CONSUMER LENDING THROUGH THE PANDEMIC AND THE RECOVERY

Introduction

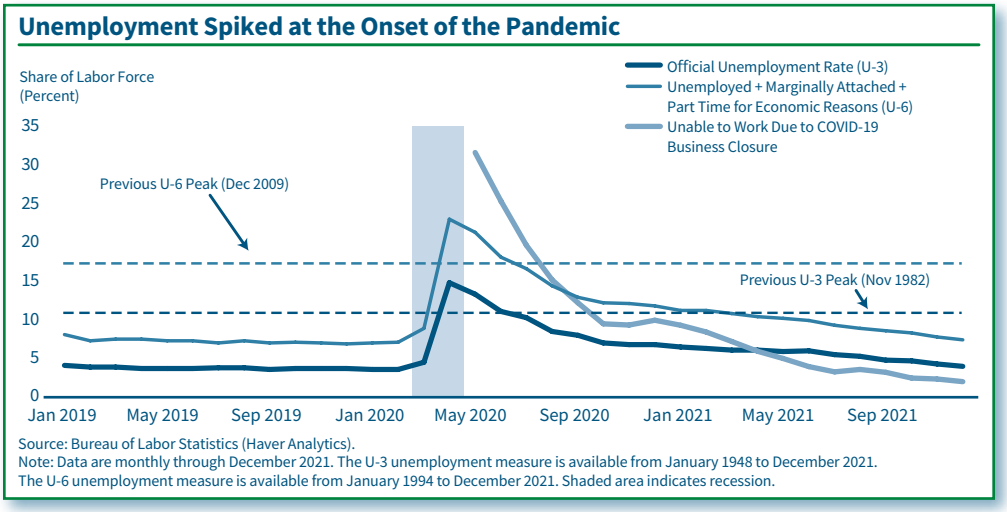
The U.S. economy and households entered the recession that started in 2020 in a strong position. Before the pandemic, the unemployment rate was at the lowest level since the 1970s and household wealth was at its highest level since data were first collected in 1945. Household balance sheets had been improving for years before the pandemic and debt burdens were historically low. This strong starting position helped households weather the income disruptions that occurred due to the pandemic.

Consumer Sector Overview

The pandemic quickly pushed the economy into a recession and more than 20 million people lost their jobs in two months. Many businesses shut down as state and local governments issued stay-at-home orders and directed businesses to close. Many people remained at home to slow the spread of COVID-19, resulting in a sharp slowdown in economic activity. The unemployment rate rose to 14.7 percent in April 2020, well above the previous peak unemployment rate of 10.8 percent in 1982 (Chart 1). In May 2020, an additional 31.5 percent of the labor force could not work because of closures or lost business related to the COVID-19 pandemic.[1] Aggregate monthly personal income dipped $33 billion in March 2020 (almost 2 percent from February 2020, about four times the average monthly personal income change). The negative trends were short-lived, however, as businesses reopened quickly and fiscal support boosted income.

Government support programs bolstered income in the months following the start of the recession through the largest and fastest economic contraction on record (Chart 2). Direct transfers and enhanced unemployment insurance payments pushed monthly personal income to a record high in April 2020, about $150 billion higher than monthly personal income before the pandemic. In the context of the severe recession and substantial job loss, this record-setting personal income and its full-year increase in 2020 compared with 2019 reflects the magnitude of the federal government's pandemic-related support to the U.S. economy. Personal income spiked again in January 2021 and March 2021 when additional rounds of direct payments were made.

