

BEYOND THE NUMBERS

A Mixed-Methods Exploration of Consumer Credit Trends by Age in the Third Federal Reserve District

By Noelle Baldini and Eileen Divringi

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ACCOUNT SUMMARY

Previous Balance	
Payments and Credits	
Purchases and Bal. Transfers	\$0.00
Interest	\$0.00
New Balance	- \$75.00

AUTHORS



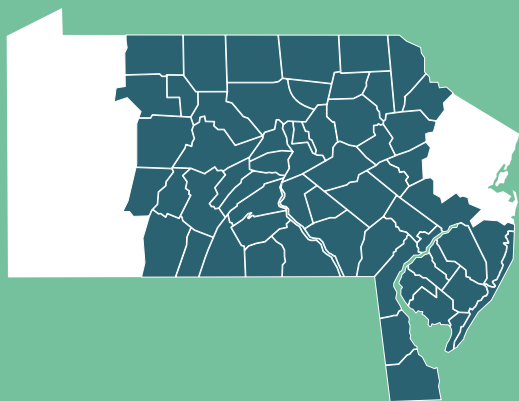
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THE THIRD FEDERAL RESERVE DISTRICT

The Federal Reserve Bank of Philadelphia serves the Third District, which covers eastern Pennsylvania, southern New Jersey, and Delaware. The Bank's Community Development Studies & Education Department supports the Federal Reserve System's economic growth objectives by promoting community development in low- and moderate-income communities and fair and impartial access to credit in underserved markets.



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INTRODUCTION

Often, consumer credit issues only enter the public discussion when they are associated with concerns over the health of the broader economy. Mortgage debt during the foreclosure crisis, and its availability thereafter, is perhaps the most obvious example, although more recently, student loan debt and subprime auto lending have attracted a greater level of attention. However, these issues are rarely examined in the full context of borrowers' balance sheets or understood in terms of the changing financial needs that accompany each phase of a credit user's lifecycle. This report attempts to address this knowledge gap for credit users residing in the Third Federal Reserve District, which encompasses Delaware, the southern half of New Jersey, and the eastern two-thirds of Pennsylvania, by examining emerging consumer credit trends and perspectives on borrower experiences to provide a fuller picture of consumer financial health.

In 2015, an analysis of anonymized consumer credit data for residents of Third District states was conducted by the Community Development Studies & Education (CDS&E) Department at the Federal Reserve Bank of Philadelphia. This analysis took a comparative look at the use of credit across three age groups — 18 to 34, 35 to 54, and 55 to 84 years old — from 2005 to 2015, identifying trends and indicators of financial distress. Following this analysis, the CDS&E Department interviewed a sample of key informants throughout the Third District to further investigate the initial findings. The goal of this qualitative research was to offer a glimpse into the "how" and "why" behind the trends identified in the credit data. The following report presents a comprehensive look at consumer credit issues and their impact on financial well-being for each age group, summarizing the key findings of both the quantitative and qualitative analyses.

METHODS

As alluded to in the introduction, the findings presented in this report are the result of an iterative mixed-methods analysis of consumer credit trends. The preliminary quantitative analysis used data from the Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). The CCP is an anonymous, nationally representative sample (5 percent) of U.S. residents with a Social Security number and a credit report¹ that provides a

¹ Not all adults in the U.S. have a credit bureau file. Approximately 8 percent of households do not have a member with a credit report and are thus not included in the data set (see Meta Brown, Andrew Haughwout, Donghoon Lee, and Wilbert van der Klaauw. "Do we know what we owe? Consumer debt as reported by borrowers and lenders," *Economic Policy Review*, 2015, issue 21-1, pp. 19-44). Additionally, the Consumer Financial Protection Bureau estimates that almost 30 percent of adults in low-income neighborhoods do not have a credit file (see "Data Point: Credit Invisibles," Consumer Financial Protection Bureau Office of Research, May 2015, available at http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf).

quarterly snapshot of sample members' consumer debt use, including the number and types of active accounts, loan amounts, and delinquencies (for more information, see the Appendix).

The analysis conducted for this report examined overall consumer credit use and took a closer look at five common types of debt: student loans, auto debt,² credit card debt,³ home equity lines of credit (HELOCs), and mortgages.⁴ The CCP also includes a credit score developed by Equifax and an indication as to whether a consumer has recently had an account in third-party collections, providing additional measures of credit access and financial well-being. The trends and emerging issues revealed through this preliminary analysis informed the development of the interview questions.

Qualitative data collection consisted of 13 telephone interviews with housing and credit counselors working in communities across the Third District. Before the interviews, the authors shared a brief summary of the preliminary analysis with interviewees to prompt discussion and elicit their perspectives on specific findings. The interviews were recorded, transcribed, and coded to identify themes regarding the differences in access to credit, debt, and delinquency trends across different age groups. Five of the 13 interviews were coded inde-

pendently by two members of the study team and checked for intercoder reliability. For a more in-depth description of the methodology used in this report, see the Appendix.

Code analysis through full and repeated immersion in the data led to the identification of several **meaningful themes**, which are explored herein. Additional analysis of the CPP data was performed to validate interviewee claims and provide context on other issues that were not addressed during the interviews. The views expressed in the qualitative analysis reflect the perceptions and opinions of the key informants who were interviewed and do not necessarily represent the views of the study team or empirically supported facts. Direct quotes from participants are shared whenever they help to explain and illustrate summary statements.

FINDINGS

Although access to and utilization of specific types of credit vary substantially by age, some form of consumer debt is common across all three groups. Among Third District residents in the CCP (referred to as "consumers" in this report), the share with outstanding debt (referred to as "borrowers" in this report) was comparable for each age group at the end of 2015 (Table 1). However, individuals in the youngest age group, particularly

Table 1: Credit Characteristics by Age Group, Third Federal Reserve District, 4Q2015

	Younger (18–34)	Middle-Aged (35–54)	Older (55–84)
Percent of consumers with debt	82.1	82.3	74.8
Percent of consumers with credit score <660 or no credit score	51.4	41.8	26.9
Percent of borrowers with severely delinquent debt	18.0	17.0	8.2
Percent of consumers with at least one account in third-party collections in the past 24 months*	23.3	20.9	8.8
Median debt for borrowers	\$18,664	\$68,975	\$22,209

* Includes consumer debt collections not handled by the original creditor and adverse public records (tax liens and debt judgments).

