NEW YORK CITY COMPTROLLER
BRAD LANDER

Spotlight

Household Debt Trends Among NYC Residents

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Introduction

While both the national and local economies have continued to grow moderately, with overall jobs and incomes rising, the growing burden of household debt is one troubling indicator. Household delinquency rates overall are still at relatively low levels—lower than before the pandemic—but they are up substantially from a year ago. In this Spotlight, we focus on trends in consumer debt, with the first published look at key trends in New York City.

There are five major categories of consumer debt: home mortgages, home equity lines of credit, student loans, auto loans, and credit cards[1]. Delinquencies on mortgages have remained exceptionally low, primarily reflecting tighter underwriting since the 2008 recession, rising home values, and pre-pandemic low interest rates. Delinquency rates on student loans remain near zero at the moment, because the Department of Education has paused reporting on delinquent federal student loans (which comprise the majority of student loans) to credit bureaus until October 2024.

As a result, the two categories of consumer debt currently seeing high and rising delinquency rates are auto loans and credit cards. In this Spotlight, we focus on trends in household debt burdens and delinquencies for these two segments. To do this, we partnered with the Federal Reserve Bank of New York to focus on New York City specific credit data from the New York Fed's Consumer Credit Panel, which is based on anonymized, individual credit report data from Equifax.

Rising Consumer Debt & Delinquency

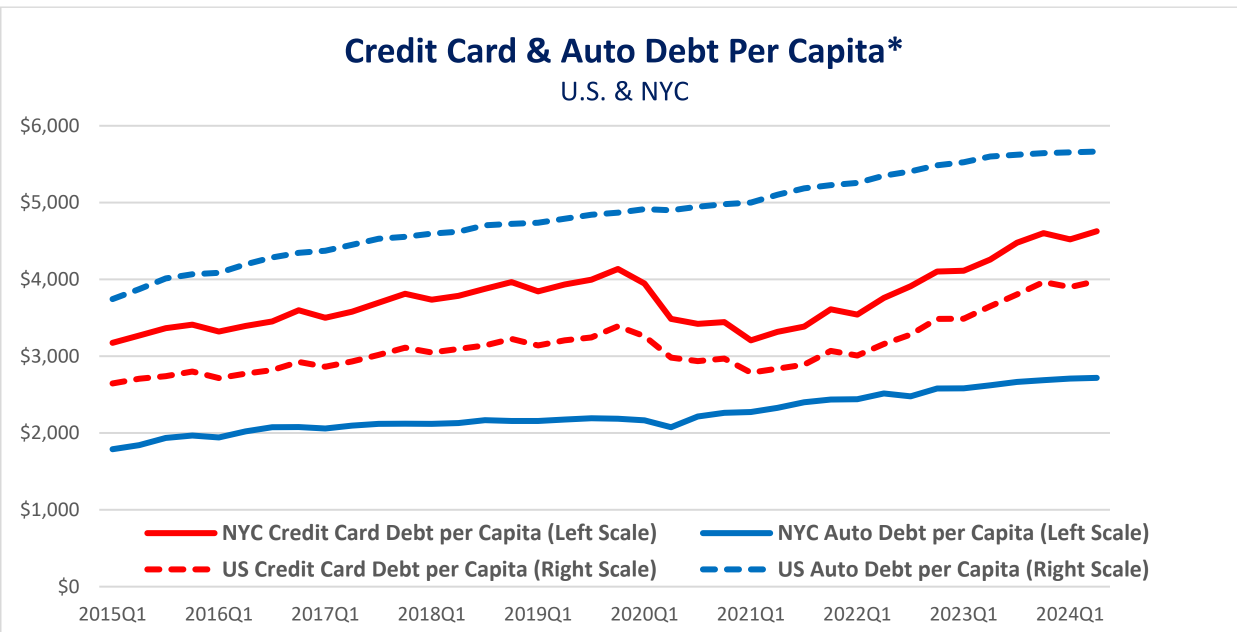
Nationwide, overall consumer debt levels have been growing slightly faster than income. Comparing the first half of this year with the first half of 2023, disposable income was up 3.8%, while total consumer debt was up 4.0%.

