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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

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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

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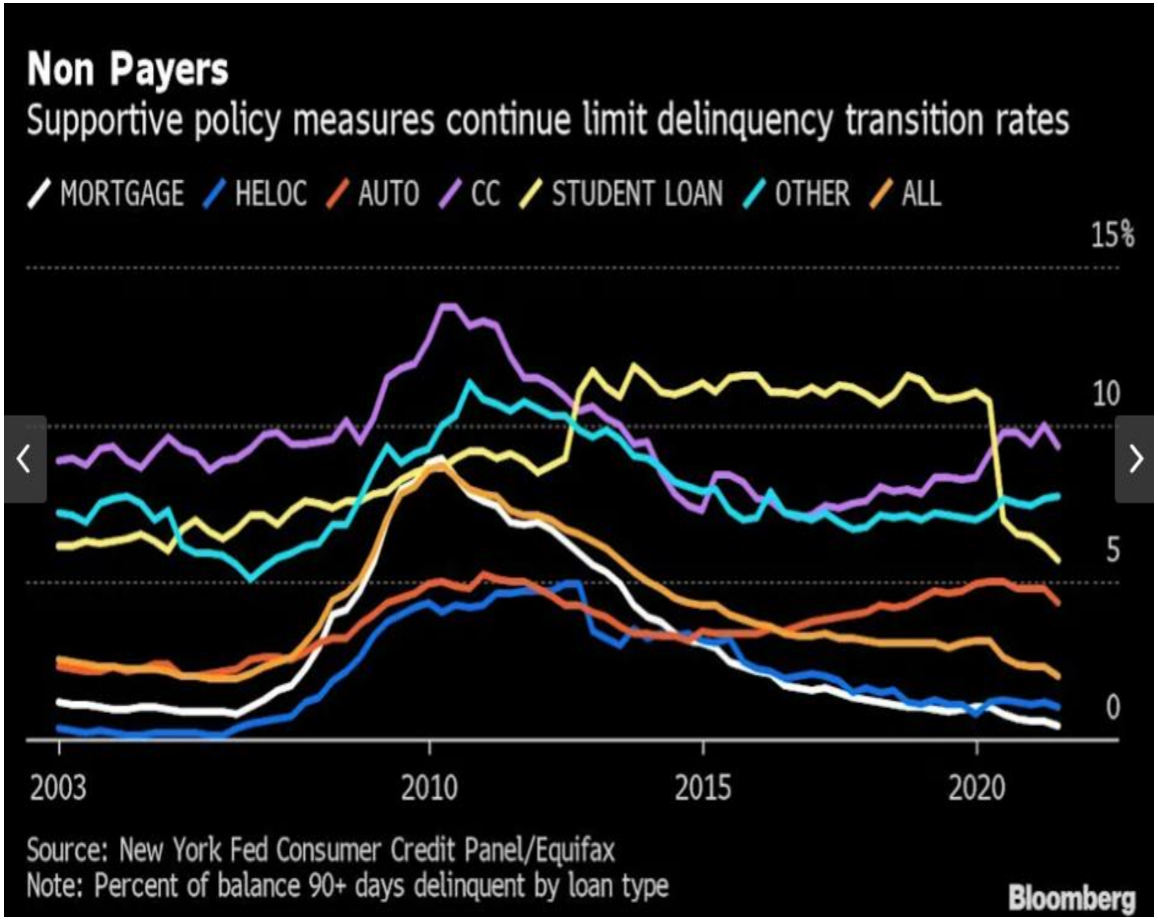
Mechanisms in CARES Act

