The Graying of American Debt

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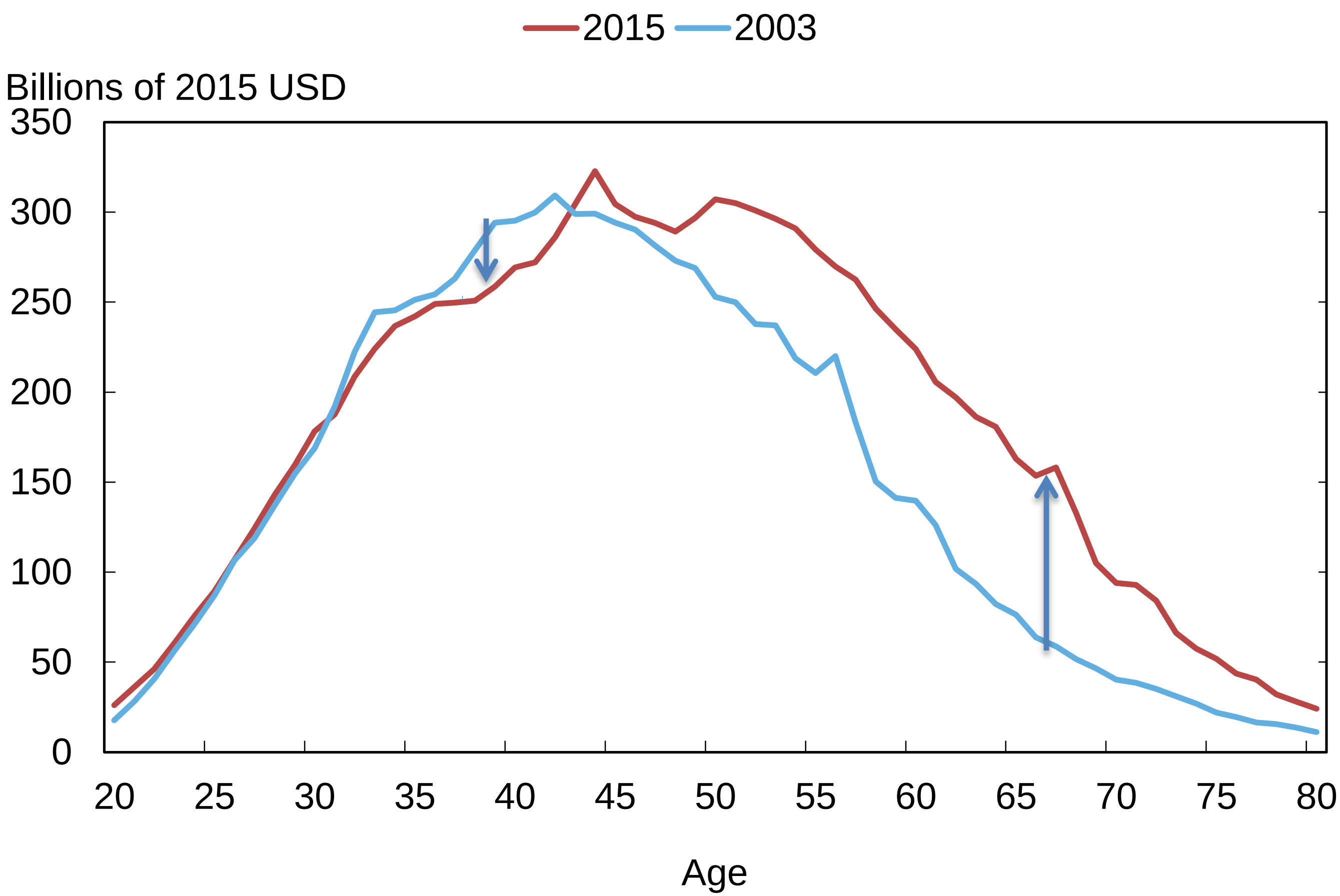
Age distribution of aggregate U.S. consumer debt, 2003 v. 2015



Age 39: aggregate debt fell by 12%

Age 67: aggregate debt grew by 169%

In real terms, debt in the hands of Americans aged 50 to 80 has increased by 59% since 2003.