Nationally, 70% of consumer debt is in home mortgages. In contrast with the 2008 recession and its aftermath, most mortgage-holders today are in reasonably good shape because (1) mortgages have overwhelmingly gone to high credit score borrowers in the years since; (2) home values have risen so homeowners tend to have substantial equity in their homes; and (3) most of these mortgages are locked in at historically low interest rates from the years prior to the pandemic. As a result, mortgage debt has been rising more modestly in recent years, and delinquencies have remained low. Student loan debt has also been rising slowly, because accounts have not been accruing interest until recently, and new loan origination has been more subdued than pre-pandemic. Thus, most of the upward trend in debt and delinquency has been in auto and credit card debt, which are the focus here.

[1] While medical debt is of course a concern for many households, and increasingly a focus of public policy attention, it is not classified as a type of debt comparable to other categories in economic data. Unpaid medical bills are not counted as debt, as they are not reported to the credit agencies and generally do not appear on people's credit records before they are transferred to a collection agency.

Chart 1 below shows local and national trends in both auto loan and credit card debt over the past decade. When federal pandemic stimulus gave households a boost in 2020, debt levels and delinquency rates on credit cards declined, both nationally and in New York City. Credit card balances started to rise again in 2021. In contrast, auto loan balances maintained a fairly steady upward trend throughout. In the first half of 2024, auto loan balances among New York City residents were 6% above 2023 levels—a steeper rise than the nationwide increase of 3.2%. However, because vehicle ownership here tends to be well below average, this comprises a much smaller share of total debt locally (4%) than nationally (9%). Credit card debt, in contrast, represents an above-average share of total debt here, and it has been expanding rapidly so far this year—up 11% year-to-date over the first half of 2023[2], which is nearly triple the estimated growth in wage & salary income[3] over the same period. Still, it should be noted that many consumers—both in New York City and nationally—paid down credit card debt during the pandemic and that the level of credit card debt appears to be roughly back on its pre-pandemic trend, as shown in Chart 1 below. In fact, both credit card debt and wage & salary income are up by an estimated 23% from 2019 levels.

Chart 1



Source: New York Fed Consumer Credit Panel / Equifax

*Based on number of New York City residents with a credit record.

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[2] The absolute level of credit card debt somewhat overstates the debt burden, because it includes not only revolving credit but also convenience purchases that show up in end-of-month balances but are subsequently paid off in full. However, because revolving credit accounts for a majority of credit card debt, changes in reported credit card debt over time are seen as a reasonably good indicator of changes in revolving credit.

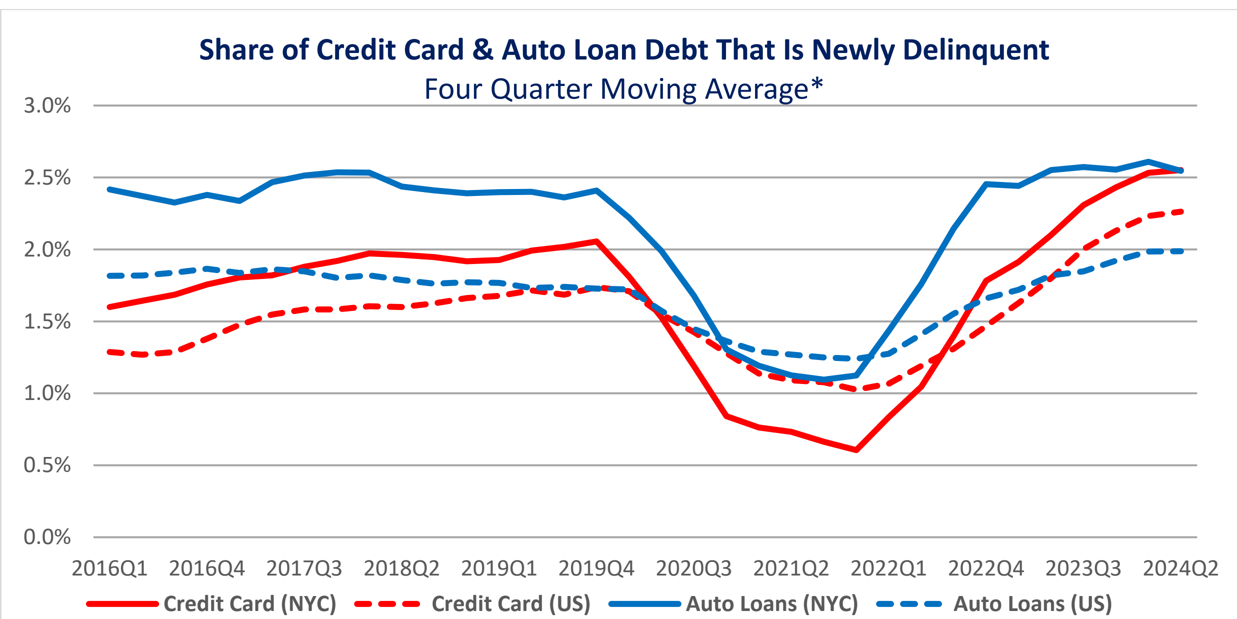
[3] Because neither BEA nor QCEW income data are available for 2024, this estimate is based on the BEA's data on wage & salary earnings statewide for New York, which grew by 3.7%.