- 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

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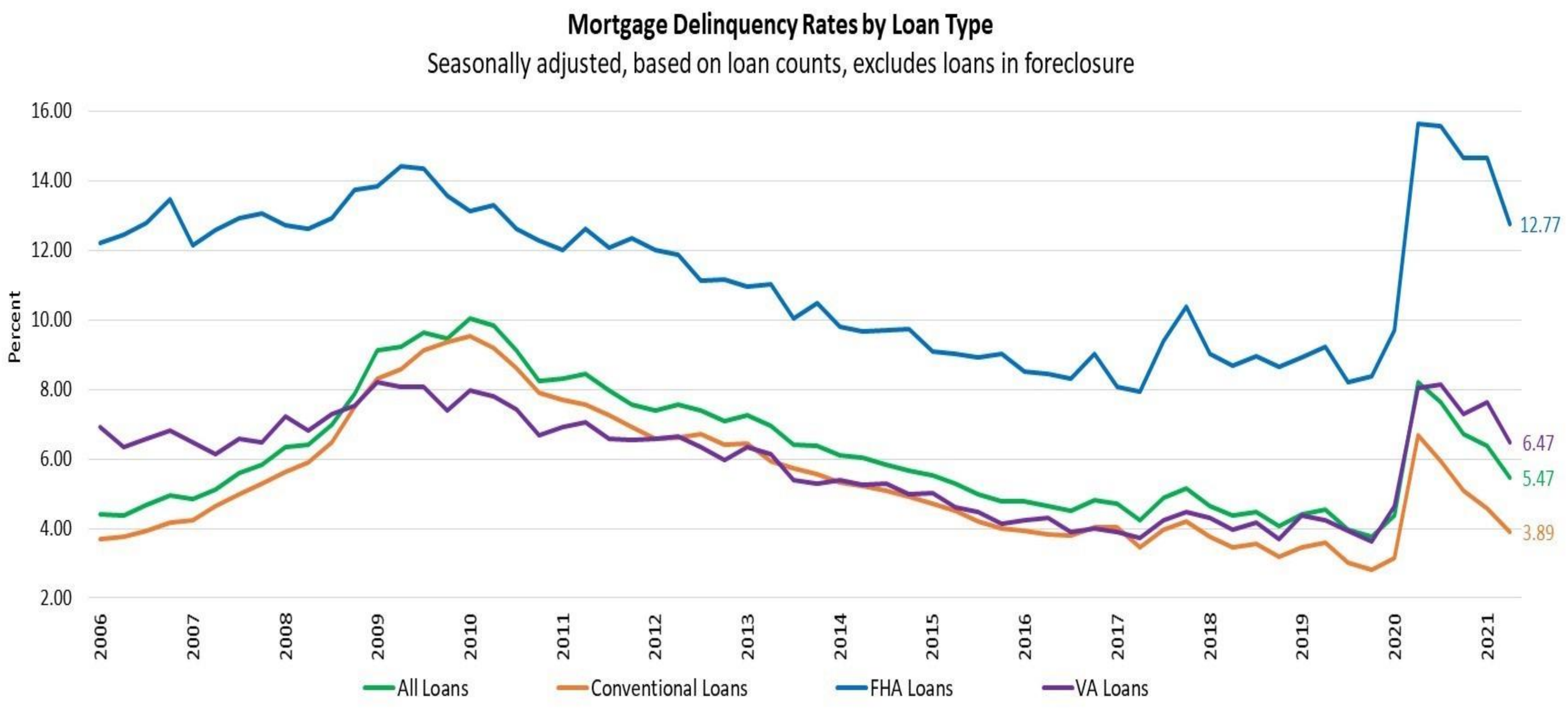
Mortgage delinquency rates counting forborne debt as delinquent