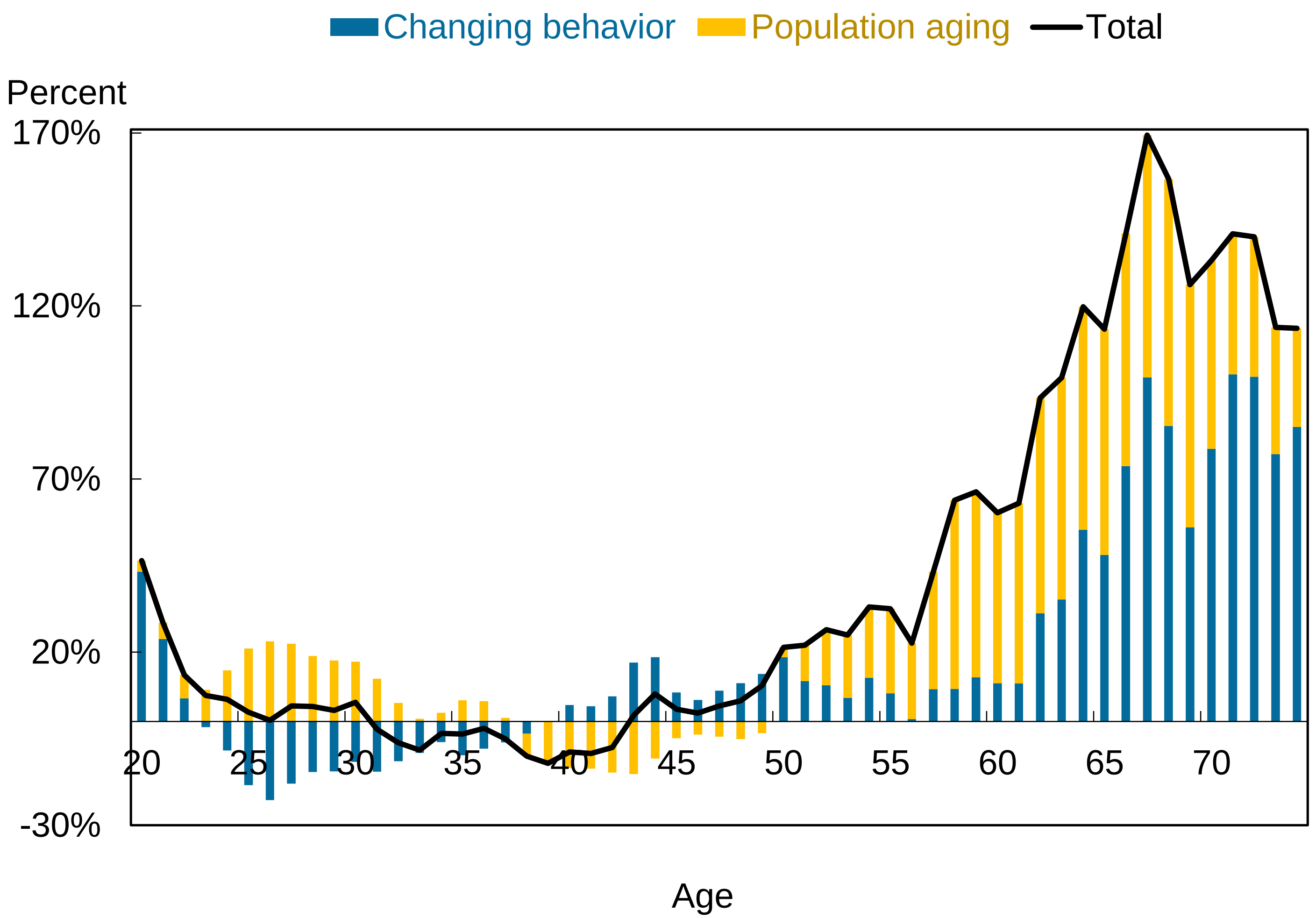
Source: New York Fed Consumer Credit Panel / Equifax

Relevance and sources of the shift to older ages

- Substantial shift in aggregate debt toward older borrowers relevant to
  - Credit-driven consumer goods markets, but also
  - Loan performance. The payments on the loans represented in this figure are being made by substantially older borrowers now than we've seen in the past.
- Next: how much of this shift in the age distribution of household debt is attributable to simple population aging?

Population Aging or Changing Behavior?