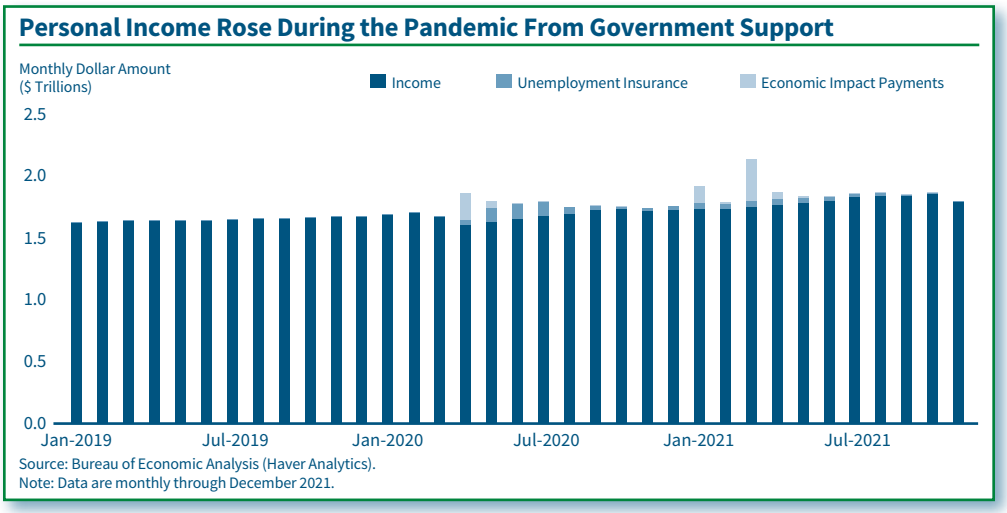
Chart 1



Source: Bureau of Labor Statistics (Haver Analytics).
Note: Data are monthly through December 2021. The U-3 unemployment measure is available from January 1948 to December 2021. The U-6 unemployment measure is available from January 1994 to December 2021. Shaded area indicates recession.

[1] In May 2020, the Bureau of Labor Statistics added questions to the Current Population Survey about how the coronavirus pandemic affected work, including the question "At any time in the LAST 4 WEEKS, were you unable to work because your employer closed or lost business due to the coronavirus pandemic?" The standard measure of unemployment (U-3) was 13.2 percent in May 2020.

Chart 2



Extensive government support pushed aggregate personal income to record highs in the months following the onset of the 2020 recession and—coupled with reduced spending from pandemic-related business closures—led to a high household savings rate. Estimates place excess savings—savings on top of what would be predicted by the pre-pandemic trend in household savings—at about $2.5 trillion in early 2021. While household wealth dipped with the stock market in first quarter 2020, it reached new record highs in every quarter between second quarter 2020 and fourth quarter 2021 as the stock market recovered and housing prices rose. Household savings and wealth supported consumer debt payments throughout the recession and often allowed consumers to keep current on debt service payments despite challenging economic conditions.

Government Support Programs Expanded During the Pandemic

Several federal programs supported households through the pandemic. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed in March 2020, provided direct economic impact payments for the majority of American households.[a] From the end of March through May 2020, the Internal Revenue Service made 159 million of these payments to qualifying individuals. The federal government also provided two more rounds of economic impact payments in early 2021. Altogether, the Treasury issued almost $800 billion in transfer payments in about 15 months, much higher than the previous peak in transfer payments in the Great Recession.

The CARES Act also expanded unemployment insurance, both in terms of who was covered by unemployment insurance and the size of payments. Besides state unemployment insurance payments, the federal government paid $600 per week in federal unemployment insurance benefits.[b] The CARES Act also created two new unemployment insurance programs. The Pandemic Emergency Unemployment Compensation program extended unemployment insurance benefits to people whose standard state benefits had expired. And the Pandemic Unemployment Assistance program provided unemployment insurance payments to people who typically aren't eligible for unemployment insurance, like gig workers, independent contractors, and the self-employed.

By October 2021, most federal monetary support programs had ended. Most economic impact payments were disbursed by summer 2021, and enhanced unemployment insurance programs ended in September 2021. The last major fiscal cash transfer program related to COVID-19 in effect at the end of 2021 was the expansion of the Child Tax Credit. The American Rescue Plan expanded the Child Tax Credit and changed a tax refund to disbursing half of the money as monthly payments.

[a] CARES Act economic impact payments were up to $1,200 per adult and $500 per child under 17 years old for individuals who made less than $99,000 per year and joint filers who made less than $198,000 per year.
[b] These additional payments were later reduced to $300 per week, but remained in effect through September 2021.