Source: Authors' calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). Median debt amounts are in 2015 dollars, adjusted using the Bureau of Economic Analysis Personal Consumption Expenditures (PCE) Price Index. Median debt calculation refers to borrowers only (i.e., consumers with total debt >\$0). Severe delinquency is defined as 90+ days past due (DPD), in collections, or classified as severely derogatory. Delinquency rates are calculated as the share of borrowers with at least one severely delinquent account.

² Includes auto loans from monoline automobile finance companies and lenders that provide a wider range of consumer financial products (such as a bank or credit union).

³ Includes general-purpose credit cards; excludes both debit cards and credit cards for use at specific retailers.

⁴ Mortgage debt calculations include first and junior lien mortgages as well as home equity installment loans. Additional accounts that are not evaluated separately here but that contribute to overall debt figures include retail financing (i.e., credit cards for use at specific retailers), general consumer finance, and debt classified as "other."

those between 18 and 24 years of age, are considerably less likely to have credit files⁵ and are thus less likely to appear in the CCP than are individuals in the other two age groups.

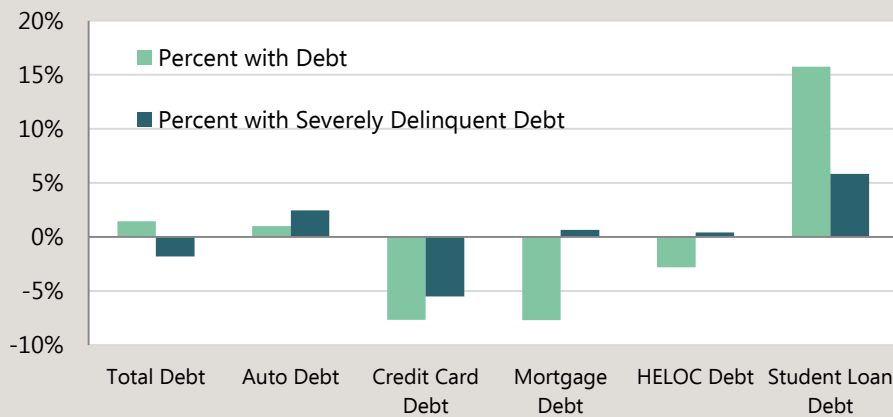
Although the CCP does not provide information on other socioeconomic characteristics that may influence the use of credit, the data reveal stark differences among age groups. Overall, it is clear that younger credit users faced greater difficulty managing their finances than borrowers in the older age groups. As shown in Table 1, the majority of younger consumers had either a nonprime credit score or too little credit histo-

ry to be scored. Nearly one in four consumers in this age group had at least one account in third-party collections in the past 24 months compared with roughly one in five middle-aged consumers and fewer than one in 11 older consumers. However, over the study period, the gap between the share of younger and middle-aged borrowers with severely delinquent debt narrowed substantially, particularly during the years following the foreclosure crisis. Middle-aged borrowers' greater likelihood of having mortgage debt contributed to this trend.

The following sections present age group-specific findings from the CCP analysis and themes revealed through interviews with key informants. A point of consideration is that because the sample of key informants consisted entirely of credit and housing counselors, observations reflect the conditions of individuals who sought out these services and who are, therefore, likely to be more financially distressed than the typical Third District resident. In the words of one interviewee:

“... people who would take advantage of our services usually need some type of help. So if I'm looking at older people in that 55 to 84 age group, I'm not seeing a tremendous amount of that group because typically the people who are fine are not in my office.”

Figure 1: Percentage Point Change in Debt Characteristics, 4Q2005–4Q2015, Younger Borrowers



Source: Authors' calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). Severe delinquency is defined as 90+ DPD, in collections, or classified as severely derogatory. Delinquency rates are calculated as the share of borrowers with at least one severely delinquent account in a given category among all borrowers with debt of the same type. For total debt, the percent with debt series indicates the change in the percentage of consumers who had any debt. For the specific types of debt, the percent with debt series indicates the change in the percentage of borrowers (those with total debt >\$0) who had debt of a specific type.

Table 2: Change in Median Debt, Younger Borrowers

	Total Debt	Auto Debt	Credit Card Debt	Mortgage Debt	HELOC Debt	Student Loan Debt
Median, 4Q2015	\$18,664	\$11,946	\$1,312	\$157,210	\$24,406	\$15,694
Percent change from 4Q2005	6	-14	-31	5	-23	54

Source: Authors' calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). All median debt figures are in 2015 dollars, adjusted using the Bureau of Economic Analysis PCE Price Index. Median debt calculations refer to borrowers with debt >\$0 for each type of debt.

⁵ See "Data Point: Credit Invisibles," Consumer Financial Protection Bureau Office of Research, May 2015, available at http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

Younger Borrowers

Figure 1 and Table 2 summarize changes in key debt characteristics for younger borrowers during the study period. Overall, younger consumers ended the study period slightly more likely to have debt, and borrowers were less likely to have a delinquent account than when the period began, although differences by account type are obvious in Figure 1. The following were identified as emerging issues for these borrowers:

- As noted earlier, younger consumers were the most likely to have at least one account in third-party collections.
- The share of younger borrowers with outstanding credit card debt declined substantially over the study period, from 70.8 percent to 63.2 percent. Median credit card balances also declined consistently during this period.
- Similarly, the share of younger borrowers with mortgage debt declined, from 23.5 percent at the beginning of 2005 to 16.8 percent at the end of 2015.

Regarding the relatively high share of younger consumers with collections in their credit files, respondents confirmed that their younger clients often struggle with cell phone bills, parking tickets, credit cards, student loans, auto loans, and utility bills. Interviewees expressed that **some younger people are more willing to take on debt because they have expectations of earnings increasing in the future.** Respondents also expressed that **younger people struggle with money management skills, often resulting in damaged credit.**

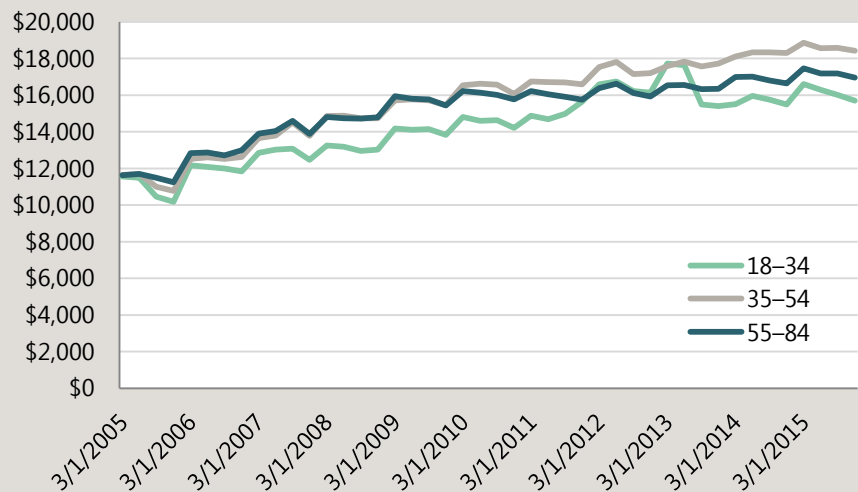
“Younger individuals just do not understand, I think, the magnitude of having a budget and paying things on time and how much it can affect their credit score.”

