

Credit Card Trends During the COVID-19 Pandemic

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Since the start of the COVID-19 pandemic, two major trends have dominated the consumer credit card space. First, the onset of the pandemic precipitated a sharp increase in enrollments in forbearance programs designed to address consumers' financial hardship. Second, consumer credit card balances declined dramatically in the first half of 2020 and have remained at historically low levels.¹ This research note will examine both of these trends.

1 Trends in Consumer Credit Card Forbearances²

During the COVID-19 pandemic, millions of consumers enrolled in forbearance programs to reduce their financial distress (e.g., An, Cordell, Geng, and Lee 2021; Cherry, Jiang, Matvos, Piskorski, and Seru 2021; Lambie-Hanson, Vickery, and Akana 2021; Federal Reserve Bank of Philadelphia RADAR Group, 2021). While the Coronavirus Aid, Relief, and Economic Security (CARES) Act protected borrowers who held federally backed mortgages or student loans, no government-sponsored protection was afforded to credit card borrowers.³ However, many credit card lenders provided forbearance programs for their borrowers.

Credit card forbearance programs provided consumers with a penalty-free payment deferral (e.g., late fee waiver, extended due date, \$0 minimum due). These programs typically lasted for one to two months, but borrowers could reenroll at their lender's discretion. While borrowers did not have to make payments, interest continued to accrue on unpaid balances. Therefore, the benefit of these forbearance programs amounted to a late fee waiver, which ranged from \$15 to \$39 as estimated based on a 0.1 percent Y-14M random sample of loan-level credit card data.⁴

¹ See "A Monthly Peek into Americans' Credit During the COVID-19 Pandemic" at <https://libertystreeteconomics.newyorkfed.org/2020/08/a-monthly-peek-into-americans-credit-during-the-covid-19-pandemic/>.

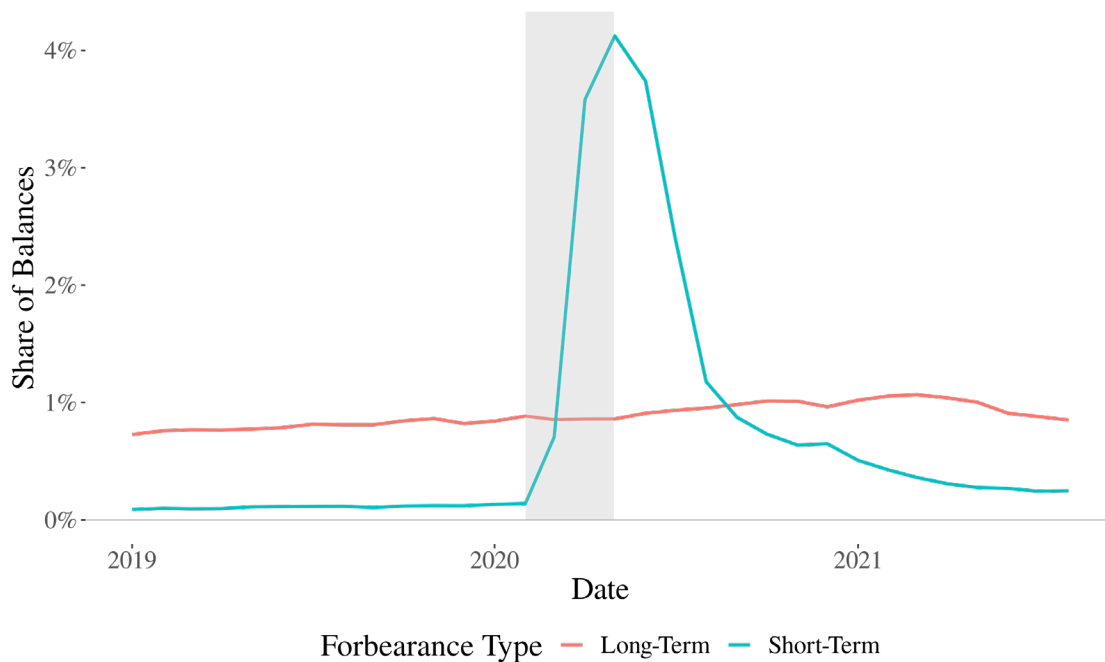
² This section is based on work summarized in An, Cordell, Dolson, Hossain, and Roy (2021).