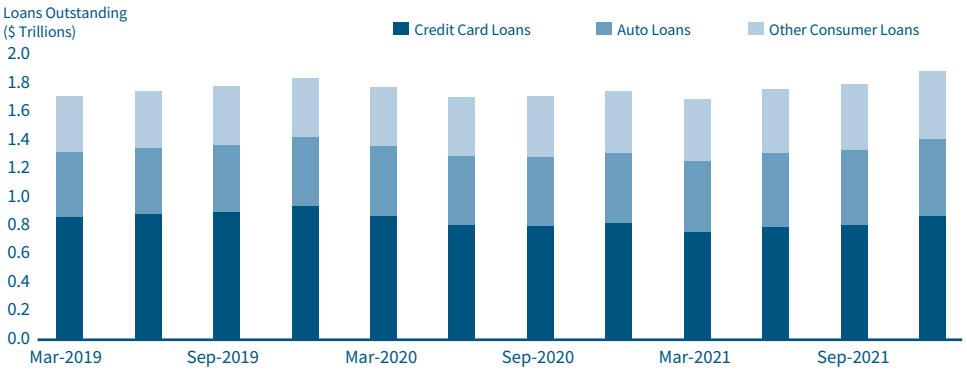
The unprecedented government transfers, coupled with changes in consumer spending and saving behaviors, led to a change in consumer lending trends. Consumer loan volumes declined in 2020 and remained below pre-pandemic levels through third quarter 2021. And unlike in previous recessions, loan performance generally improved through the recession. Households used the government support partly to pay down debt and increase savings, both decreasing their reliance on consumer credit for spending and improving repayment rates on existing loans. The Census Bureau's Household Pulse Survey provides further information about consumers' use of the increased income from government transfers. The survey asked respondents how they used the economic impact payments they received. While only 11 percent of households used the first economic impact payment to "mostly pay down debt" in summer 2020, that figure increased to about 50 percent for the second and third payments, received in early 2021.[2] Many households also saved part of their economic impact payments, which may have made them more able to pay debts in future months.

Overview of Consumer Lending at Banks

In aggregate, banks held $1.9 trillion in consumer loans in fourth quarter 2021 (Chart 3). Consumer loans are defined as loans to individuals that are not backed by real estate. The category includes credit card loans, auto loans, and other consumer loans. On average, consumer loans are not a large part of bank portfolios, just 7.9 percent of bank assets overall. Consumer loans are also a relatively small share of community bank portfolios, totaling $66 billion in fourth quarter 2021.[3] However, for lenders that specialize in consumer lending, trends in the consumer landscape are of great importance.

Chart 3

Credit Card Loans Comprise About Half of Consumer Loans; Auto Loans and Other Consumer Loans Comprise the Rest



Source: FDIC.
Note: Data are quarterly through fourth quarter 2021.

Noncommunity banks are the main consumer lenders. While noncommunity banks represent 88 percent of total banking industry assets, they hold a disproportionally higher share of consumer loans: 97 percent of the industry total (Chart 4). Credit card loans are particularly concentrated in noncommunity banks. Noncommunity banks also hold a higher proportion of their assets as consumer loans. Consumer loans, on average, are 10.3 percent of assets at noncommunity banks and only 2.8 percent of assets at community banks (Table).[4]

[2] The response options in the survey were "mostly spend it," "mostly save it," or "mostly use it to pay off debt." See Phase 3 COVID-19 Household Pulse Survey for an example of the survey questionnaire.

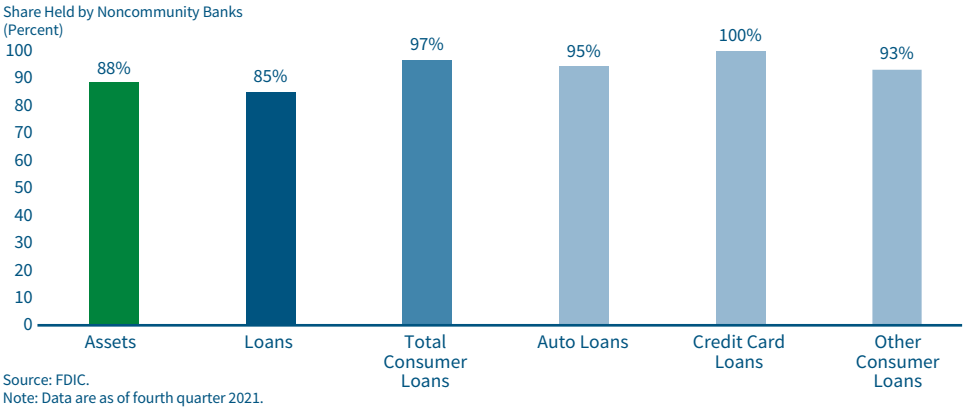
[3] Community banks are defined using the criteria in the FDIC 2012 Community Banking Study and FDIC 2020 Community Banking Study. The definition encompasses small banks and larger banks that focus on traditional lending and deposit-taking activities. See https://www.fdic.gov/resources/community-banking/report/2012/2012-cbi-study-full.pdf and https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-full.pdf for more information. Noncommunity banks are all other banks.

[4] The larger share of assets of consumer loans at noncommunity banks is partly driven by the credit card specialist banks, where consumer loans are 76.4 percent of assets. Excluding the 11 credit card specialist banks, consumer loans are 8.7 percent of assets at noncommunity banks.

