FEB 22
Jenna McNamee

Younger US consumers struggle more with loan repayment than older cohorts

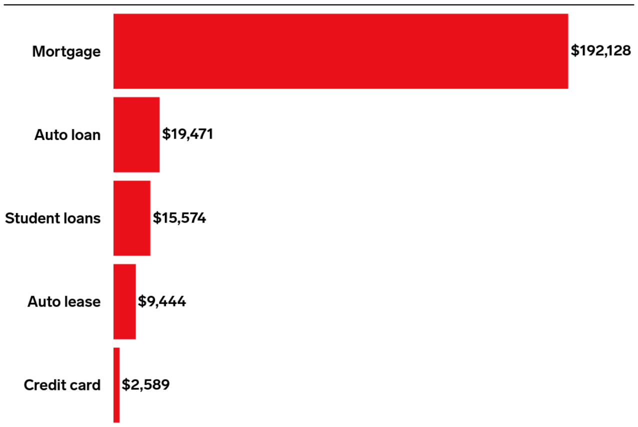
Article

The stats: **Younger borrowers are falling further behind on their loan payments—specifically auto loans and credit card debt—compared to older cohorts,** according to the

[Quarterly Report on Household Debt and Credit] report from the Federal Reserve Bank of New York.

- Overall, **debt balances in the fourth quarter grew by $394 billion—the largest nominal increase in 20 years**.
- Of those borrowers with credit card debt, 3% of consumers in their 20s and 30s became more than 90 days delinquent in their repayments during the quarter, versus 1.7% of consumers in their 50s and roughly 1% of consumers in their 60s and 70s.
- **The same trend is apparent in auto loans,** with close to 1.5% of consumers in their 20s falling behind in loan repayments compared to less than 1% of consumers in their 40s and older.

Average Debt Held by Gen Zers, May 2022
per person amount



Source: Data is from the September 2022 Credit Karma report titled "Average American debt by age and generation in 2022." Credit Karma analyzed aggregate data from 77.4 million US members' TransUnion credit reports as of May 30, 2022.

350066 eMarketer | InsiderIntelligence.com

What's slowing down repayment?

- **Rising interest rates:** The steady increase in interest rates means monthly loan repayment amounts are creeping up. This is especially the case with credit card debt. Auto loans are typically fixed-rate loans, which could explain the slower transition rate in that space.
- **Worsening underwriting standards**: The Fed data shows that underwriting standards haven't really fallen over the pandemic years and are therefore less likely to be responsible for the increasing delinquency rate. But the report suggests credit score data may be skewed due to the pandemic relief some consumers received—making them look like better borrowers than they may actually be.

- **Inflation:** Persistent inflation is driving up the cost of living, including prices for cars and groceries. That's left more consumers relying on credit cards to cover their bills and struggling to keep up with the higher payments.
- **Reversion to pre-pandemic levels:** The report also posits that the increasing delinquency rate may be a standard reversion to the mean level of delinquencies pre-pandemic.