“I would say for the younger borrowers, I see a lot of credit card debt, in addition to student loan debt. The credit cards are typically on time, but they’re uncontrollable. They don’t even know how it got to that point. And we also see account mismanagement as well.”

Responding to the declining share of younger borrowers with mortgage or credit card debt, interviewees thought that **younger people are taking on less debt than in**

STUDENT LOAN DEBT

Figure 2: Median Student Loan Debt by Age Group, Third District



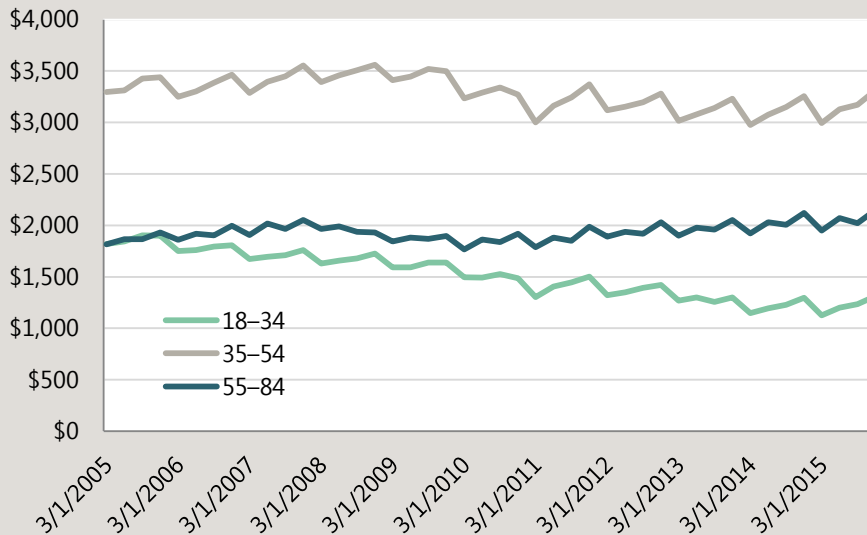
Source: Authors’ calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). Figures are in 2015 dollars, adjusted using Bureau of Economic Analysis PCE Price Index. Calculated for borrowers with student loan debt >\$0.

Student loans are a rapidly growing segment of consumer debt that has attracted a great deal of attention in recent years. Unsurprisingly, the likelihood of having student loan debt was highest among borrowers in the youngest age group (56.5 percent in 4Q2015).

- Among younger borrowers, the share of aggregate outstanding debt attributable to student loans increased from 18.2 percent in 1Q2005 to 34.7 percent in 4Q2015.
- During the study period, the share of borrowers with student loan debt more than doubled among middle-aged (10.0 percent to 22.6 percent) and older (3.5 percent to 9.5 percent) borrowers.
- Although student loans were more common among younger borrowers, borrowers in the middle-aged category had the highest rate of severe delinquency (16.1 percent in 4Q2015).

CREDIT CARD DEBT

Figure 3: Median Credit Card Debt by Age Group, Third District



Source: Authors' calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). Figures in 2015 dollars, adjusted using Bureau of Economic Analysis PCE Price Index. Calculated for borrowers with credit card debt >\$0.

Credit cards were the most commonly used form of consumer credit among all three age groups, though younger borrowers were the least likely to have outstanding credit card debt.

- Credit card users in the youngest age group were the most likely to use more than 75 percent of their credit limit* (35.1 percent in 4Q2015).
- Rates of severe delinquency declined for each age group during the study period.
- Throughout the study period, there was a gradual increase in median credit card balances among borrowers in the oldest age group (from roughly \$1,930 in 4Q2005 to \$2,150 in 4Q2015)

*Credit utilization rates above 75 percent may indicate that the borrower has a limited buffer for potential short-term financial emergencies.

the past because of decreased access to credit. The tightening of credit standards requires young people to work on their credit and save for a down payment more than was the case before the financial crisis when mortgages were easier to attain.

“For the younger group, the major challenge is access to credit. They simply don’t have the access that it seems that the middle and older borrowers have or had previously when they were younger. It seems that it’s harder and harder for them to access mainstream credit, and that’s one of the challenges that we are always trying to work with them on.”

However, student loan and auto loan debt are on the rise for this age group. According to some interviewees, **student loan debt is holding many younger people back from transitioning into homeownership** because it increases their debt-to-income ratio and makes it more difficult to qualify for a mortgage.⁶ Even those with less debt are struggling to lower their debt-to-income ratio enough to qualify for a mortgage because incomes tend to be low in this age group.

“In terms of the mortgage debt, what I find is that when most younger clients come in, they’re not credit ready. Their credit scores are not where they should be, so it’s a process of building their credit by getting new credit or secured credit cards. So I think that could be a potential reason

⁶ For an empirical examination of this claim, see Zachary Bleemer, Meta Brown, Donghoon Lee, and Wilbert van der Klaauw. “Debt, Jobs, or Housing: What’s Keeping Millennials at Home?” Federal Reserve Bank of New York, Staff Report, 700, 2014. See also Meta Brown, Syndee Caldwell, and Sarah Sutherland. “Just Released: Young Student Loan Borrowers Remained on the Sidelines of the Housing Market in 2013,” Federal Reserve Bank of New York *Liberty Street Economics Blog*, May 13, 2014, available at <http://libertystreeteconomics.newyorkfed.org/2014/05/just-released-young-student-loan-borrowers-remained-on-the-sidelines-of-the-housing-market-in-2013.html>.

that the mortgage debt is not as high. A lot of them are waiting to get their first mortgage because they're building credit or paying down debt. Also, the student loan payment amount increases their debt-to-income ratio, so it kind of just depends on how much student loan debt they have and what they are actually qualified for in terms of a mortgage loan.”