Banks implemented or expanded forbearance programs for their customers in spring and summer 2020, which helped to support loan performance. These forbearance programs for consumer loans were not mandated by the CARES Act, but bank supervisors released guidance in March 2020 encouraging banks to work prudently with customers affected by COVID-19 and stating that they view loan modification programs as positive actions that can mitigate adverse effects on borrowers during the pandemic.[5] Supervisors clarified that borrowers who received forbearance should generally be considered current on their loans if they met the terms of the forbearance; this may have contributed to lower delinquency rates on consumer loans during 2020 and 2021.

Chart 4

Noncommunity Banks Hold a Disproportionately Larger Share of Consumer Loans Than Their Share of Total Banking Industry Assets



Source: FDIC.
Note: Data are as of fourth quarter 2021.

Table

Consumer Loans Are a Larger Share of Assets at Noncommunity Banks Than Community Banks

Loan Type	Community Banks	Noncommunity Banks
Consumer Loans	2.8%	10.3%
Credit Card Loans	0.1%	5.4%
Auto Loans	1.3%	2.6%
Other Consumer Loans	1.4%	2.2%

Source: FDIC.
Note: Data are average share of assets from first quarter 2011 through fourth quarter 2019.

The outlook for overall consumer loan performance is strong. In aggregate, household balance sheets have remained relatively healthy through the recession, and labor markets improved even as federal support for households began to wane. Households have generally not taken on more consumer debt through the recession and recovery, and banks have generally tightened underwriting standards. However, if the pandemic worsens and businesses shut down again, households may lose income and have trouble repaying their debt. The next sections discuss the three types of consumer lending in detail.

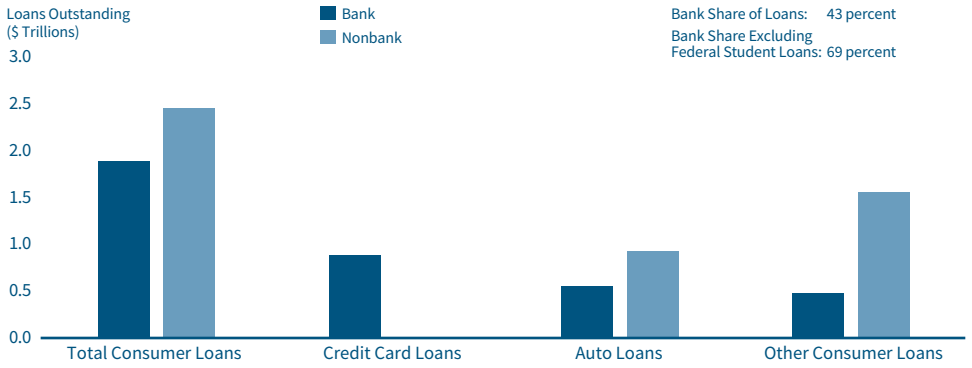
[5] See, for example, https://www.fdic.gov/news/press-releases/2020/pr20030b.pdf and https://www.fdic.gov/news/press-releases/2020/pr20038a.pdf.

Nonbank Lenders in the Consumer Lending Space

Nonbank lenders hold most consumer loans, primarily due to large holdings of federal student loans. The Federal Reserve Bank of New York publishes quarterly reports on consumer debt based on their Consumer Credit Panel database, which uses anonymous credit bureau data to study consumer debt. The quarterly report does not distinguish between bank and nonbank debt, but by combining their data with bank Consolidated Reports of Condition and Income (Call Report) data, we can estimate the shares of loans held by nonbanks. Nonbanks include credit unions, auto finance companies, fintech lenders, other private lenders, and the federal government.[a] Nonbank lenders held 57 percent of consumer loans outstanding as of fourth quarter 2021. However, excluding federally owned student loans, nonbank lenders hold only 31 percent of consumer loans outstanding (Chart 5).[b] Nonbank lenders hold almost no credit card loans, but they hold the majority of auto loans and other consumer loans.[c]

Chart 5

Banks Hold the Majority of Credit Card Loans but Nonbanks Hold the Majority of Auto and Other Consumer Loans



Sources: FDIC, Federal Reserve Bank of New York (Haver Analytics).
Note: Data are as of fourth quarter 2021.