Percentage change in aggregate debt by age, 2003 to 2015



Per capita debt at age 30 fell by 12%; per capita debt at age 65 grew by 48%.

Source: New York Fed Consumer Credit Panel / Equifax, Census Bureau

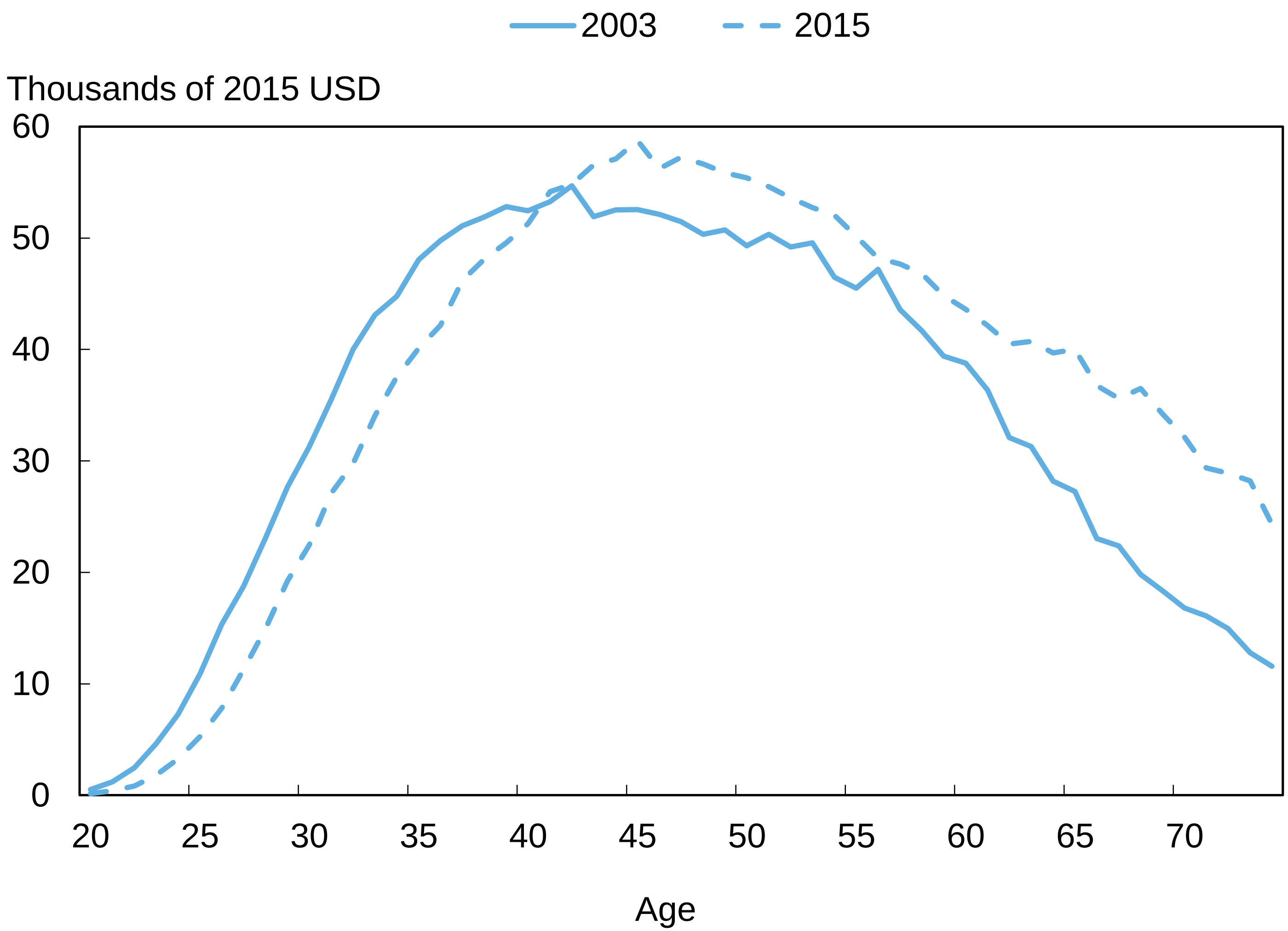
Population Aging or Changing Behavior?