Still, does this mean that a growing number of consumers are struggling financially? Or, are consumers simply using debt as a tool to spend more, consistent with rising incomes? Rising delinquencies suggest that distress may be on the rise among some consumers. Delinquency rates on both auto loans and especially credit cards have increased substantially over the past year. As of the second quarter of 2024, 12.2% of New Yorkers with credit card accounts were more than 90 days delinquent on at least one of them—up from 10.6% a year earlier and up from 10.1% at the onset of the pandemic. On auto loans, the share was not quite as high, at 8.4%—up from 7.5% a year earlier but down from 9.5% in the first quarter of 2020.

Newly Delinquent Accounts

While debt levels and delinquency rates are useful metrics for gauging the debt burden on consumers, the rate at which debts become delinquent provides a more dynamic window into the financial stress of consumers. For both credit cards and auto loans, these new flows into delinquency now exceed pre-pandemic levels, as shown in Chart 2 below. Over the past year, while new delinquencies on auto loans (less pervasive in New York City than in the rest of the country, given lower rates of vehicle ownership) appear to have leveled off, newly delinquent credit card debt continued to climb, though the pace appears to have slowed in the 2nd quarter, both nationally and locally. The share of credit card debt in New York City that is newly delinquent, which was generally below 2% in the years before the pandemic, and which fell to as low as 0.6% in 2021, is now above 2.5%.