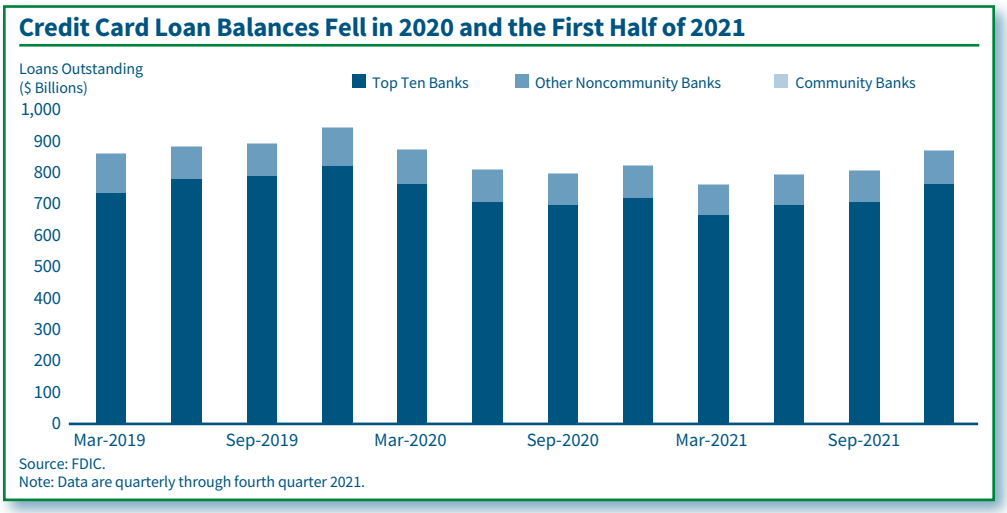
[a] Most consumer loans held by the federal government are U.S. Department of Education student loans.
[b] The Consumer Credit Panel does not separately identify federal student loans and private student loans. Data on outstanding federal student loans come from the National Student Loan Data System. See https://studentaid.gov/data-center/student/portfolio.
[c] Credit unions hold about 20 percent of outstanding auto loans. In this section, credit unions are considered nonbank lenders.

Credit Cards

The credit card market is dominated by a few large noncommunity banks. The ten largest credit card lenders—all noncommunity banks—held 88 percent of outstanding credit card loans in fourth quarter 2021, while community banks held less than 1 percent of outstanding credit card loans.

Credit card loan volumes declined during the pandemic (Chart 6). Aggregate credit card loan volume in first quarter 2021 was the lowest since 2017, down 19 percent from the pre-pandemic peak in fourth quarter 2019. In third and fourth quarters 2021, credit card loans grew year over year, but in fourth quarter 2021 loan balances remained down about 7 percent compared with fourth quarter 2019.

Chart 6



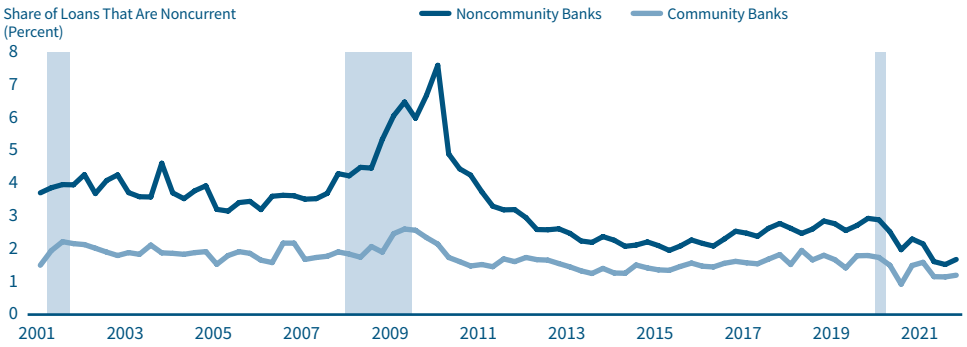
Aggregate credit card balances fell in 2020 because households changed their spending habits, often in ways that are not typical during recessions. Credit card balances rose during the previous two recessions. In the pandemic recession, households cut back on spending as lockdowns and business closures were implemented across the country, which lowered credit card balances. Households cut back more than average on services spending, particularly for those services that involve in-person interaction, such as restaurants, hotels, travel, and medical care. Goods spending recovered quickly after it fell in March and April 2020, but services spending recovered more slowly. These changes meant that overall spending did not surpass pre-pandemic levels until first quarter 2021. And the government transfer payments enabled many households to pay down existing credit card balances, which also reduced aggregate outstanding credit card loans.