- As the number of Americans both reaching older ages and entering adulthood climbs,
  - We expect greater aggregate debt balances in the hands of both older and younger borrowers.

- Owing to changing borrower and lender behavior, however,
  - We find substantial evidence of increased debt among older borrowers,
  - And yet no evidence of increased debt among the young.

- Next we turn to specific consumer credit markets
  - In which markets are young consumers reducing their participation?
  - Which types of debt are older consumers increasingly carrying into retirement?

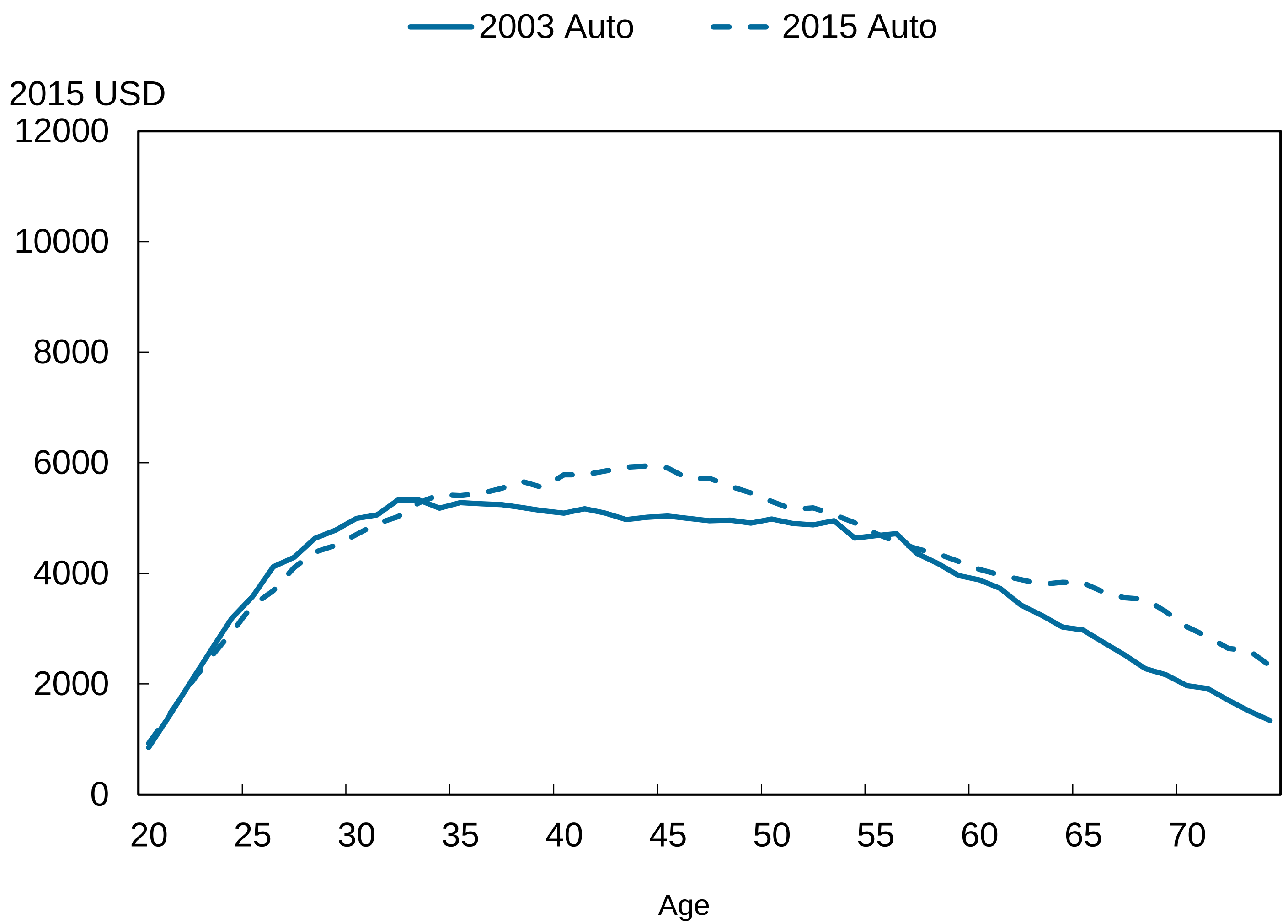
Loan Types Over the Lifecycle: Home-secured debt
Mortgage + home equity debt balance per U.S. resident



