, 2020; for recipients without a bank account, the IRS started sending EIPs by prepaid debit card on May 18, 2020.

In addition, the CARES Act created forbearance programs for federally backed home and student loans. Many banks mimicked these programs for their own customers. By June 2020, 9 percent of mortgage holders were enrolled in a forbearance program, along with all federal student loan borrowers.[4] For some consumers, these programs freed up funds previously dedicated to mortgage and/or student loan payments that now could be used to pay down credit card debt.

Indeed, stimulus and forbearance programs have had a direct impact on credit card balances and usage rates. According to the latest household debt and credit report from the New York Fed, households owed $819 billion in credit card debt as of the fourth quarter of 2020, down from $927 billion a year earlier. Average 2020 credit card debt per consumer is $5,315, down from $6,194 in 2019 according to a report Experian issued in November 2020. In addition, the personal savings rate hit an historical high of 26 percent in the second quarter of 2020; the previous high was 15.3 percent in 1975 since the series was first reported in 1947.[5]

Credit Card Delinquencies Declined During the Pandemic

In the early stages of a recession delinquency rates typically rise, reflecting a weakening job market and income losses. However, as discussed above, in this recession job losses have not resulted in income losses, and this is reflected in lower credit card delinquency rates.

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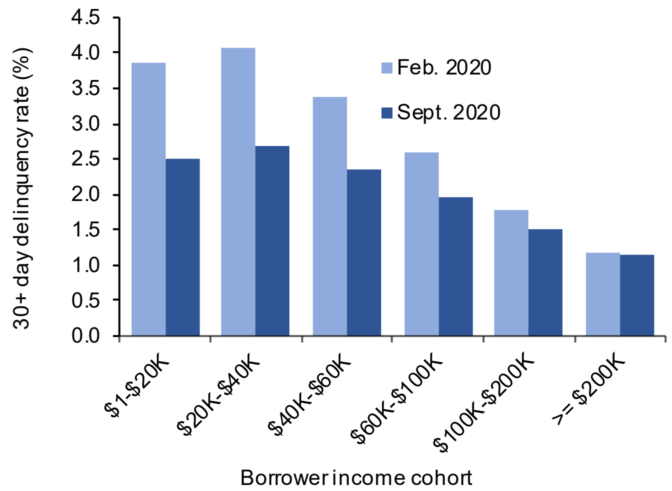
[4] All federal student loans were automatically enrolled in an accommodation program. No payment is required, and credit bureaus must report all student loans in forbearance as current.

[5] U.S. Bureau of Economic Analysis, *National Income and Product Accounts,* p. 60.

Three quarters in from the start of the current recession, credit card delinquency rates have stayed below pre-pandemic levels, as shown in figure 5. For lower-income cohorts, the delinquency rates have actually declined.

Figure 5. Credit Card Delinquency Rates



Source: Standard & Poor's, November 2020

Source: OCC Consumer Credit Panel

The Point?

Credit card stress is lower than unemployment data suggest, and the future path depends heavily on the timing and confluence of economic recovery and the end of support programs.