Chart 2

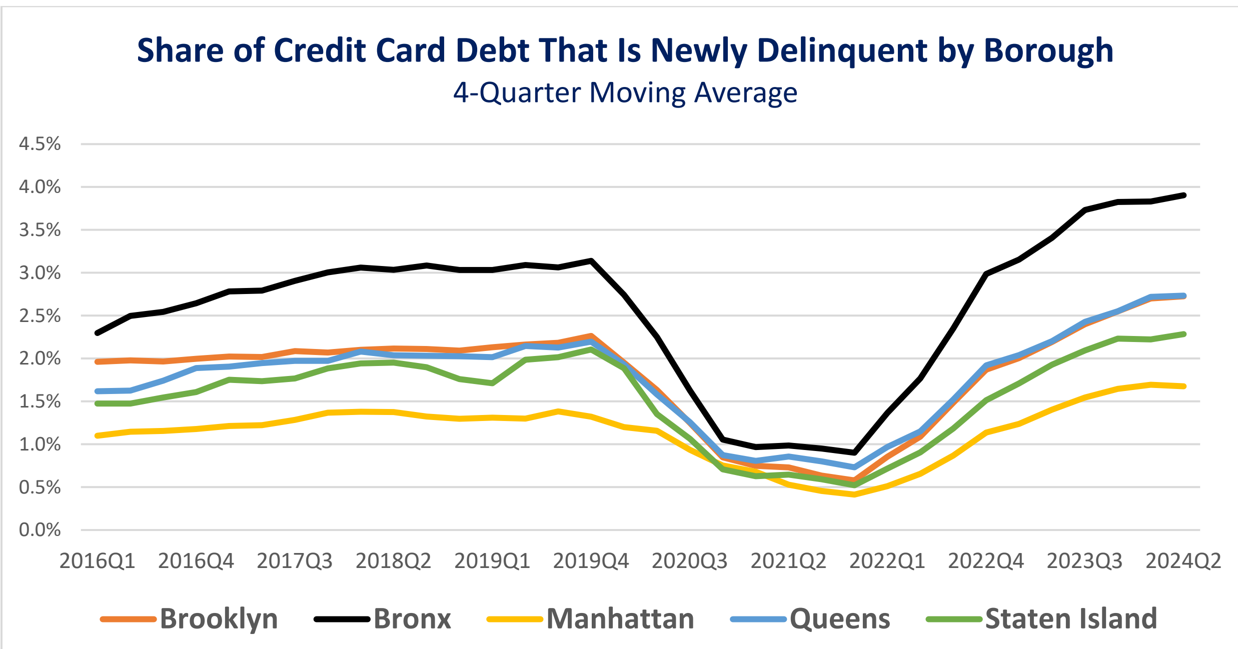


Source: New York Fed Consumer Credit Panel / Equifax
*A 4 quarter moving average is advised for this measure, as it controls for both seasonality and quarter-to-quarter volatility.

In addition to evaluating citywide trends, we were able to break the credit card data out by borough (Chart 3, below) and by neighborhood income (Charts 4 and 5).

Residents of the Bronx appear to be facing the most financial stress, as new delinquencies are much higher than in the rest of the city and still appear to be rising. In contrast, Manhattan households have consistently seen the lowest flows into delinquency and they have leveled off. In the middle of the pack are Queens and Brooklyn, while Staten Island is somewhat below (i.e. better off than) the city-wide average. One likely driver of this is that the Bronx has the highest poverty rate and that lower income consumers tend to face greater financial stress than more affluent households. Bronx residents saw the biggest drop following the application of federal pandemic stimulus, with the share of newly-delinquent credit card debt falling from over 3% in 2019 to below 1% in 2021. This is consistent with our January 2023 Spotlight, showing that Bronx resident benefitted significantly from federal pandemic stimulus. Unfortunately, the share of newly-delinquent credit card debt has now risen to nearly 4%.