Source: New York Fed Consumer Credit Panel / Equifax, Census Bureau

Loan Types Over the Lifecycle: Non-housing debt

Auto, credit card, and student loan balance per U.S. resident



Source: New York Fed Consumer Credit Panel / Equifax, Census Bureau

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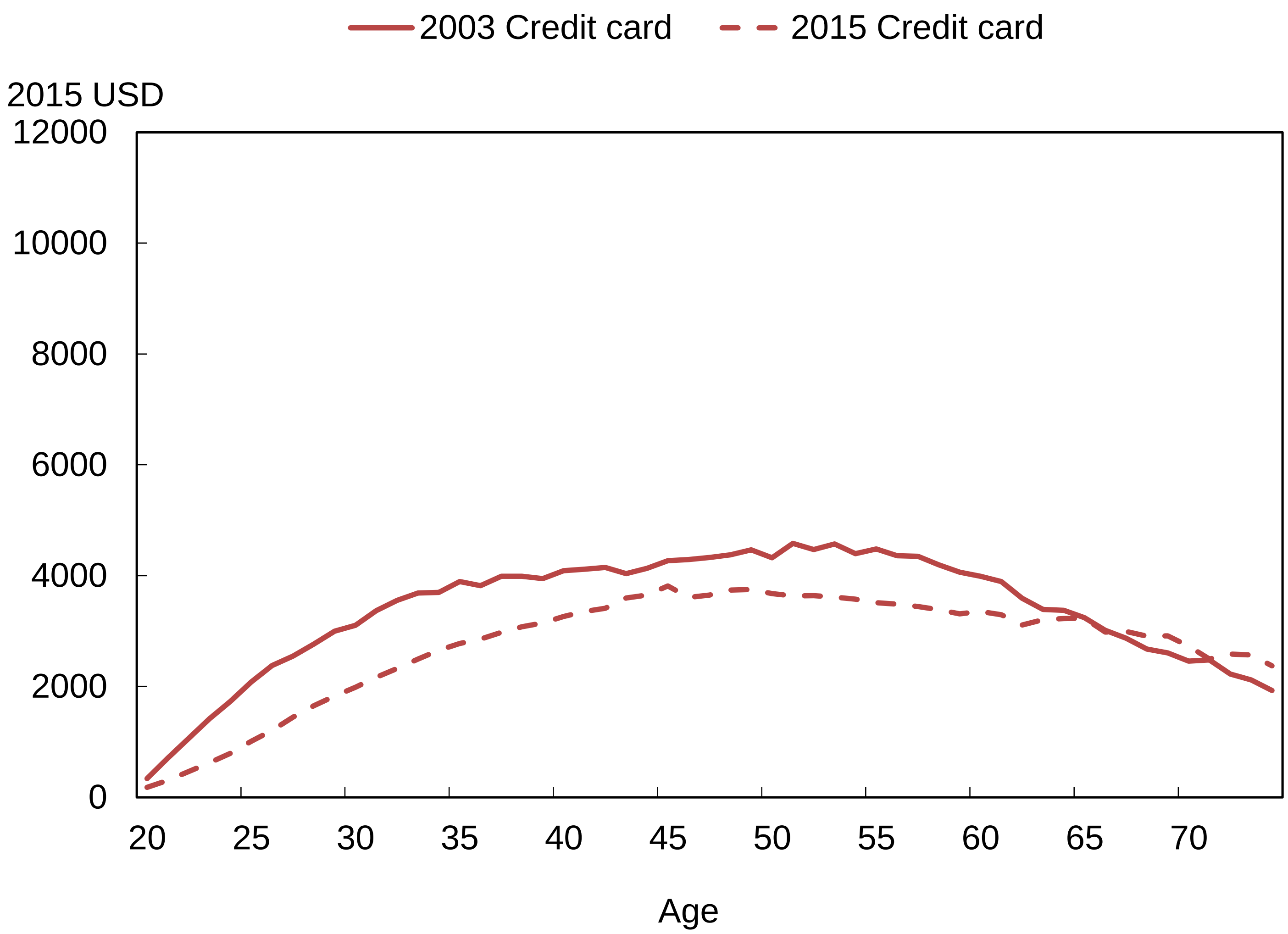