“I have noticed that in past generations, if you were 18 or 21 or 22 and graduated from college, you did not go back home. Now I see more and more young people moving home, and if you're living at home, you don't really need a lot of credit cards.”

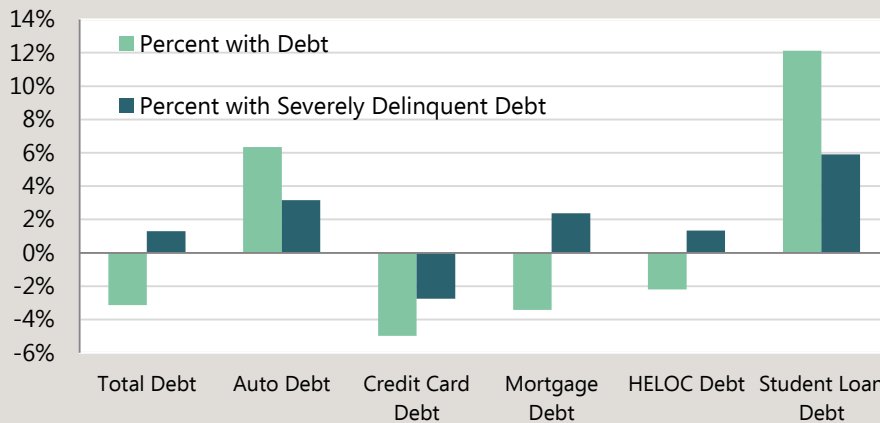
Several interviewees noted that since the passing of the 2009 Credit Card Accountability, Responsibility, and Disclosure Act (Credit CARD Act), the marketing of credit cards on or near college campuses has become more restricted and much less common.⁷ Although this may have partially contributed to reduced credit card use among this age group, the CCP data suggest that the downward trend preceded the passage of this legislation. Still, this regulation and the fact that **many in this age group are living with their parents and having expenses covered by their parents** were given as explanations for the observed decrease in credit card debt.

Middle-Aged Borrowers

Figure 4 and Table 3 summarize changes in credit use by middle-aged (35–54 years of age) borrowers during the study period. Although there was growth in the share of borrowers in this age group with student loan and auto debt, overall debt use declined substantially, in part driven by declines in mortgages and revolving credit (HELOCs and credit cards). The following were identified as key consumer credit trends for borrowers in the middle-aged group:

- The likelihood of having any debt declined the most among middle-aged consumers during the study period.
- The share of middle-aged borrowers with severely delinquent debt increased during the study period while remaining steady or declining for the other two age groups.
- Middle-aged borrowers were the most likely to have severely delinquent home-secured debt (mortgages and HELOCs).

Figure 4: Percentage Point Change in Debt Characteristics, 4Q2005–4Q2015, Middle-Aged Borrowers



Source: Authors' calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). Severe delinquency is defined as 90+ DPD, in collections, or classified as severely derogatory. Delinquency rates are calculated as the share of borrowers with at least one severely delinquent account in a given category among all borrowers with debt of the same type. For total debt, the percent with debt series indicates the change in the percentage of consumers who had any debt. For the specific types of debt, the percent with debt series indicates the change in the percentage of borrowers (those with total debt >\$0) who had debt of a specific type.

According to the quantitative data, middle-aged borrowers appeared to experience the greatest financial distress over the study period, with increases in delinquencies in almost every type of debt. Interviewees explained that **this age group has been the most impacted by unemployment and underemployment resulting from the recession**. Additionally, inflated expectations of future income left many with high levels of debt.

⁷ The Credit CARD Act was intended to protect consumers from unfair credit card practices and includes a number of provisions that apply specifically to younger borrowers. Many of these provisions took effect in 2010. For more information, visit http://files.consumerfinance.gov/f/201309_cfpb_card-act-report.pdf.

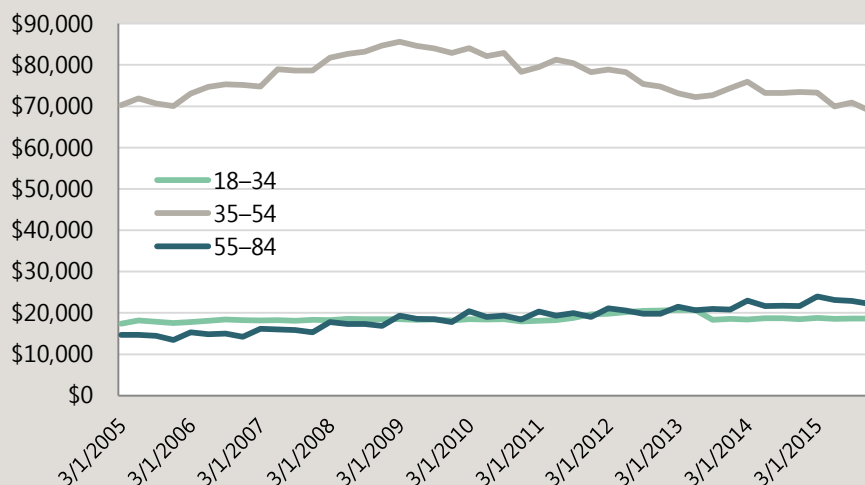
Table 3: Change in Median Debt, Middle-Aged Borrowers

	Total Debt	Auto Debt	Credit Card Debt	Mortgage Debt	HELOC Debt	Student Loan Debt
Median, 4Q2015	\$68,975	\$13,971	\$3,310	\$151,860	\$35,080	\$18,429
Percent change from 4Q2005	-2	-6	-4	16	10	71

Source: Authors' calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). All median debt figures are in 2015 dollars, adjusted using the Bureau of Economic Analysis PCE Price Index. Median debt calculations refer to borrowers with debt >\$0 for each type of debt.

TOTAL DEBT

Figure 5: Median Total Debt by Age Group, Third District



Source: Authors' calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). Figures in 2015 dollars, adjusted using Bureau of Economic Analysis PCE Price Index. Calculated for consumers with total debt >\$0.

Throughout the study period, median total debt was highest for middle-aged borrowers, largely because borrowers in this group were the most likely to have mortgage debt.