Chart 3

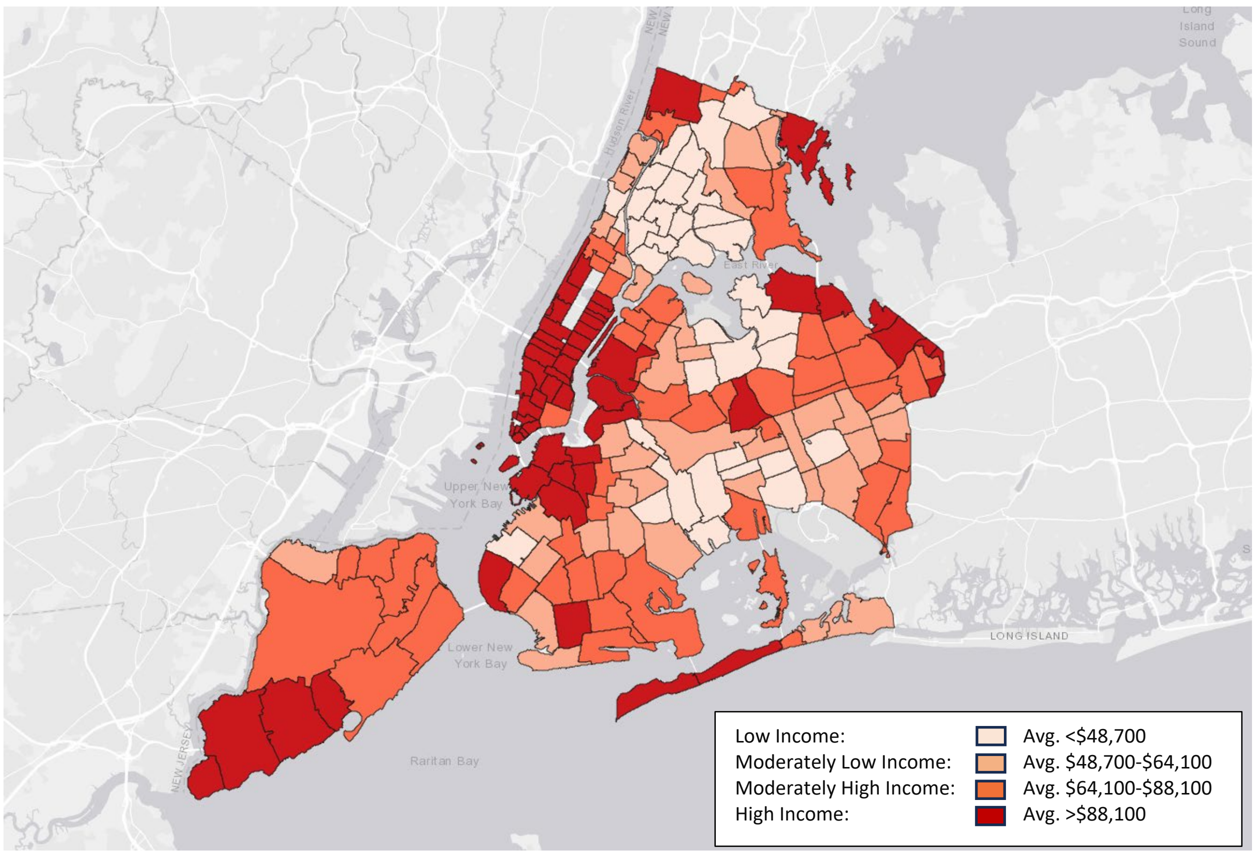


Source: FRBNY Consumer Credit Panel/Equifax Data

Distributional Issues

In the Consumer Credit Panel, income data are not available for individuals. However, it is possible to get a rough idea of how various income groups are faring by looking at the zip code of residence. Specifically, we look at trends across four groups (income quartiles) of zip codes based on the average adjusted gross income in each zip code (derived from 2020 IRS statistics of Income), which we place into four, equal population size groups: high income, moderately high income, moderately low income, and low income. A map showing which zip codes fall into each of these brackets, as well as each bracket's income range, is shown in Figure 1 below.

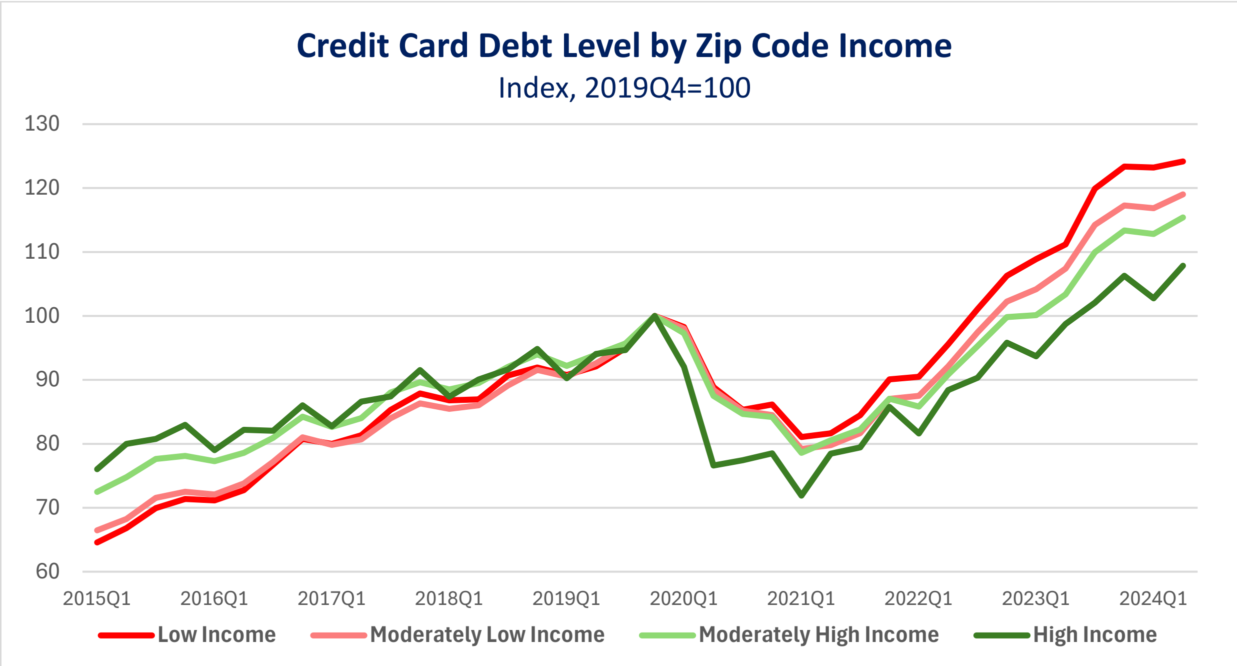
Figure 1: Map of Zip Codes Color Coded by Income Quartile



