BY KARTIK ATHREYA

Financial Distress Falls Unevenly

On the surface, Americans appear to be doing well economically. Signs of financial distress — such as high delinquency rates — are not easy to see in much of the headline macroeconomic data. Indeed, the economy-wide saving rate actually increased during 2020 as consumption stalled and disposable income was boosted by increased fiscal transfers.

Aggregate indicators of credit performance have held up well. According to Equifax-New York Fed data, the overall consumer loan delinquency rate has declined during the pandemic. Home foreclosures have dropped to nearly zero, and very few mortgages have transitioned from "current" to "late" status. Consumer bankruptcy rates have also declined. Many relatively affluent people actually appear to have used the opportunity to *pay down* their credit card balances.

Perhaps these positive credit indicators are not surprising, given the large fiscal transfers and widespread use of loan forbearance programs at the encouragement of bank regulators. Moreover, it has been a fairly short time since the pandemic began to hit the economy hard in March 2020. So far, many individuals have been able to smooth consumption *and* continue to service their debts.

But, as with all things COVID-19, the headline numbers don't tell the whole story. The economic fallout of the pandemic has been highly uneven. Low-wage workers were the most severely affected at the outset, and their employment recovery since then has been comparatively sluggish. The number of jobs for workers with incomes less than $27,000 remained 30 percent below pre-pandemic levels, according to a recent survey. In contrast, employment for workers with incomes greater than $60,000 had fully recovered.

The disparity in outcomes has also played out along geographical lines. The COVID-19 pandemic has touched every corner of the United States, but the fallout has been particularly acute in areas with concentrations of people who already had been experiencing financial distress. Persistent financial trouble acted as a sort of "economic preexisting condition" that left many of these people especially vulnerable. Indeed, ongoing Richmond Fed research finds that shocks not only do greater harm to the consumption of those initially in distress, but also that initially distressed households actually suffered bigger declines in house prices during the Great Recession and in earnings during the early months of the pandemic.

Financial distress has also been more evident among people of color. For example, according to the latest Census Household Pulse Survey, black Americans made up 8 percent of people living in owner-occupied housing but constituted 15 percent of those who were not current on mortgage payments. Respondents who identified as Hispanic/Latino made up 12 percent of owner-occupied housing residents but 25 percent of non-current mortgages.

Rental arrears are another source of concern about consumers' financial health. "We were already seeing landlord-tenant evictions on the rise prior to the pandemic," said South Carolina Legal Services attorney Mark Fessler on a recent Richmond Fed *Speaking of the Economy* podcast. Eviction numbers declined after the onset of the pandemic, partly due to CARES Act provisions, but also partly because of eviction moratoriums issued by state courts and then by the Centers for Disease Control. Nevertheless, it appears that many renters have been evicted.

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There have been at least two lasting fallouts from rental arrears and evictions. The first is that many consumers have built up substantial debts to their landlords. According to a recent Brookings Institution report, "Roughly 9 million renters have fallen behind on rent, with debts averaging $5,400 per household."

A second concern pertains to the credit histories of evictees. People with eviction filings on their records often have difficulty finding landlords willing to rent to them. According to Fessler, "The background check industry for housing has exploded over the last five years or so. If you have debt owed to a landlord, that may knock you off landlord A, B, or C's list. They may not want to rent to you if you were unable to pay your previous landlord."

Thus, as we look ahead at an economy that is likely to show strong aggregate performance, it will be important to keep in mind that such headline numbers — including, importantly, headline indicators of consumer credit performance — will almost surely hide the struggles of a not-small group of households. And this will likely hold despite the rapid and huge central bank efforts to support credit flows and vast transfers to broad swaths of households. In other words, many of the people who have been hardest hit by the pandemic may have miles to go before they see clear skies again. **EF**

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