³ Credit card borrowers were indirectly protected by the credit reporting freeze required by CARES Act. This freeze essentially prevented a borrower's credit score from being reduced by nonpayment (An, Canals-Cerdá, Lee, and Rama, 2021; Berger, Bouwman, Norden, Roman, Udell, and Wang, 2021).

⁴ These bounds are the 5th and 95th percentile of late fees charged to credit card accounts.

Figure 1.1 shows that consumers enrolled in forbearance programs early in the pandemic, peaking at 4.1 percent of card balances in May 2020. The forbearance surge rapidly dissipated by July 2020 and gradually declined to 0.2 percent of card balances as of August 2021. Figure 1.1 also shows that long-term forbearance rates have been relatively stable throughout the pandemic at about 0.8 percent of card balances.⁵ These programs are designed for borrowers in prolonged financial distress and often include more substantial debt relief provisions such as payment plans and interest rate reductions. If borrowers in short-term forbearance were experiencing prolonged distress, enrollment in long-term forbearance programs would have increased significantly during the pandemic, but that did not happen.

Figure 1.1: Credit Card Forbearance Rates (January 2019–August 2021)



Overall, COVID-19-related credit card forbearances were short lived and small relative to the forbearance rates of other debt, such as mortgages or student loans. This pattern was likely due to a variety of reasons (e.g., An, Cordell, Dolson, Hossain, and Roy, 2021). First, credit card forbearance programs lasted only one to two months at a time, and borrowers could only reenroll at their lender’s discretion. Second, the benefit of forbearance was only a late fee waiver and interest continued to accrue on unpaid balances. Credit cards offer a substantial amount of payment flexibility since borrowers can pay any amount from the full balance down to the

⁵ Short-term forbearances are accounts enrolled in *internal temporary programs*, while long-term forbearances are accounts enrolled in *external programs* or *internal long-term programs*.

minimum due without generating adverse credit consequences. Therefore, the late fee waiver would only offer relief to borrowers who were struggling even to make a minimum payment. Finally, the government provided unprecedented financial support to distressed households through both the Economic Impact Payments and boosted unemployment benefits. Each of these factors likely reduced the need to enroll in credit card forbearance programs.

