CFI Research Brief

FEDERAL RESERVE BANK PHILADELPHIA
Consumer Finance Institute

Is Household Financial Health Improving?

April 2026 By Neil Bhutta and Valeria Zeballos Doubinko

In this CFI Research Brief, we use anonymized credit report data on consumer delinquency to assess the recent trajectory of households' financial health. After adjusting for changes over time in the composition of borrowers and other confounding factors, we find that the likelihood of delinquency continues to rise above pre-pandemic levels, particularly for low- to moderate-income borrowers.

Delinquency Trends and Household Financial Health

Recent evidence indicates that delinquency rates on consumer credit have stabilized after a period of significant increase (Adams et al. 2025). Drawing on data from the Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP), Figure 1 shows that the fraction of delinquent borrowers has declined over the last several quarters for credit cards and other consumer credit, and flattened for auto loans.[1]

Does this recent improvement in delinquency trends reflect healthier household finances? Not necessarily. Declining delinquency trends could instead reflect shifts in the composition of loan portfolios toward less risky borrowers if, for instance, lenders have tightened their underwriting standards. Indeed, according to the Federal Reserve's Senior Loan Officer Opinion Survey (SLOOS), banks tightened credit standards, on net, for credit cards and auto loans during 2023.[2] Thus, recent improvements in aggregate delinquency trends could be driven by relatively fewer high-risk households getting loans in recent periods, potentially masking continued or even worsening household financial stress.

[1] The drop in delinquency during the early stages of the pandemic partly reflects forbearance (Dettling and Lambie-Hanson 2021). For additional analysis of delinquencies trends using CCP data, see Haughwout et al. (2024).
[2] See SLOOS data at www.federalreserve.gov/data/documents/sloos-202510-charts.pdf. Conversely, rising aggregate delinquency rates as seen in 2022 and 2023 can reflect looser underwriting (Fulford and Gibbs 2024; Stavins 2025).

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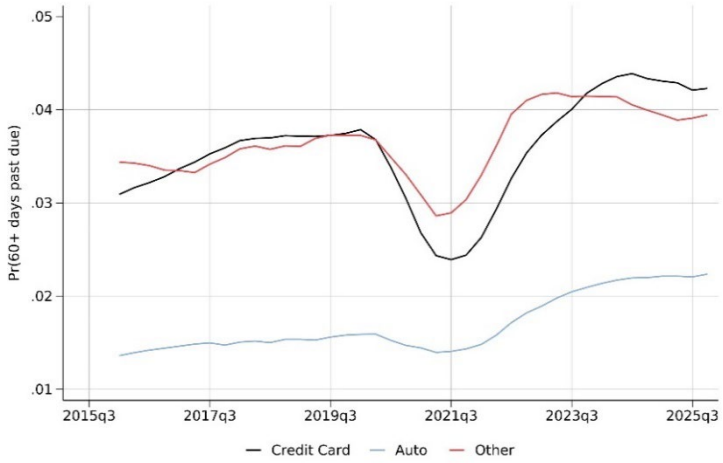
Figure 1. Probability of 60+ Days Delinquency, by Credit Type



Note: Each line shows the fraction of borrowers for a given type of loan with at least one loan that is 60+ days late, excluding loans in severe derogatory status. Credit card includes general purpose bank cards and retail credit card accounts; auto includes both bank and finance company auto loans; other includes all other reported consumer finance loans, such as personal installment loans. Data are quarterly and presented as four-quarter moving averages.
Source: Authors' calculations from Federal Reserve Bank of New York Consumer Credit Panel/Equifax data.

Uncovering Changes in Household Financial Health

Methods and Data

We use the CCP data to assess whether recent delinquency trends reflect underlying improvements in households' financial health. In these data, we observe a nationally representative anonymized sample of individuals — and their borrowing activity across several types of loans — over many years at a quarterly frequency. These features allow us to track changes in delinquency over time for the *same* consumer and estimate movements in aggregate delinquency rates free from potentially confounding effects of changes in borrower composition.

We implement this idea by running a fixed effects linear probability regression model of the following form:

$$y_{ijt} = \alpha_i + \gamma_j + \delta_t + \epsilon_{ijt} \qquad (1)$$

The outcome variable, y, is a delinquency indicator variable. It is equal to 1 if consumer i in quarter t has one or more accounts of loan type j (auto, credit card, or other) that is 60 or more days past due; it is equal to 0 otherwise (or missing in quarters in which a consumer does not have any accounts of type j). On the right-hand side of the equation are several fixed effects: individual fixed effects (α_i), credit-type fixed effects (γ_j), and calendar quarter fixed effects (δ_t). The quarterly fixed effects capture "shocks" to the likelihood of delinquency. These are the coefficients of interest. The inclusion of individual fixed effects ensures that these quarterly fixed effects are identified from within-person variation in delinquency over time. By comparing individuals only to themselves, we control for all time-invariant individual characteristics, such as the fixed

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component of individual credit risk, thereby tracing out how the probability of delinquency changes over time for a fixed consumer.[3]

A notable feature of the data set we construct to estimate Equation 1 is that it pools data across credit products. This setup, in contrast to delinquency analyses that analyze products separately, helps maximize the information on payment behavior we have on each individual. Given this data structure, we also control for credit-type fixed effects to account for differences across credit types in the likelihood of delinquency (e.g., prioritization of secured over unsecured credit).