Mortgage debt increases by @ $1/2T year over year

U.S. Debt Surges

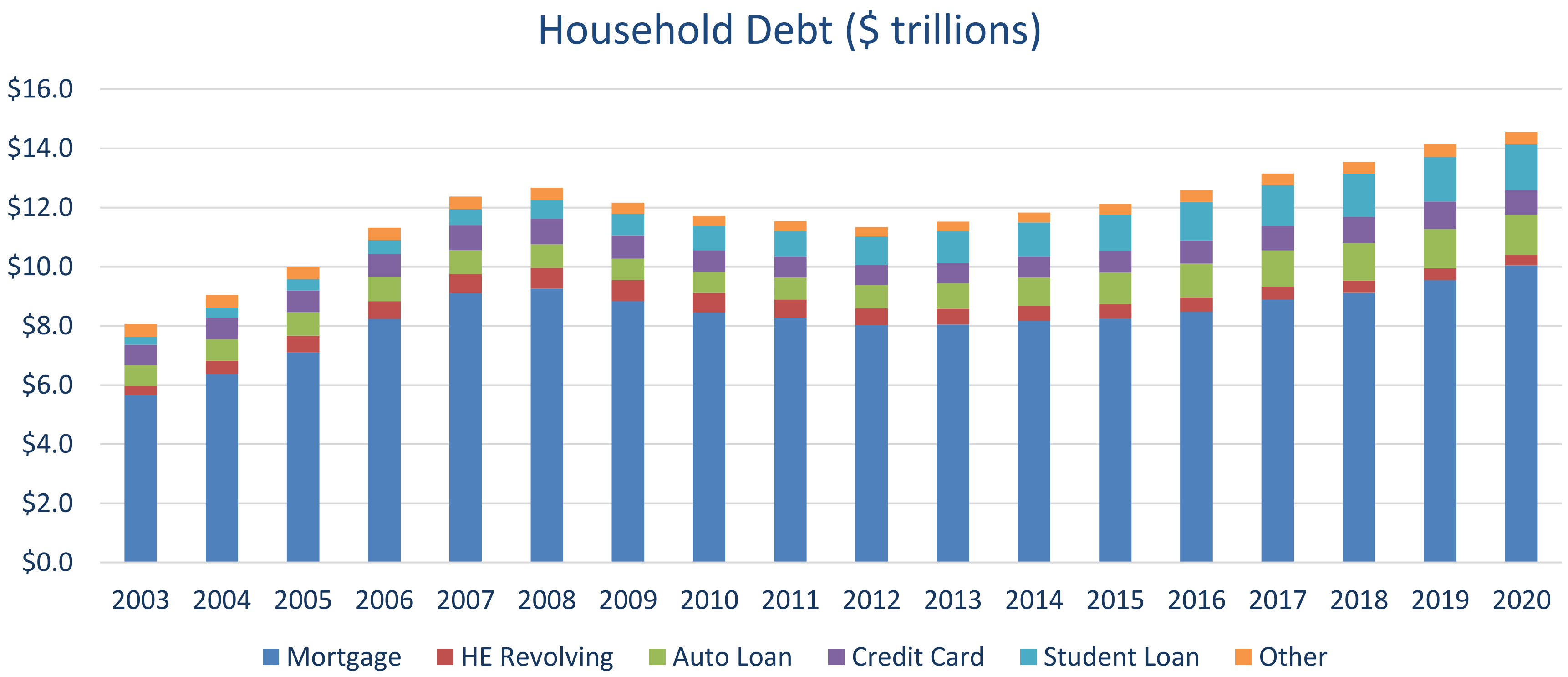
Mortgage debt alone surpasses $10 trillion in 2020

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

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

Bloomberg

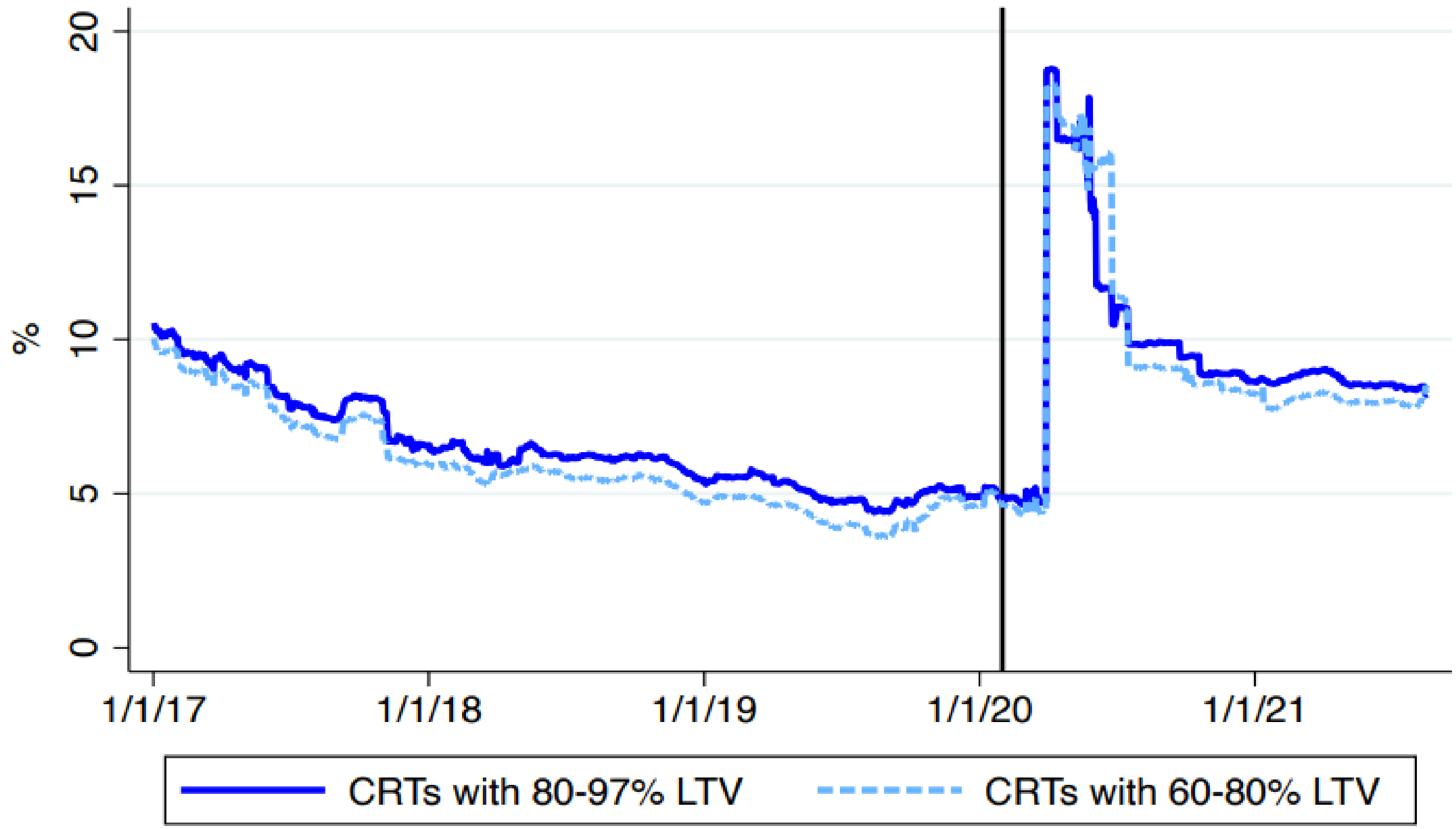
Mortgage debt decreased by @ $1Trillion from 2008-11