2 Trends in Consumer Credit Card Debt

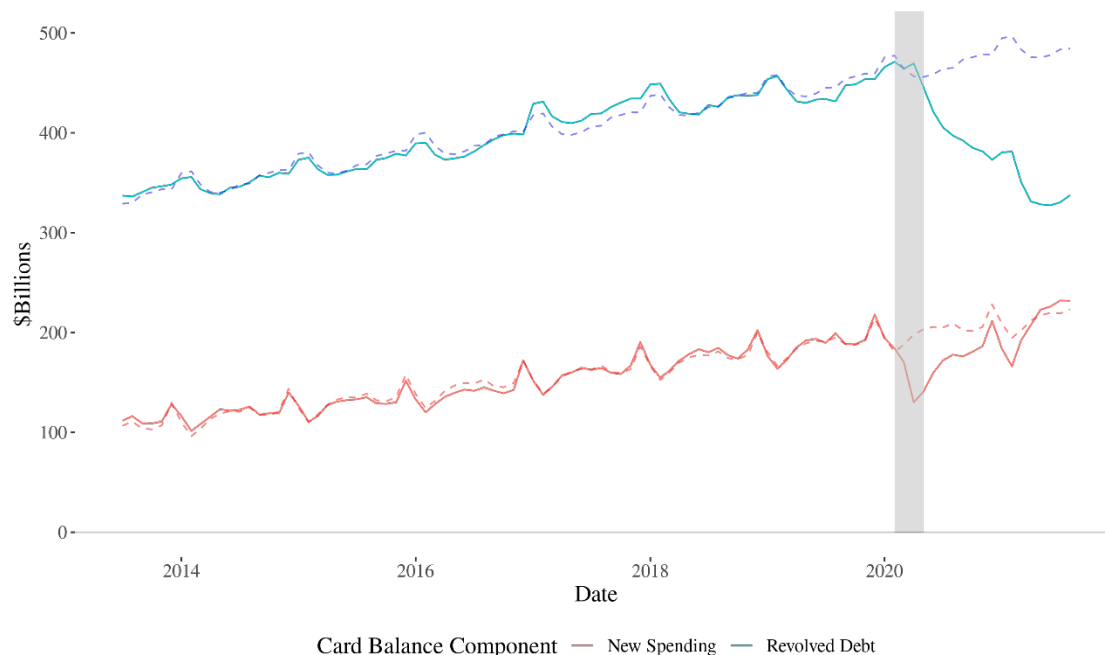
Recent research has documented that credit card balances and spending declined during the pandemic (Adams and Bord, 2020; Federal Reserve Bank of New York, 2021; Horvath, Kay, and Wix, 2021; Sanchez and Wilkinson, 2021). The Federal Reserve Bank of New York estimates that credit card balances are \$140 billion lower than they were at the end of 2019 (Federal Reserve Bank of New York, 2021). Furthermore, survey evidence finds that 52 percent of households used their first Economic Impact Payment to pay down debt (Coibion, Gorodnichenko, and Weber, 2020).

The Federal Reserve's Y-14M credit card data provides a unique view into consumer credit card debt. Most reports on credit card debt assume that credit card balances accurately reflect debt. While this assumption is technically true, since credit cards function as a common form of payment, balances often overestimate the amount of debt that is carried from month to month (interest-bearing debt). In the Y-14M data, credit card spending, payments, and balances are reported separately, allowing for a fuller decomposition of credit card balances. An individual's credit card balance can be decomposed as follows:

$$Balance_t = \underbrace{\left(1 + \frac{APR}{12}\right) (Debt_{t-1} - Payments_t)}_{Revolved\ Debt} + Spending_t.$$

The equation above shows that an individual's card balance in month t has two components. The first component is last month's debt minus any payments that were made (revolved debt). Interest is then applied to the remaining amount. The second component is new spending in month t . **Figure 2.1** illustrates how each component changed during the pandemic. We also estimate a simple model of credit card spending and revolved debt that only incorporates a linear time trend and monthly dummies to control for seasonality. The predictions of this model are

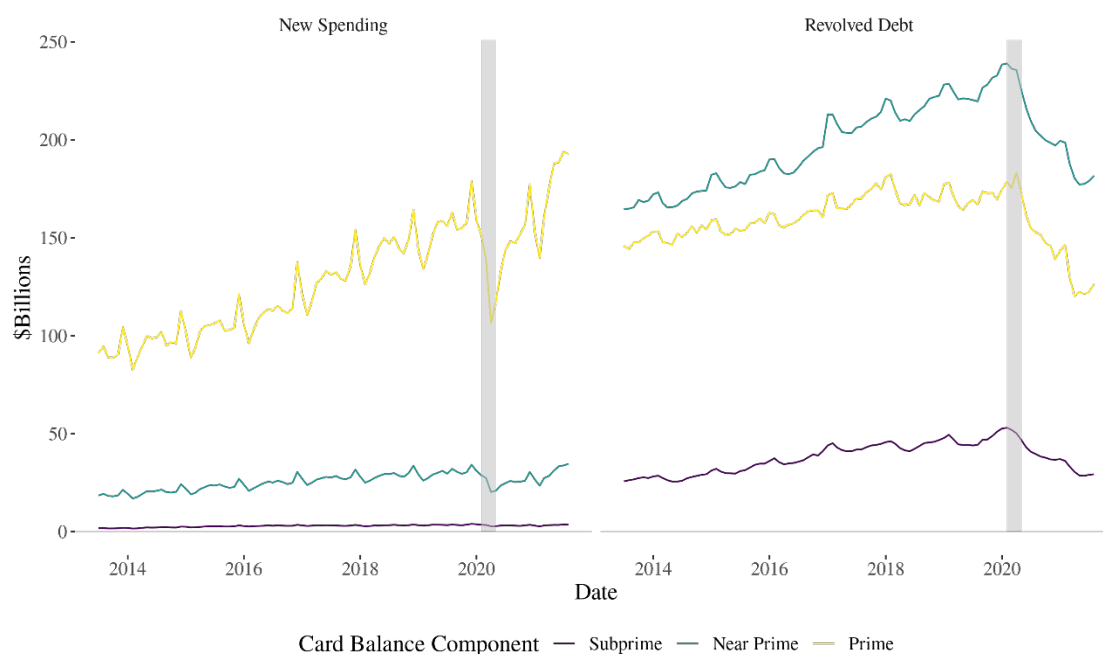
Figure 2.1: Credit Card Spending and Revolved Debt Trends (July 2013–August 2021)