- Borrowers in the middle-aged category saw a rapid increase in total debt leading up to the foreclosure crisis followed by significant deleveraging starting in 2009. This deleveraging coincided with persistently elevated rates of severe delinquency for this group.
- Median total debt increased gradually but substantially for older borrowers across the study period, from nearly \$13,500 at the end of 2005 to just over \$22,200 at the end of 2015.

“With the middle-aged population, it seems to be an unemployment or underemployment issue. ... We had so many of them who were unemployed for two years or more, and even though they were applying for low-level or entry-level positions, they were the last to get hired. Then you have to take into account that now maybe they finally got in some place, but their income is sometimes cut in half, and the reduction was just staggering. It made it very difficult for them to get out from under a lot of that stress.”

“What the middle-aged clients have been saying is that their expectation in terms of their income is not what they thought it would be. So these are people who, in many cases, have taken a mortgage, car loans, credit cards, student loans, and the income – the jobs that they’re able to get and what they’re receiving in terms of pay just aren’t sustainable for the quality of life they thought they would be able to have, particularly with people with student loans coming out with a degree but not able to find a position that pays them enough to get by.”

Many interviewees explained that **middle-aged borrowers have the responsibility of taking care of family, both children and parents**, which is contributing to the financial distress felt by this age group. Middle-aged borrowers are often burdened by student loan debt for their children while saving for financial goals such as homeownership or retirement. Several interviewees noted, however, that some middle-aged borrowers tend to exhibit an aversion to homeownership after having experienced the recent foreclosure crisis.

“That particular demographic is stressed for a number of reasons. They are under the impression that they can save for three things — college for their children, a home for themselves, and retirement. And all three of those things require a significant amount of savings and financial stress considering the demographic we typically see. And so I think that in terms of the middle-aged person, they’re just under a lot of mental stress because of all of the reasons they need to save and the lack of ability to save.”

“So many people in the middle-aged group have Parent PLUS [Parent Loan for Undergraduate Students] loans,⁸ and they thought the children would take over the Parent PLUS loans, and they haven’t, and so now they’re kind of stuck with this debt, or they just find it to be their responsibility to make sure that their children go to college.”

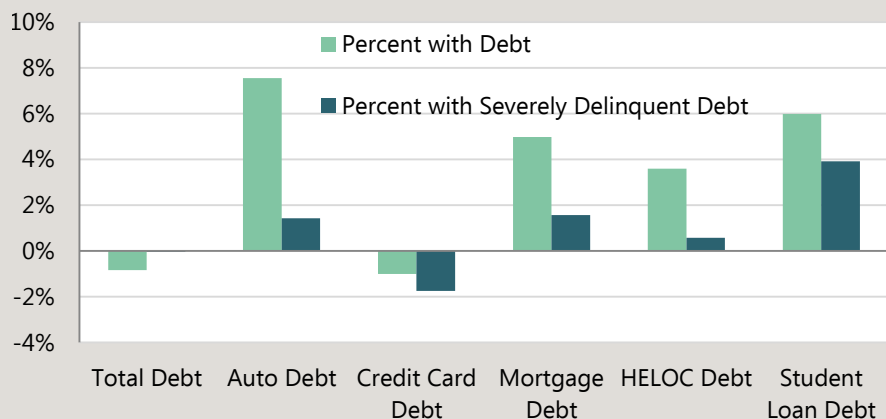
Other interviewees indicated that **the distress felt by the middle-aged group is caused by unexpected life circumstances such as a medical issue, divorce, or extended leave of absence from work to care for a family member.**

“That age group is sort of a house of cards more so than

the other age groups. They’ve got a decent amount of income or at some point had a decent amount of income coming in and had sort of planned life for that to continue. And whether it’s a medical emergency or job loss or whatever, something will cause the house of cards to come down. And then even when they go back to the income that was planned, recovering from that life event takes so much longer because they’ve got the car payments, kids, the house, and maybe they’ve built up other credit accounts. Whereas the younger age group hasn’t necessarily bought a house yet; maybe they don’t have kids yet. And the older age group has transitioned past some of those expenses.”

Interviewees observed that many middle-aged borrowers are trying to get a fresh start and correct the credit issues from their younger years by working on improving credit scores and becoming debt free. Several interviewees noted, however, that middle-aged borrowers, more so than the other two age groups, demonstrate a mindset of “keeping up with the Joneses,” which leads to continuously high credit usage.

Figure 6: Percentage Point Change in Debt Characteristics, 4Q2005–4Q2015, Older Borrowers



Source: Authors’ calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). Severe delinquency is defined as 90+ DPD, in collections, or classified as severely derogatory. Delinquency rates are calculated as the share of borrowers with at least one severely delinquent account in a given category among all borrowers with debt of the same type. For total debt, the percent with debt series indicates the change in the percentage of consumers who had any debt. For the specific types of debt, the percent with debt series indicates the change in the percentage of borrowers (those with total debt >\$0) who had debt of a specific type.

⁸ PLUS loans are federal loans that graduate or professional students and parents of dependent undergraduate students can use to help pay for their education. More information is available at <https://studentaid.ed.gov/sa/types/loans/plus>.

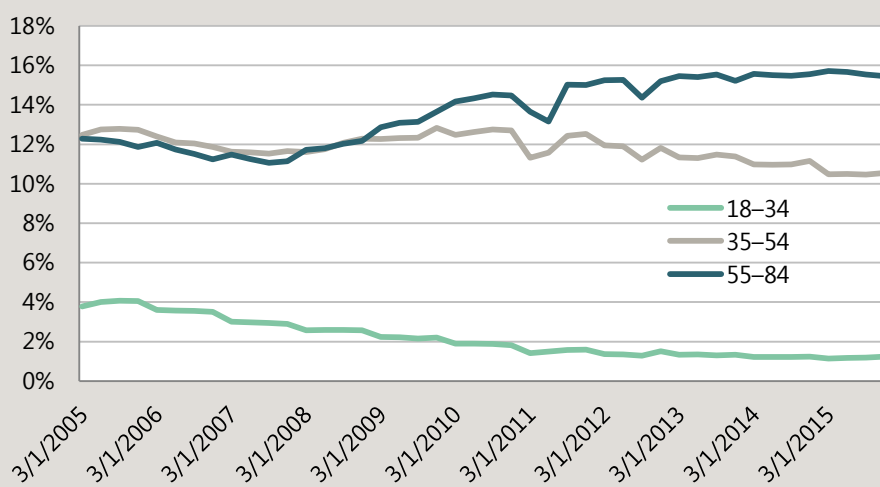
Table 4: Change in Median Debt, Older Borrowers

	Total Debt	Auto Debt	Credit Card Debt	Mortgage Debt	HELOC Debt	Student Loan Debt
Median, 4Q2015	\$22,209	\$12,043	\$2,149	\$105,779	\$33,824	\$16,947
Percent change from 4Q2005	65	-5	11	19	23	51

Source: Authors' calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). All median debt figures are in 2015 dollars, adjusted using the Bureau of Economic Analysis PCE Price Index. Median debt calculations refer to borrowers with debt >\$0 for each type of debt.