Table 1: Summary Statistics

	All	Neighborhood Income		
		Low/Moderate	Middle	High
Auto				
Consumer-quarters with 1+ auto loan	3,287,454	754,178	1,505,139	1,028,137
Balance ($)	20,773.74	19,646.30	20,655.83	21,773.36
Fraction with delinquency	0.017	0.03	0.016	0.009
Credit Card				
Consumer-quarters with 1+ credit card	6,356,863	1,389,418	2,787,681	2,179,764
Balance ($)	6,103.76	5,188.71	5,852.61	7,008.27
Fraction with delinquency	0.036	0.058	0.036	0.022
Other Consumer Credit				
Consumer-quarters with 1+ other loan	1,783,927	464,253	852,674	467,000
Balance ($)	2,743.27	2,716.88	2,738.38	2,778.46
Fraction with delinquency	0.037	0.052	0.035	0.026
N	11,428,244			
Unique consumers	245,061			

Note: Credit card includes general purpose bank cards and retail cards; auto includes both bank and finance company auto loans; other includes all other reported consumer finance loans, such as personal installment loans. Balances are the sum across all accounts for an individual-quarter-credit-type observation, and delinquency is an indicator equal to one if at least one account for an individual-quarter-credit-type observation is at least 60 or more days past due, excluding accounts that are in severe derogatory or bankruptcy status. Sample covers 2015Q2 through 2025Q4.
Source: Authors' calculations from FFIEC Census data and Federal Reserve Bank of New York Consumer Credit Panel/Equifax data.

Table 1 shows summary statistics for our data. The sample consists of nearly 250,000 unique individuals with a total of 11.4 million person-quarter-credit-type observations. As alluded to earlier, for each consumer in the sample, we observe their borrowing on three types of loans each quarter. Focusing on the first column, the highest number of person-quarter

[3] While the individual fixed effects account for time-invariant borrower risk, borrowers' risk profiles can evolve over time (e.g., financial stability tends to improve with age); if these changes are slow and/or not systematically correlated with aggregate household financial shocks, then this should not bias our estimate of δ_t, which are intended to purely capture aggregate household financial shocks. Another approach to accounting for borrower composition could be to control for borrowers' time-varying credit scores, but credit scores are a function of delinquency and therefore may be an inappropriate control. Moreover, the dynamics of credit scores over the sample period were somewhat distorted by forbearance and other pandemic-era policies (Goodman et al. 2021). Another concern with our specification is that low-risk types may be less affected by aggregate delinquency shocks than high-risk types, although if that is the case, then we will likely underestimate the size of delinquency shocks when borrower composition is shifting toward low-risk types.

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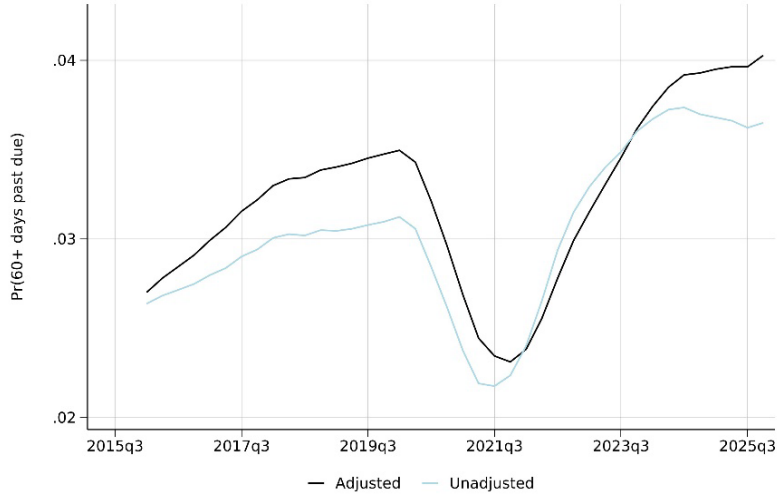
observations is for credit cards, reflecting their widespread and frequent use for both borrowing and as a payment method. The average balance across all card accounts and quarters for these consumers is just over $6,000.[4] And the likelihood of having at least one delinquent card account is 3.6 percent. Auto loans are less prevalent, but they have higher outstanding balances and are less likely to be delinquent, on average. Other consumer loans are the least prevalent and have the smallest balances.