Revolved consumer credit card debt fell dramatically throughout the pandemic, from a peak of \$471 billion in February 2020 to a low of \$327 billion in June 2021. Revolved debt slightly increased to \$338 billion in August 2021. Even as the broader economy started to recover, revolved credit card debt remains \$146 billion below its historical trend. This was likely because of a combination of factors including the drop in spending, continued payment on credit cards, and government income support.

Consumer credit card spending fell sharply early in the pandemic, falling from \$184 billion in February 2020 to \$130 billion in April 2020. Based on historic trends, April 2020 spending would have been \$198 billion, so the decline represents a more severe \$68 billion decline (34 percent decline relative to historic trends). However, spending recovered relatively quickly and was close to the historical trend by the end of 2020. Spending would fully return to trend in May 2021, and it is now slightly above its historical trend.

Figure 2.2: Credit Card Spending and Revolved Debt Trends by Credit Score (July 2013–August 2021)



To examine heterogeneity in spending and revolved debt across consumers, we divided consumers by credit score. We define *subprime* consumers as those with a credit score of 620 or less. *Near prime* consumers have scores from 621 to 720, and *Prime* consumers have credit scores over 720. Figure 2.2 shows that credit card spending primarily reflects the spending of prime borrowers. Furthermore, the pandemic decline in consumer revolved debt was shared across all consumer types. However, the drop was steepest for subprime consumers, falling by 55 percent relative to February 2020. Revolved debt of near prime and prime consumers only fell by 25 percent to 30 percent relative to February 2020 levels.

3 Conclusion

Early in the pandemic, consumer credit card forbearances spiked to 4.1 percent of card balances, which might have indicated financial distress. However, this spike quickly dissipated, and forbearances are now near prepandemic averages with no substantial increase in long-term forbearance programs designed for consumers in prolonged financial distress. Trends in card spending and revolved debt also suggest that consumers have fared relatively well in aggregate during the pandemic. Consumer credit card spending fell by 34 percent relative to historic trends, but it fully recovered by May 2021. Consumer revolved debt declined by 30 percent since the

start of the pandemic, and by fall 2021, it was shared across all credit score bins, with the sharpest decline being among subprime consumers. Decreased spending coupled with continued payments helped shrink credit card debt. Additionally, based on survey evidence from Coibion, Gorodnichenko, and Weber, 2020, it is likely that government support in the form of boosted unemployment benefits and Economic Impact Payments supported and helped consumers reduce their credit card debt.

Overall, most credit card borrowers do not appear to be in severe financial distress, as evidenced by the low rates of short-term forbearance programs and long-term forbearance rates that are in line with historical averages. Furthermore, borrowers appear to be in a much more secure financial position based on aggregate credit card debt. While credit card spending has largely recovered to its prepandemic trend, revolved debt balances remain low through August 2021, having dropped by 28 percent relative to their prepandemic peak in February 2020.

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