HELOC DEBT

Figure 7: Share of Borrowers with Outstanding HELOC Debt by Age Group, Third District



Source: Authors' calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). Represents the percent of borrowers (those with total debt >\$0) who had outstanding HELOC debt; excludes those with an open HELOC account but no debt.

While HELOCs were less common overall than other forms of debt examined in this report, they represented about 10.3 percent of aggregate outstanding debt held by borrowers in the older age group in 4Q2015.

- The share of older borrowers with HELOC debt grew during the study period but declined for the younger and middle-aged groups.
- Over half of younger and middle-aged borrowers with HELOCs were using more than 75 percent of their credit limit in 4Q2015.
- Although increasing for middle-aged and older borrowers during the study period, rates of severe delinquency were generally low for HELOC debt, below 2 percent for borrowers in each age group in 4Q2015.

Older Borrowers

Figure 6 and Table 4 highlight changes in the credit use characteristics of older consumers during the study period. Although the share of older consumers with any debt fell slightly, the likelihood of an active credit user having a given type of debt rose for four of the five debt types described in Figure 6, and the median total debt increased by nearly two-thirds. The following were identified as key consumer credit trends for borrowers in the older age group:

- The share of older borrowers with home-secured debt grew steadily throughout the study period while declining for the other age groups.
- Median mortgage debt increased significantly for older borrowers, from just under \$89,000 in 1Q2005 to nearly \$106,000 in 4Q2015.
- Median balances in revolving accounts increased substantially for older borrowers.

While older borrowers (55–84 years of age) fared better on indicators of financial well-being compared with borrowers in the two younger age groups, the growing share with outstanding mortgage debt could indicate an emerging concern. Moreover, the growth of median balances in revolving accounts such as credit cards and HELOCs differentiates older borrowers from the other two age groups, for which median balances fell or grew more slowly.

Interviewees confirmed these findings from the quantitative data, expressing that **older borrowers typically demonstrate better money management than the younger age groups.** However, many interviewees shared that **seniors are using HELOCs or credit cards to supplement income as it decreases either as a result of retirement or the death of a spouse.**

“A lot of senior citizens are living off credit cards. Their prescription costs are outrageous. And if it comes down to getting their prescriptions and they don’t have the cash, they use the credit cards. Or if they use cash for the prescriptions, then at the end of the month, they can’t buy groceries. So they have to put groceries on credit cards. So with the older population, it’s more of trying to survive.”

“With the older population, my concern is seeing that the cost of living just continues to go up and up and up, but the increase in their Social Security never matches that. It usually, at best, maybe covers the increase in Medicare. And they just are squeezed so tight that they really have no other option but to take out credit cards, get home equity loans, reverse mortgages. They just – they have to do something. My concern as a counselor is for that age group, because usually we can’t tell them, oh, can you get a part-time job? It’s just not a possibility.”

Counselors shared that **many older borrowers are accessing credit through their homes and accumulating debt to cover the cost of home repairs or property taxes** through refinances, reverse mortgages, or HELOCs.

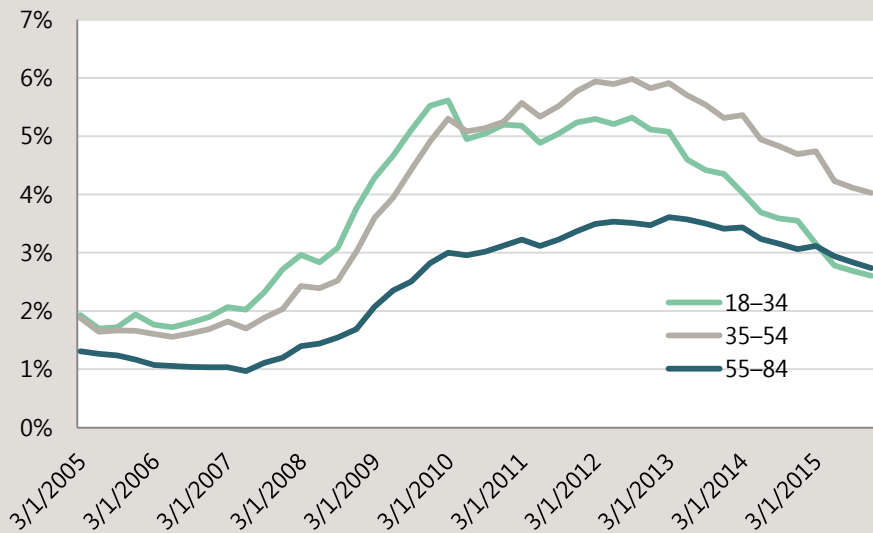
“Definitely, I see it impacting their well-being because if I look at the budget, a lot of times if they didn’t have

that home equity payment or straight-out mortgage payment, then they would be fine. A lot of them say that they had to get it to put a new roof on or sometimes I’ve even heard, well, I had to pay my property taxes.”

The quantitative data reveal that an increasing share of older credit users had mortgage debt. Interviewees explained

MORTGAGE DEBT

Figure 8: Share of Borrowers with Severely Delinquent Mortgage Debt by Age Group, Third District



Source: Authors’ calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). Severe delinquency is defined as 90+ DPD, in collections, or classified as severely derogatory. Delinquency rates are calculated as the share of borrowers with at least one severely delinquent mortgage account among all borrowers with mortgage debt.

As one might expect, the rate of severe mortgage delinquency grew sharply between 2008 and 2010 for each age group and declined somewhat in recent years, still remaining higher than prerecession levels for all three groups.