Source: Zip code average income quartiles based on 2020 IRS Statistics of Income

While the overall level of credit card debt has been climbing citywide since 2021, growing debt burdens have hit the city's poorest neighborhoods particularly hard. Since the end of 2019, debt levels are up just 8% in the more affluent neighborhoods (i.e. "high income" zip codes shown in the map above), while they are up 24% in the lowest-income neighborhoods, as shown in Chart 4 below.

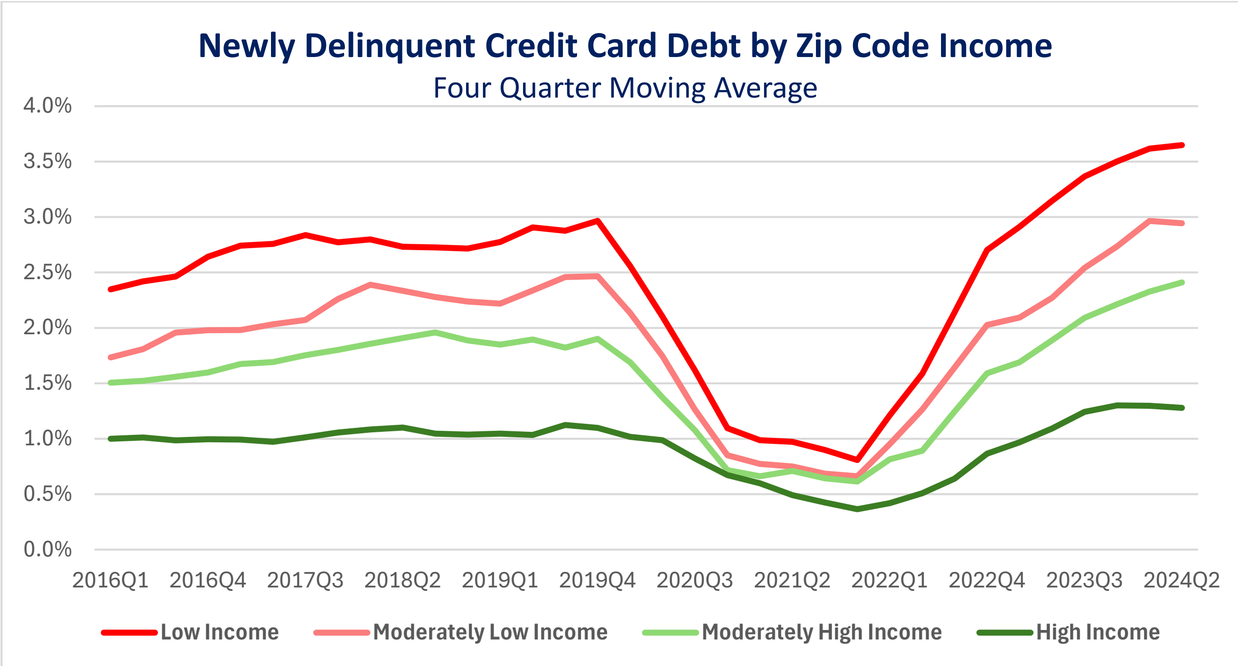
Chart 4



Source: FRBNY Consumer Credit Panel/Equifax Data

Moreover, while the latest data suggest that delinquency rates have leveled off in the 2nd quarter, the gap between households in the low-income versus other zip codes has been widening, as shown in Chart 5 below. Specifically, the differential in new delinquencies between New York City's lowest-income and highest-income zip codes has risen from 1.9 percentage points prior to the pandemic to 2.4 points today. To this point, 18% of credit card users in the lowest income New York City neighborhoods are 90 or more days late on at least one of their credit card accounts, compared to only 6% in the high income neighborhoods.