Results

The black line in Figure 2 plots the quarter fixed effects (δ_t) estimated from Equation 1, plus the unconditional delinquency rate in 2015Q2 to make the levels of delinquency clear, and as a four-quarter moving average in order to smooth through seasonal variation. This line suggests that the likelihood of consumer delinquency has continued to move higher in recent quarters, albeit at a much slower pace than in 2022–2023. This contrasts with the downward trend over the past several quarters, shown by the light blue line, which plots the δ_t without individual and credit-type fixed effect controls. Taken together, this suggests that households' ability to repay debt has continued to deteriorate somewhat, rather than improve, as would be suggested from only observing raw data on delinquency trends.

Figure 2. Probability of 60+ Days Delinquency



Note: The adjusted line plots the estimated δ_t from Equation 1. The unadjusted line plots quarter fixed effects (δ_t) without including individual and credit-type fixed effects. The level for both series is adjusted upward by the initial unconditional delinquency rate in 2015Q2. Data are quarterly and presented as four-quarter moving averages.
Source: Authors' calculations from Federal Reserve Bank of New York Consumer Credit Panel/Equifax data.

Next, building on the recent analysis in Sommer et al. (2025), we examine whether the deterioration in delinquency differs across income groups. To measure income, we follow a similar methodology to Sommer et al. (2025) and merge the CCP data with census tract–level median family income data from the Federal Financial Institutions Examination Council (FFIEC) Census Flat Files for 2019. The FFIEC classifies census tracts into income categories based on the ratio of tract median family income to the metropolitan statistical area (MSA) median family income. We merge this income data to the CCP using each consumer's lagged census tract location (from four quarters earlier). We consolidate the original FFIEC categories into three

[4] Credit card balances include both revolving and nonrevolving balances outstanding at the time lenders report their data to Equifax.

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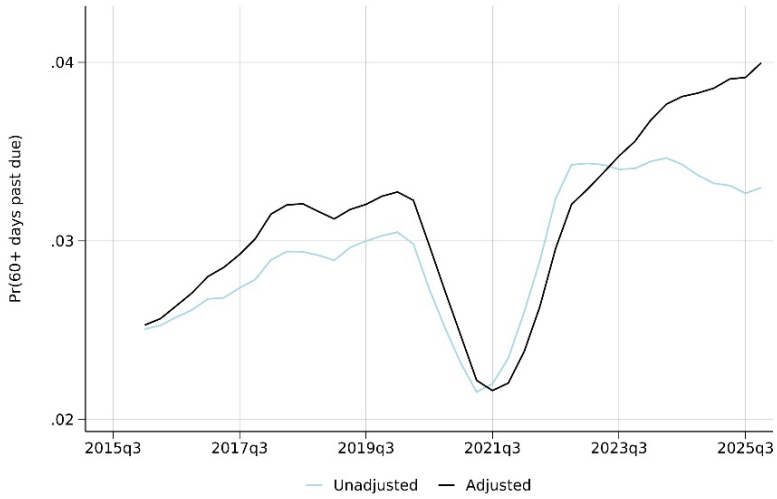
income groups: Low-Moderate (combining low- and moderate-income tracts, less than 80 percent of the MSA median), Middle (80–120 percent of the MSA median), and High (more than 120 percent of the MSA median). Columns 2–4 of Table 1 provide summary statistics by income group.

Using these income categories, we run a regression similar to Equation 1 but now interact income category with the quarter fixed effects and control for credit-type-by-quarter fixed effects.[5] Additionally, because low- to moderate-income (LMI) consumers are likely to be younger than higher-income consumers, and debt accumulation and delinquency trends tend to differ by age, we also include controls for birth-decade-by-quarter fixed effects.[6]

The black line in Figure 3 shows the evolution of delinquency probability for LMI consumers relative to high-income consumers, conditional on the controls described previously. This line shows that delinquency rates for LMI consumers have been rising quickly relative to high-income consumers. After dropping sharply during the early stages of the pandemic, the delinquency gap has risen to about 4 percentage points, well above pre-pandemic levels. The financial health of LMI consumers appears to be worsening considerably relative to high-income consumers.