- The share of older borrowers with mortgage debt increased steadily from 33.1 percent in 1Q2005 to 37.3 percent in 4Q2015.
- Mortgage debt was most common among borrowers in the middle-aged group, for whom the share with outstanding mortgage debt peaked at 59 percent in 3Q2008 and gradually declined to 52 percent by 4Q2015.
- Both younger and middle-aged borrowers had median mortgage debts between \$150,000 and \$160,000 in 4Q2015; the median for older borrowers was roughly \$106,000.

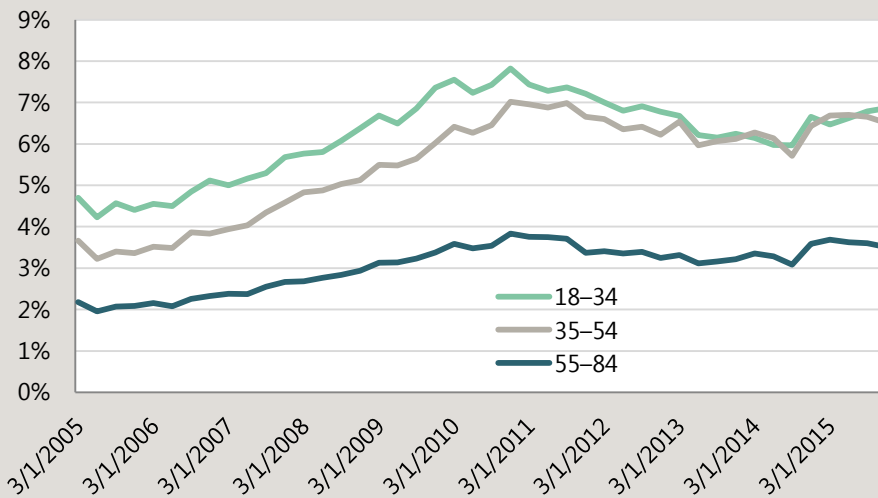
that some seniors refinanced their mortgage several times, resulting in mortgages that are currently under water because of the decreases in home prices during the housing crisis.

“One of the trends I see most often in that older age group are people who were able to refinance, refinance, refinance, pay off their debt with their refinance, pay off their debt with a refinance, get a home

equity loan, refinance, wrap it around. When I look up their deed record from when they bought their house in 1970 something, they could have bought their house for \$30,000 to \$40,000, and now they owe two hundred and something thousand dollars because every few years, they would do this wrapping, and credit was easy to get, and their credit was good, and there was a lot of flexibility in those credit rules up to their last refi in 2007 or 2006.”

AUTO DEBT

Figure 9: Share of Borrowers with Severely Delinquent Auto Debt by Age Group, Third District



Source: Authors’ calculations using Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP). Severe delinquency is defined as 90+ DPD, in collections, or classified as severely derogatory. Delinquency rates are calculated as the share of borrowers with at least one severely delinquent auto debt account among all borrowers with auto debt.

Although steadily increasing from the beginning of the study period through 2010, the percentage of borrowers with severely delinquent auto debt leveled off and declined somewhat from 2011–2014, with a slight uptick leading into 2015.

- Auto and student loan debt are the only types analyzed in this report that increased in prevalence for all three age groups following the recent recession.
- Nearly half of borrowers in the middle-aged group had outstanding auto debt in 4Q2015 compared with 39.3 percent of younger borrowers and 35.4 percent of older borrowers.
- Middle-aged borrowers had a median auto debt of roughly \$14,000 in 4Q2015 compared with about \$12,000 for both younger and older borrowers.

ISSUES AFFECTING ALL THREE AGE GROUPS

Auto Debt

Interviewees noted that **auto debt and repossessions have become increasingly common for all three age groups**. Interviewees mentioned that compared with other types of credit, underwriting standards seem particularly lax for auto debt.

“I think that the younger group is dealing with a lot of auto debt because that seems to be the only form of credit they’re able to access easily for some reason.”

“I’ve been seeing quite a few repossessions lately, and what’s going on with that is, that clients are thinking if they voluntarily surrender the vehicle, that they’re no longer responsible because they gave it back. And they’re not realizing that you signed a promissory note, which means a promise to repay, so no matter if you keep the car, it’s working or not, you still are liable for that loan.”

Medical Debt

Interviewees also said that **medical debt remains a persistent challenge for all three age groups, and many of these accounts end up in collections**.

"I do think the medical debt appears to be rising. It could be the cost. It could be the underinsurance or because now everybody's deductibles are rising, and a \$5,000 deductible for a young person, if they were going to have to meet that, is going to be almost \$400 a month; they just don't have it. They don't have \$400 a month to pay for medicines or that type of thing, not with their stagnant wages."

The CCP data set does not identify the sources of third-party collections, limiting our ability to further examine trends in medical debt in this report. However, the CFPB estimates that medical debts account for roughly half of all collections that appear on credit reports, affecting nearly one-fifth of consumers.⁹ Other recent research has examined the impact of the Affordable Care Act on the prevalence of medical collections among low- and moderate-income consumers.¹⁰

CONCLUSION

Overall, the quantitative and qualitative findings paint a picture of consumer credit use that reflects both common lifecycle experiences and the persistence of broader economic challenges. For example, many themes highlighted in interviews, such as borrowers in the younger age group needing to build credit and learn money management skills, the middle-aged group's increased financial strain from homeownership and caregiving responsibilities, and the older age group's transition to living on retirement income, suggest typical and intuitive shifts in financial needs through each phase of a borrower's life.

However, our findings also point to trends and challenges that appear to have been exacerbated by the economic tumult of the past decade. The middle-aged group in particular was seen as bearing the brunt of the foreclosure crisis and slow economic recovery, as reflected in the quantitative data by a growth in severe delinquencies and a broader pattern of de-leveraging. Interviewees described this age group as facing diminished earnings paired with the growing financial pressures that accompany this phase of the lifecycle. For younger borrowers, declining access to mortgage and revolving credit has been partially offset by growth in student loan debt as college enrollment rates increased and many responded to a weak labor market by staying in or returning to school. Among older borrowers, interviewees interpreted growing levels of housing-secured and revolving debt as indicating the insufficiency of retirement incomes for covering ongoing living expenses. Across the three age groups, the quantitative analysis revealed that although there has been a recent decline in rates of financial distress, credit use and delinquency trends have not returned to levels observed before the financial crisis.

Our analysis highlights these and other potential considerations for researchers, policymakers, and practitioners concerned with household financial stability. Insights from housing and credit counselors alongside hard numbers from the consumer credit data provide a complex and dynamic overview of consumer debt as shaped by lifecycle factors, regulatory policy, and the broader economic context.

