GOVERNMENT AND PRIVATE HOUSEHOLD DEBT RELIEF DURING COVID-19: COMMENTS

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Contributions

- Debt relief documentation
- Design identification across debt category
  - Differing mechanisms => varying outcomes
  - Equifax Analytics Database, representative of US
- Lessons learned for crisis intervention
  - Broader implications of forbearance for macro stability in crises
Quick, well-directed assistance

• @ $86 million, 70M HHs on $2.3t debt; 10% requested, 50% paid < 2 months, 40% left

• To hardest hit: Lower-income, lower credit regions with high % minorities, pandemic, unemployment and affected industries.

• Benefited those not assisted by stimulus programs
Mechanisms in CARES Act

• Student debt: blanket forbearance

• Government mortgages: borrowers “self-select”
  – granted automatically upon request.
  – no interest accrual
  – option to postpone payment until sale

• Private (auto, consumer credit, private mortgage) debt required negotiation
Mortgage and student delinquency declined a lot

- Student debt (yellow) precipitously
- Mortgage debt (blue and white and most of yellow, all) significantly
- Consumer credit (magenta), auto (red), other (turquoise) no
Mortgage delinquency rates counting forborne debt as delinquent

Mortgage Delinquency Rates by Loan Type
Seasonally adjusted, based on loan counts, excludes loans in foreclosure

Wharton University of Pennsylvania
Mortgage debt increases by @ $1/2T year over year

<table>
<thead>
<tr>
<th>Category</th>
<th>Q1 2020</th>
<th>Q2 2020</th>
<th>Q3 2020</th>
<th>Q4 2020</th>
<th>Q1 2021</th>
<th>Q2 2021</th>
<th>Annual Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>$9.71</td>
<td>$9.78</td>
<td>$9.86</td>
<td>10.04</td>
<td>10.16</td>
<td>10.44</td>
<td>+0.73 ▲</td>
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<tr>
<td>HE Revolving</td>
<td>0.39</td>
<td>0.38</td>
<td>0.36</td>
<td>0.35</td>
<td>0.34</td>
<td>0.32</td>
<td>-0.06 ▼</td>
</tr>
<tr>
<td>Auto Loans</td>
<td>1.35</td>
<td>1.34</td>
<td>1.36</td>
<td>1.37</td>
<td>1.38</td>
<td>1.42</td>
<td>+0.07 ▲</td>
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<tr>
<td>Credit Cards</td>
<td>0.89</td>
<td>0.82</td>
<td>0.81</td>
<td>0.82</td>
<td>0.77</td>
<td>0.79</td>
<td>-0.11 ▼</td>
</tr>
<tr>
<td>Student Loans</td>
<td>1.53</td>
<td>1.54</td>
<td>1.55</td>
<td>1.55</td>
<td>1.58</td>
<td>1.57</td>
<td>+0.04 ▲</td>
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<tr>
<td>Other</td>
<td>0.43</td>
<td>0.42</td>
<td>0.42</td>
<td>0.42</td>
<td>0.41</td>
<td>0.42</td>
<td>-0.01 ▼</td>
</tr>
<tr>
<td>Total</td>
<td>14.30</td>
<td>14.27</td>
<td>14.35</td>
<td>14.56</td>
<td>14.64</td>
<td>14.96</td>
<td>+0.66 ▲</td>
</tr>
</tbody>
</table>

Source: New York Fed Consumer Credit Panel/Equifax
Note: US$ Trillions; other includes retail store cards and consumer installment loans

Bloomberg
Mortgage debt decreased by @ $1Trillion from 2008-11

Household Debt ($ trillions)
Did public intervention (CARES Act) matter?

• Private mortgage $1/3$ less-lower bound
  – Public framework/protocol matter for collective action and quick implementation

• Mutually beneficial risk sharing delivered liquidity

• What else mattered?

• Borrowers able to repay, a liquidity event, equity at a high

• Fed purchases closed spread for Agency (w/ guarantees in place) debt
Credit risk transfer spreads by LTV Ratio

[Graph showing the spread of credit risk transfer (CRT) rates by LTV ratio from 1/1/17 to 1/1/21. The graph compares CRTs with 80-97% LTV and CRTs with 60-80% LTV.]
Ability to repay—liability to asset ratio low even for bottom half of distribution—price increased > 20% => equity high

Source: Federal Reserve Board and authors’ calculations.
How does this unwind?

• 40% still owe
• Asset values built on low interest rate
• Agency debt contained
• Long run attention to housing finance stability
Thank you

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