Banks tightened lending standards in 2020, which also contributed to lower credit card loan balances. In second quarter 2020, on net, more than 70 percent of all banks tightened lending standards for credit card loans, according to the Federal Reserve's Senior Loan Officer Opinion Survey (SLOOS). The survey covers about 80 of the largest U.S. banks, which is especially useful for credit cards because most credit card loans come from large banks. Banks tightened lending standards again in third quarter 2020, and then began loosening standards as the economy recovered. On net, banks loosened underwriting standards for credit cards in every quarter of 2021, but they remained relatively tight. In the first quarter 2021 SLOOS report, banks were asked to compare their current underwriting standards to pre-pandemic levels. The underwriting standards for credit card loans at a meaningful share majority of banks were still tighter than before the pandemic.

Credit card loan performance generally improved as consumers cut back on credit card spending and paid down credit card balances with federal transfers. The share of credit card loans that were noncurrent—90 days or more past due but still accruing interest—and loans in nonaccrual status decreased 22 percent from fourth quarter 2019 to fourth quarter 2020 and decreased another 21 percent by fourth quarter 2021 (Chart 7). And the net charge-off rate for credit card loans for the banking industry was near its historic low in fourth quarter 2021. In contrast, the share of credit card loans that were noncurrent rose from fourth quarter 2007, at the start of the Great Recession, through first quarter 2010, after the end of the Great Recession.

Chart 7

The Noncurrent Rate on Credit Card Loans Was Lower at Community Banks Than at Noncommunity Banks



Source: FDIC.
Note: Noncurrent loans are loans that are 90 days or more delinquent or in nonaccrual status. Data are quarterly through fourth quarter 2021. Shaded areas indicate recession.

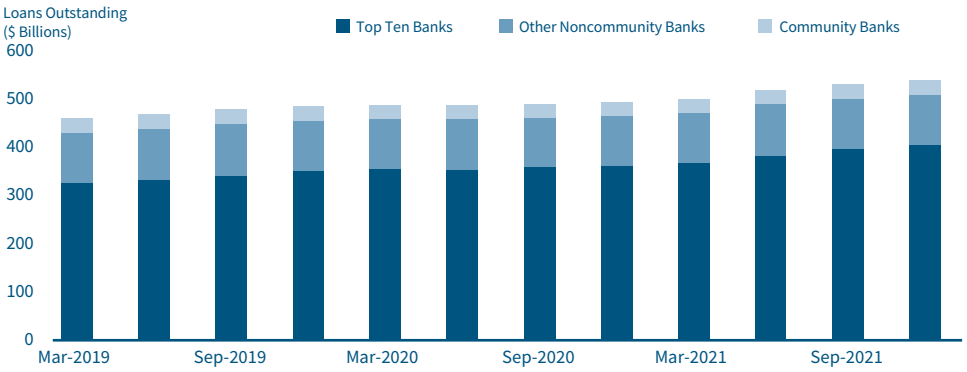
Auto Loans

The auto lending market is split between banks, credit unions, and other auto finance companies. Banks and captive finance companies each hold about 30 percent of the auto loan market, credit unions hold about 18 percent, and other lenders hold the remaining amount, according to Experian.[6] In the banking industry, a few banks hold the majority of outstanding auto loans, but most banks (87.5 percent) have some auto loans on their balance sheets. The ten largest bank auto lenders hold almost 75 percent of outstanding bank auto loans (Chart 8).

Auto lending by banks and nonbanks declined during the start of the pandemic but recovered quickly. Auto lending declined for a few months in first and second quarter 2020 as many dealerships closed in-person sales facilities. However, auto loan volumes recovered more quickly than in previous recessions because of higher demand and low interest rates. A factor contributing to increased demand for auto loans may have been people who previously did not own a car but felt uncomfortable using public transportation during a pandemic.

Chart 8

The Ten Largest Auto Lending Banks Held Three-Quarters of Auto Loans in the Banking Sector



Source: FDIC.
Note: Data are quarterly through fourth quarter 2021.

[6] A captive finance company is a wholly owned subsidiary of an auto manufacturer that provides loans for purchases of their own vehicles.