⁹ "Consumer Credit Reports: A Study of Medical and Non-medical Collections," Consumer Financial Protection Bureau, December 2014, available at http://files.consumerfinance.gov/f/201412_cfpb_reports_consumer-credit-medical-and-non-medical-collections.pdf.

¹⁰ Luojia Hu, Robert Kaestner, Bhashkar Mazumder, Sarah Miller, and Ashley Wong. "The Effect of the Patient Protection and Affordable Care Act Medicaid Expansions on Financial Well-Being," National Bureau of Economic Research, Working Paper 22170, April 2016, available at www.nber.org/papers/w22170.pdf?sy=170.

APPENDIX: METHODOLOGY

Quantitative Analysis

As noted previously, the CCP is an anonymous, nationally representative sample (5 percent) of U.S. residents with both a Social Security number and a credit report. The data set is an unbalanced panel, meaning that randomly selected consumers are added to the data set when they meet the entrance criteria. Others disappear after they die or because their credit bureau files no longer contain sufficient information. In total, the CCP includes information on roughly 12 million consumers. Data from the CCP are updated quarterly.¹¹

The CCP does not include information on consumers' income or racial or ethnic background but does include birth year, allowing for categorization by age group. The analysis included in this report aggregates consumers into three age groups to examine variation in consumer credit use. The three groups were defined as follows:

- Younger borrowers: 18–34 years old
- Middle-aged borrowers: 35–54 years old
- Older borrowers: 55–84 years old

Consumers younger than 18 years or older than 84 years were excluded from the analysis. It is important to note that in each year of the study period, some portion of consumers in the younger two age groups aged into an older category, and some members of the older age group aged out of the study sample. Additionally, the CCP data set includes the census tract, county, and state for each consumer's address included in his or her credit file,¹² enabling us to identify consumers in each age group residing in the Third District. The study period used in the quantitative analysis ranges from 1Q2005 to 4Q2015, which was the most recent quarter available at the time of analysis.

The following describes the basic statistics examined in the quantitative analysis presented earlier:

- *Median debt*: This calculation includes only borrowers with debt > \$0, whether in total (for median total debt) or for a specific type of debt (e.g., for median auto debt).
- *Percent with any debt* (“Total debt” in Figures 1, 4, and 6): This represents the percent of consumers with any outstanding debt, referred to as “borrowers” in this report.
- *Percent with a specific type of debt*: This represents the percent of borrowers (those with total debt > \$0) who had debt of a specific type. For revolving accounts, this only considers consumers with outstanding balances; some with open revolving accounts may not actively use them and are therefore not considered to have debt of that type.
- *Percent with severely delinquent debt*: This calculation reflects the share of borrowers with debt of a specific type who had at least one severely delinquent (90+ DPD, in collections, or classified as severely derogatory) account of that type. This may include accounts that lenders have closed and charged off the associated balance because they no longer expect repayment. Many sources of delinquency rates on consumer loans report a charged-off account in the period when it occurs but not thereafter. To the extent that lenders continue to report these accounts to Equifax, they will be reflected in these figures. The methods used to calculate these statistics may vary from those used by other researchers and analysts. Specifically, the focus on individual consumers as the unit of analysis may highlight different trends than might be identified using other approaches (e.g., focusing on aggregate debt amounts). Accordingly, figures presented throughout this report may differ from those reported elsewhere. It is worth noting that the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005¹³ came into effect

¹¹ For an in-depth explanation of how the CCP was constructed, see Donghoon Lee and Wilbert van der Klaauw. “An Introduction to the FRBNY Consumer Credit Panel,” Federal Reserve Bank of New York, Staff Report 479, 2010, available at www.newyorkfed.org/medialibrary/media/research/staff_reports/sr479.pdf.

¹² CCP data do not include consumers' exact addresses.

¹³ For more information, see Kenneth J. Benton. “Banks and the 2005 Bankruptcy Abuse Prevention and Consumer Protection Act,” Federal Reserve Bank of Philadelphia, *Compliance Corner*, Fourth Quarter 2005, available at www.philadelphiafed.org/bank-resources/publications/compliance-corner/2005/fourth-quarter/q4cc1_05.

during the study period. By making it more difficult to discharge delinquent debt by filing for bankruptcy, this legislation may have caused an increase in severely delinquent accounts during the early quarters of the study period.

- *Percent of borrowers with balances that exceed 75 percent of their total credit limit:* This statistic refers to borrowers with outstanding revolving debt (credit card or HELOC). It reflects the share of borrowers with a specific type of revolving debt whose total outstanding debt exceeds 75 percent of their total credit limit, which may represent the sum of balances and limits across multiple accounts (e.g., if the borrower has multiple credit cards). This measure excludes borrowers for whom outstanding debt exceeded 10 times their total credit limit.

Qualitative Analysis

To gain insights into the trends revealed in the consumer credit data, the CDS&E Department contacted housing and credit counselors representative of the Third Federal Reserve District to reflect on the findings of the preliminary quantitative analysis. Drawing first from a department database, contacts who currently serve as housing or credit counselors were invited to participate as interviewees. Additionally, credit counseling agencies not captured in the database but known to be serving clients in Pennsylvania, New Jersey, or Delaware were contacted and invited to participate. Thirteen one-on-

one and small-group interviews were conducted throughout the course of this project; in total, the perspectives of 19 interviewees are included in this analysis.¹⁴

Telephone interviews were recorded, transcribed verbatim, checked for accuracy, and entered into MaxQDA qualitative data analysis software. Using the software, interviews were coded to identify themes. A priori codes were developed to correspond to interview question topics. Additional codes were developed after the initial transcripts were reviewed, and these were used to categorize comments regarding specific events or transactions, financial stresses, types of debt, and behaviors and attributes of clients. This process allowed for the analysis and synthesis of large amounts of qualitative data that otherwise would have been difficult to manage.

Five of the 13 interviews were coded independently by both members of the study team and checked for intercoder reliability using the percent agreement statistic, which ranged from 0.78 to 0.86 for each interview. After the intercoder agreement was reviewed, code memos were further developed to ensure that coding was done objectively by clarifying operational definitions. This rigorous and collaborative qualitative approach allowed the analysis to move beyond anecdotal insights.

¹⁴ The full interview guide is available in the online appendix at www.philadelphiafed.org/community-development/publications/beyond-the-numbers.



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