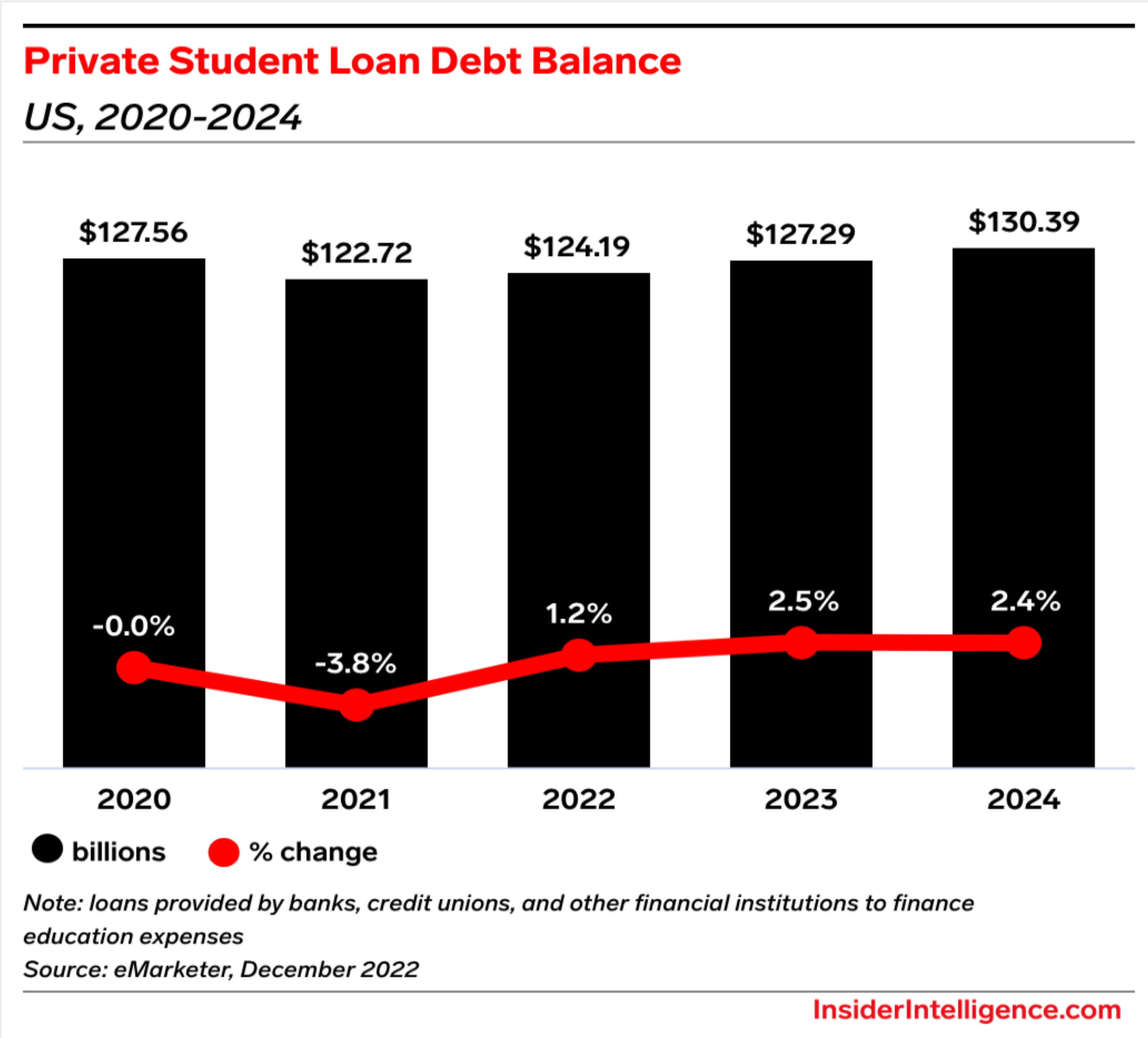
What banks should watch: As a whole, debt balances are still above pre-pandemic levels, though the debt level of younger consumers has fallen below pre-pandemic levels. Banks are keeping an eye on their rapid descent to worsening levels.

- It's unclear whether the reversion back to pre-pandemic loan delinquencies will level off, or if the factors we've listed will cause an even steeper increase in delinquencies.
- Even if the levels continue to fall below what was the norm before the pandemic, it's worth considering that the pre-pandemic levels could have been inflated. Loan delinquencies were likely at generally lower levels before the pandemic, as the country experienced a remarkably long period of economic expansion before the pandemic's onset.

What does the future hold? Currently, major banks have reported that the increasing delinquencies haven't had a major impact on their loan portfolios.

- **Wells Fargo** CFO Michael Santomassimo said the bank's seeing a steady decline back to 2019 levels.
- Credit card company **Synchrony Financial** CFO Brian Wenzel also reported a linear decline thus far, with an as-expected quicker delinquency transition rate for borrowers with lower credit scores.

Banks have prepped for this exact scenario by setting aside hefty loan loss provisions in Q3 and Q4 to bolster their loan portfolios in the event of a recession. But even though delinquency levels overall haven't yet breached pre-pandemic levels, banks might experience a shift in the near future, especially among younger borrowers. Many young consumers who are struggling with credit card debt and auto loans also have student debt. And under current plans, the student loan forbearance period could end later this year. Time will tell which debt these consumers will opt to address first, if they can address any at all.



This article originally appeared in Insider Intelligence's ***Banking Innovation Briefing****—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? Click here to subscribe.*
- *Want to learn more about how you can benefit from our expert analysis? Click here.*