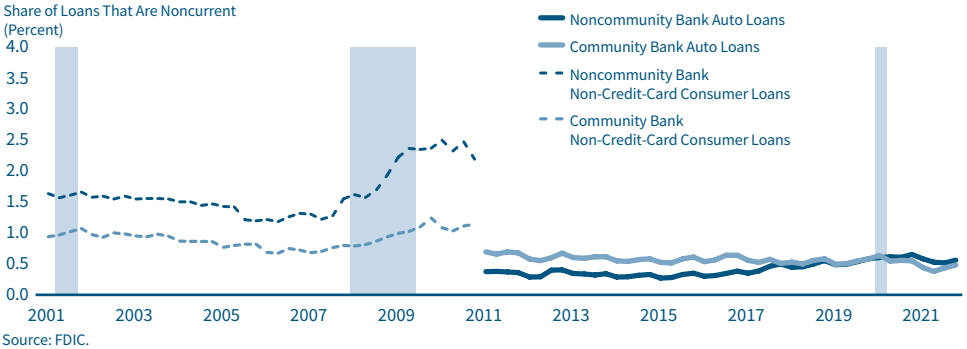
Auto loan balances in the banking industry fell slightly from $487 billion in first quarter 2020 to $486 billion in second quarter 2020, but exceeded pre-pandemic levels by third quarter 2020. In fourth quarter 2021, auto loan balances were about 11 percent above their pre-pandemic level. In past recessions, auto loan volumes recovered much more slowly. While data on auto loans in the banking industry are not available for previous recessions, data on auto sales may serve as a proxy for bank auto-lending patterns. After the Great Recession, the number of cars sold did not surpass pre-recession levels until 2014, almost seven years after the previous peak.[7]

During the recession, banks tightened lending standards for auto loans, especially for subprime borrowers. In second quarter 2020, about half of all banks tightened lending standards for auto loans, according to the SLOOS. Banks loosened underwriting standards over the subsequent quarters, especially for prime borrowers. In a special question in first quarter 2021, banks were asked to compare their underwriting standards to pre-pandemic underwriting standards. Responses showed that the standards at more than a quarter of banks were tighter than before the pandemic for subprime and near-prime borrowers, and the standards at 11 percent of banks were tighter than before the pandemic for prime borrowers. Tighter standards tend to improve the quality of loan portfolios and decrease delinquencies.

Auto loan performance improved in 2020 and 2021. The share of auto loans at banks that were noncurrent increased in the first half of 2020 before improving through 2021 (Chart 9). The share of bank auto loans in early delinquency—loans that were 30 to 89 days past due—fell almost 50 percent from first quarter 2020 to first quarter 2021. Early delinquencies rose in 2021 but remained well below pre-pandemic levels in fourth quarter 2021. Unlike pre-pandemic trends, auto loan performance was somewhat better at community banks than noncommunity banks.[8] While auto loan data were not reported separately before 2011, loan performance data for auto and other consumer loans combined are available. Loan performance for these non-credit-card consumer loans began deteriorating in fourth quarter 2007 at the start of the Great Recession and worsened through first quarter 2010, after the end of the recession.

Chart 9

Auto Loan Performance Was Better at Community Banks Than at Noncommunity Banks in 2020 and 2021



Source: FDIC.
Note: Noncurrent loans are loans that are 90 days or more delinquent or in nonaccrual status. Before 2011, data for auto loans are not separately available, so the dashed lines show noncurrent rates for auto and other consumer loans combined (non-credit-card loans). Data are quarterly through fourth quarter 2021. Shaded areas indicate recession.

[7] Bureau of Economic Analysis.

[8] The share of loans that were noncurrent increased at community banks in third and fourth quarter 2021 consistent with the seasonal nature of auto loan noncurrent rates.

Other Consumer Loans

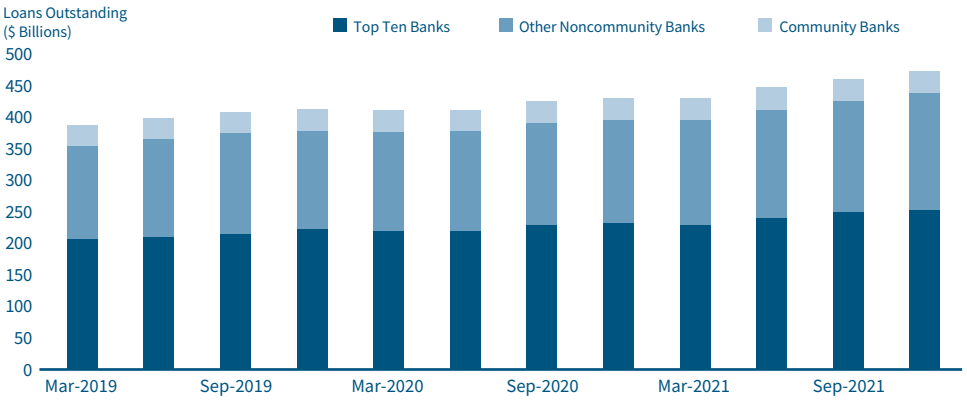
Most banks hold other consumer loans on their balance sheets. Other consumer loans include revolving, single payment, or installment loans made to an individual that are not credit card or auto loans. This loan category is mostly composed of unsecured personal loans and private student loans. The ten largest bank lenders for other consumer loans hold about half of other consumer loans in the banking system, while community banks hold about 9 percent of the other consumer loans in the banking system. Most banks (96 percent) hold some other consumer loans on their balance sheets.