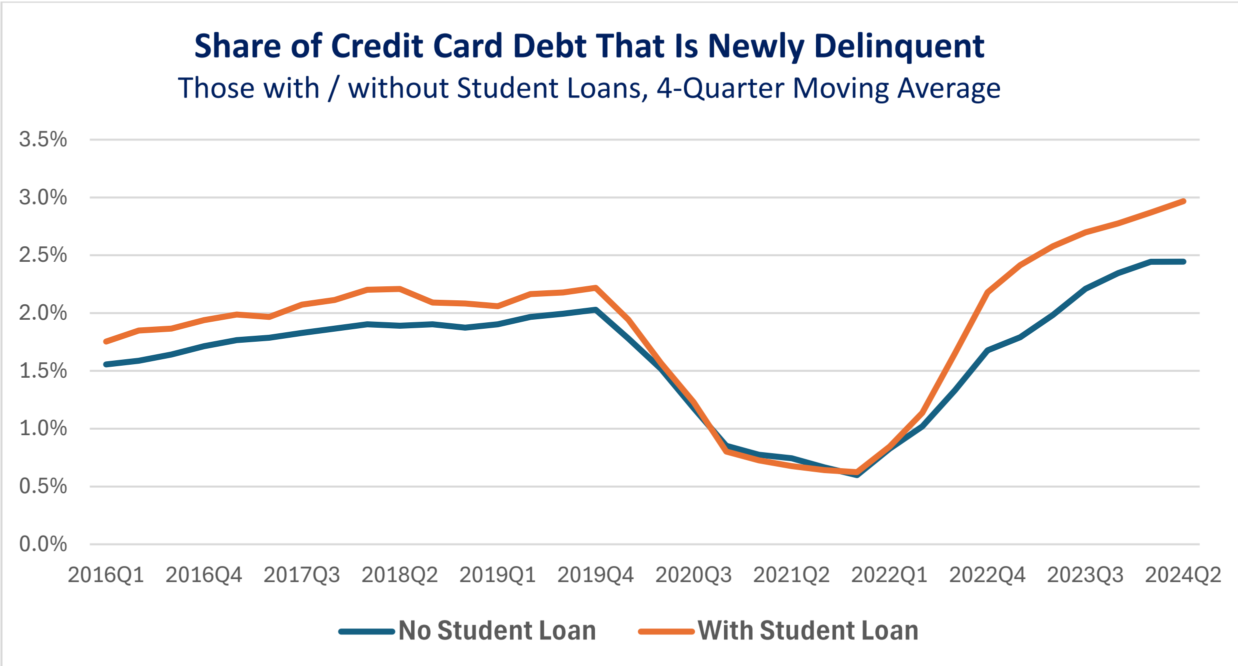
Chart 5



Source: FRBNY Consumer Credit Panel/Equifax Data

New Yorkers who have student loans are also seeing steep increases in new credit card delinquencies. While actual delinquencies and other stress indicators on student loan accounts are not available for reasons noted earlier, we can look at credit card delinquencies among those New Yorkers who also have outstanding student loans versus those who don't. Chart 6 below shows not only that student debt holders tend to have higher delinquency rates than those without, but also that their delinquencies have been trending up more rapidly over the past two years.

Chart 6



Source: FRBNY Consumer Credit Panel/Equifax Data

Conclusion

A main takeaway from this analysis is that the steep rise in credit card debt, along with high and rising delinquencies nationwide is also being felt here in New York City—and even more intensely among lower-income New Yorkers. One big question is: what is driving this trend? In our June Newsletter, we highlighted the extent to which average wages have fallen well behind inflation in recent years, with real (inflation-adjusted) wages falling to their lowest level in 8 years. While a variety of forces have likely contributed to rising financial stress among the local population—especially those with low to moderate incomes—lagging compensation would appear to be a major one, as well as rising rents. Also, the fact that new credit card delinquencies have risen more steeply among people with student loan debt than among those without suggests that this former group is facing rising financial stress.

Acknowledgements

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