Figure 3. Probability of 60+ Days Delinquency, LMI Consumers Relative to High-Income Consumers



Note: The adjusted line plots LMI-by-quarter fixed effects from a regression controlling for individual fixed effects, credit-type-by-quarter fixed effects, and birth-decade-by-quarter fixed effects. The unadjusted line plots unconditional LMI-by-quarter fixed effects. The omitted income category is high-income. The initial level for both series is set at the initial unconditional difference in delinquency rates between LMI and high-income consumers in 2015Q2. Data are quarterly and presented as four-quarter moving averages.
Source: Authors' calculations from FFIEC Census data and Federal Reserve Bank of New York Consumer Credit Panel/Equifax data.

This strong and persistent rising pattern since late 2021 contrasts sharply with the conclusion one would draw from the unadjusted or raw delinquency gap, shown in light blue. The raw delinquency gap flattened in 2022 and mostly declined in 2024 and 2025, implying convergence in household financial health between LMI and high-income consumers. However, the

[5] The credit-type-by-quarter fixed effects account for differential delinquency trends across types that might drive differential delinquency trends between lower-income and higher-income consumers.
[6] For this analysis, we exclude consumers born before 1940. For ease of exposition, we refer to individual consumers as LMI or high-income based on their neighborhood income category, but we recognize that individuals' incomes can differ from that of their neighborhood.

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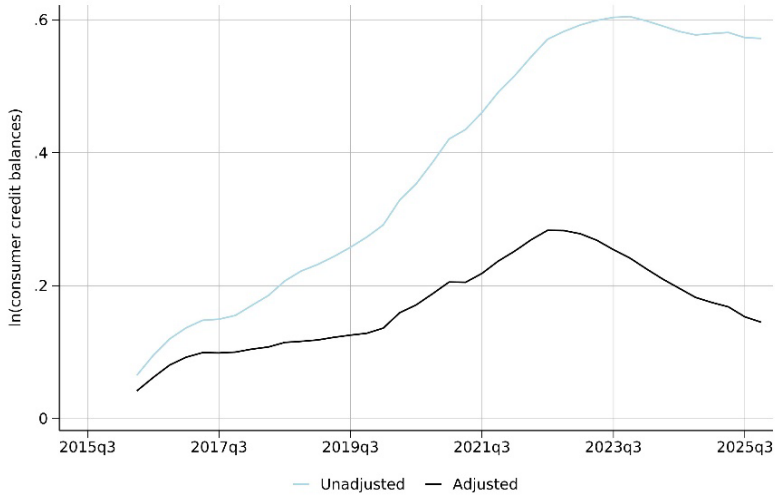
black line suggests this conclusion is premature, confounded by changing borrower composition and differential age-related trends.

Finally, we examine differential trends across income groups in consumer debt balances. For this exercise, we sum balances across credit types, and thus observations are at the person-quarter level. We regress the natural log of balances on income-category-by-quarter fixed effects, and again control for individual fixed effects and birth-decade-by-quarter fixed effects.[7] The black line in Figure 4 plots the LMI-by-quarter fixed effects, reflecting growth in debt balances since 2015Q2 for LMI consumers relative to high-income consumers. This line shows that relative balances grew sharply during the pandemic by about 20 percent but have fallen back substantially since 2022. Despite this significant deleveraging, the LMI delinquency rate gap has continued to climb, as shown in Figure 3.

Figure 4: Consumer Debt Balances, LMI Consumers Relative to High-Income Consumers



Note: The adjusted line plots lower-income-by-quarter fixed effects from a regression where the outcome variable is ln(1 + balance), controlling for individual fixed effects and birth-decade-by-quarter fixed effects. The unadjusted line plots unconditional lower-income-by-quarter fixed effects. The omitted income category is high-income. Data are quarterly and presented as four-quarter moving averages.
Source: Authors' calculations from FFIEC Census data and Federal Reserve Bank of New York Consumer Credit Panel/Equifax data.

Another notable feature of Figure 4 is the wide divergence between the adjusted (black) and unadjusted (light blue) lines. An important driver of this divergence is differential debt growth by age that is correlated with income (i.e., younger people tend to have lower incomes and live in lower-income neighborhoods). By accounting for these differential age trends, we can see that debt growth among lower-income consumers was far less pronounced than we might otherwise conclude; this also helps uncover the lower-income deleveraging pattern since 2022.

[7] To accommodate borrowers with zero debt, we specify the outcome variable as ln(1+balance). By including zeros, these regressions are run on a more balanced panel, and therefore borrower compositional changes over time becomes less of a concern.

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Conclusion

Our analysis points to worsening household financial health masked by shifts in borrower composition. After controlling for compositional shifts and other potential confounding factors, we find that the likelihood of delinquency continues to rise and that the delinquency gap between LMI and high-income consumers is now well above pre-pandemic levels. Notably, this deterioration continues even as LMI individuals reduced their debt burdens, suggesting that tighter lending standards in 2023 obscured rather than resolved underlying financial stress.

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