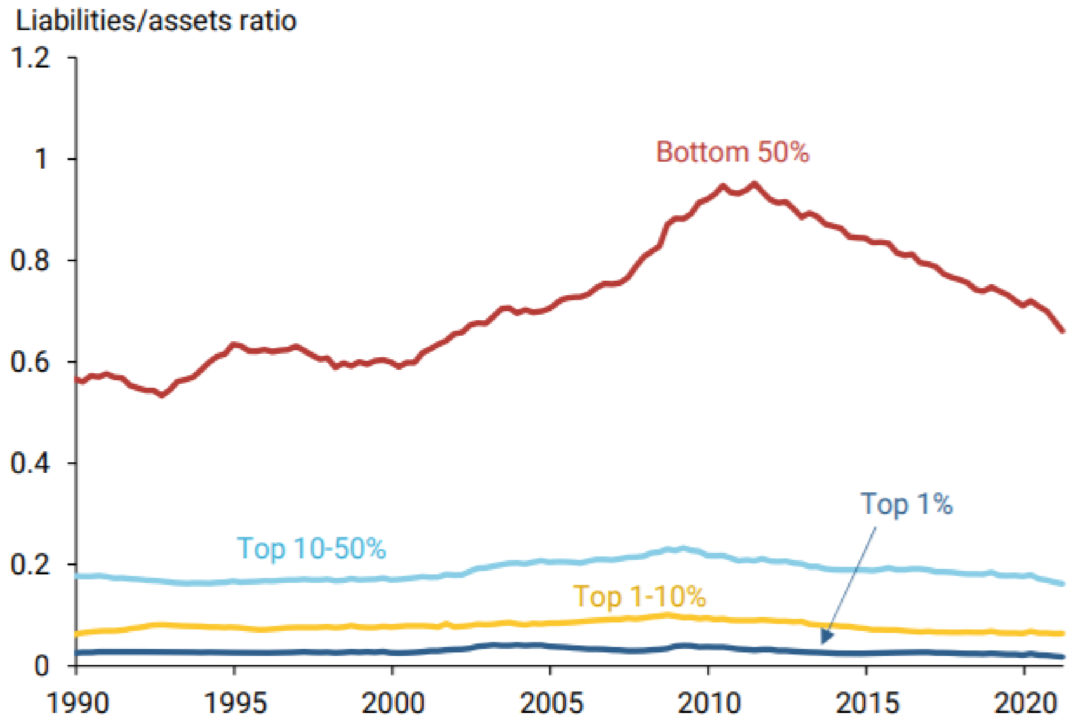
Did public intervention (CARES Act) matter?

- Private mortgage1/3 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



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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