Lower income less likely to use credit

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LMI areas helped by CARES Act, but delinquencies remained above higher-income areas.

The COVID-19 pandemic has disproportionately affected low-income populations and people of color. Their hospitalization and death rates due to the virus are disproportionately higher. They have also been affected the most through job losses. The CARES Act provided households with direct relief checks, expanded unemployment insurance, payment suspensions toward mortgage and student loan debt, and freezes on foreclosures and evictions. However, low-income populations are least likely to benefit from many debt-relief measures, as they have lower usage of conventional debt products like credit cards and mortgages.

The Federal Reserve Bank of New York wanted to understand more about how COVID-19 and the CARES Act affected low-income borrowers. They analyzed data from the New York Fed's Consumer Credit Panel derived from Equifax credit data and combined it with data from the U.S. Census Bureau's American Community Survey. Because the New York Fed and Equifax data does not have income data, they used the neighborhood a borrower lived in as a proxy. Anyone living in a Census tract with a median household income of <80% of the Metropolitan Statistical Area was considered as living in a low-to-moderate income neighborhood.

Tenth District findings vary from state to state

- Borrowers in low-income neighborhoods were least likely to use credit products like mortgages and credit cards. When they did use those products, their delinquency rates were about twice as high as those living in higher-income neighborhoods.
- The CARES Act and voluntary protections by lenders helped. Those protections substantially lowered the delinquency rate for all borrowers. Borrowers in low-income communities still had higher rates of delinquency.
- In the Tenth District, the percentage of people in low-income neighborhoods who have mortgages varied widely. Oklahoma appeared to have a greater urban/suburban difference in participation rate. Colorado had the highest and most consistent rate of mortgage participation in low-income communities.
- Low-income communities in the Tenth District appeared to have low credit card participation rates on average. Low-income communities in Colorado had the highest and most consistent rate of participation in the district.

- Borrowers in low-income neighborhoods were most likely to use auto loans. Participation varied substantially based on where they people lived. The pattern for auto loan participation in low-income communities in Oklahoma was similar to their mortgage participation.

Read their full report here.