Balances of other consumer loans were flat after the start of the pandemic recession but began growing again in third quarter 2020 (Chart 10). Balances of other consumer loans continued to rise through the end of 2020 and in 2021. In fourth quarter 2021, the balance of other consumer loans was $473 billion, 14.8 percent higher than the pre-pandemic level.

Just as for auto and credit card loans, banks tightened lending standards for other consumer loans in second and third quarter 2020. On net, 61 percent of banks tightened lending standards in second quarter 2020, and 16 percent tightened in third quarter 2020, according to the SLOOS. Starting in fourth quarter 2020, banks loosened standards on other consumer loans in every quarter thereafter through fourth quarter 2021. Although banks have loosened underwriting standards on other consumer loans, the standards are still relatively tight. In the July 2021 SLOOS report, banks reported that underwriting standards for other consumer loans were somewhat tighter compared with their historical range from 2005 to the present.

Chart 10

Other Consumer Loan Balances Continued to Grow in 2020 and 2021



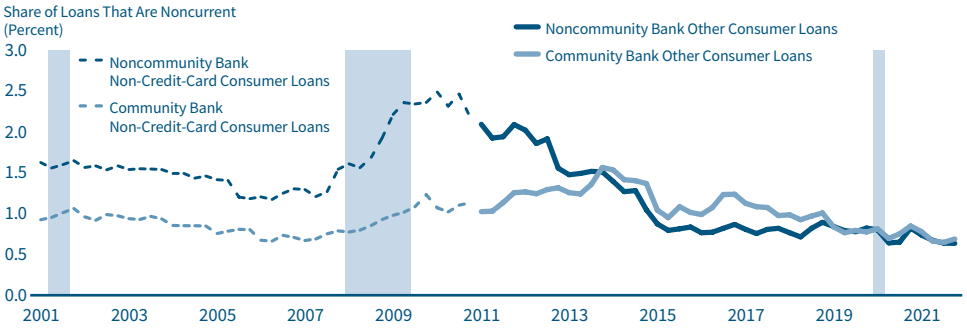
Source: FDIC.
Note: Data are quarterly through fourth quarter 2021.

Loan performance for other consumer loans improved throughout the pandemic. Forbearance programs and changing consumer spending and savings behavior may have kept delinquencies low. The other consumer loan noncurrent rate fell 20 percent between the first and second quarter of 2020 but followed its typical seasonal pattern of rising through the end of the year (Chart 11).[9] The noncurrent rate improved further in 2021, and in fourth quarter 2021 the noncurrent rate was still down 22 percent from the fourth quarter 2019 level. In contrast, other non-credit-card consumer loan performance worsened during the last recession. Before 2011, auto loans were included in this category, so direct comparisons of loan performance during the Great Recession are not possible, but the share of non-credit-card consumer loans that were noncurrent began rising in fourth quarter 2007 at the start of the Great Recession. The noncurrent rate for this loan category continued to rise through fourth quarter 2011, after the end of the Great Recession.

[9] The noncurrent rate for combined bank and nonbank other consumer loans spiked down in second quarter 2020 because of federally owned student loans. See the inset box on page 35 for more details on federal student loans.

Chart 11

Other Consumer Loan Performance Improved at Community and Noncommunity Banks in 2020 and 2021



Source: FDIC.
Note: Noncurrent loans are loans that are 90 days or more delinquent or in nonaccrual status. Before 2011, data for other consumer loans are not separately available, so the dashed lines show noncurrent rates for auto and other consumer loans combined (non-credit-card loans). Data are quarterly through fourth quarter 2021. Shaded areas indicate recession.

Conclusion

In contrast with trends in previous recessions, consumer lending continued during the pandemic and consumer loan performance remained strong, helped by government programs that supported individual incomes and forbearance programs. The economic recovery helped support consumer financial conditions even as these programs ended. In aggregate, household balance sheets are healthy and labor markets are strong. Despite record job losses, households have generally not taken on more consumer debt through the recession and recovery. Furthermore, banks tightened lending standards in the uncertain economic environment. While the outlook for consumer loan performance is strong, it remains dependent on pandemic conditions. If the pandemic worsens and causes more business shutdowns and reduced economic activity, household income may decline and consumer loan performance may deteriorate.

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