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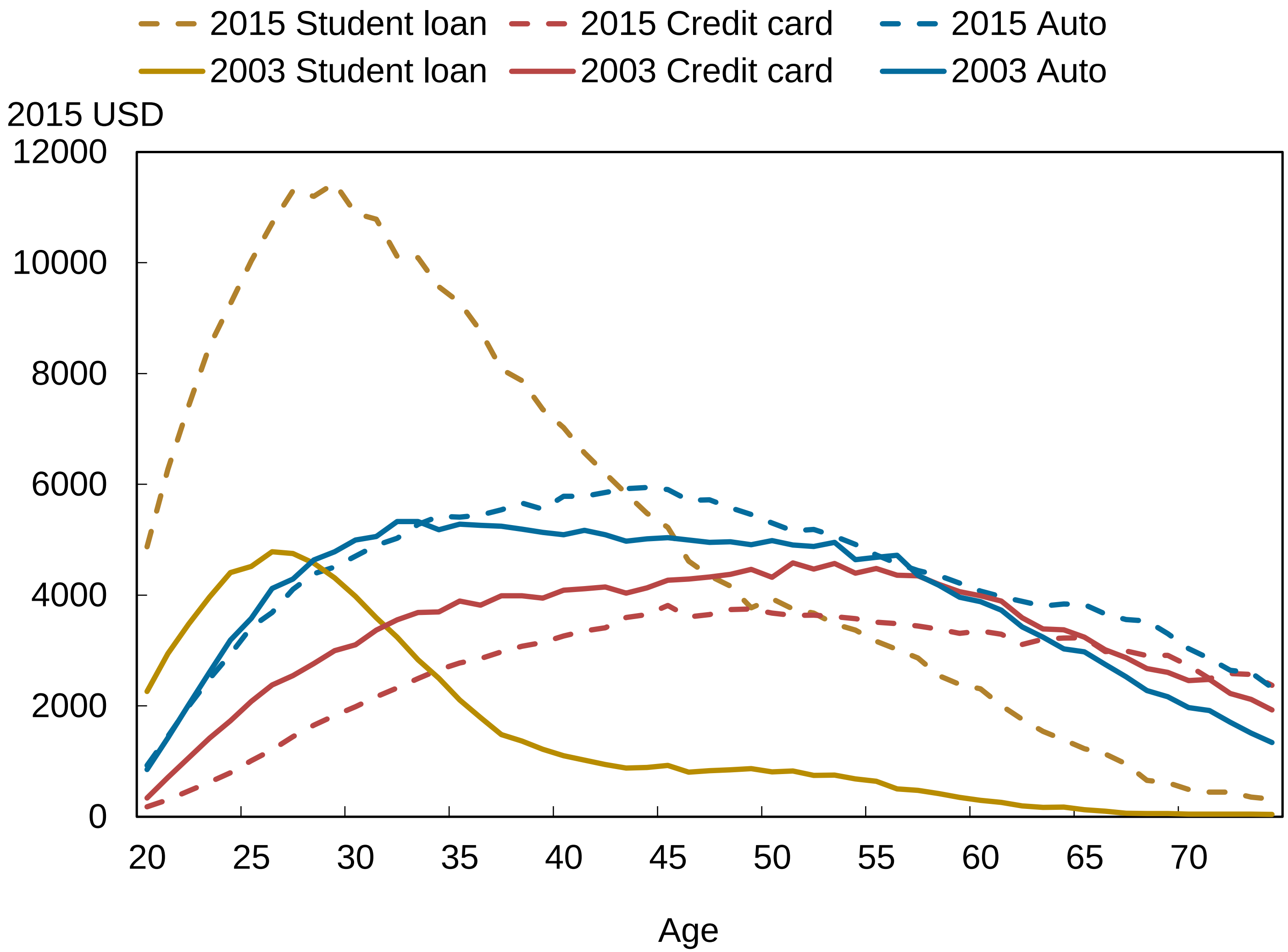


Source: New York Fed Consumer Credit Panel / Equifax, Census Bureau

2003-2015 change in real per capita debt by type

Debt type	Age 30 $	Age 30 %	Age 65 $	Age 65 %
Home-secured	-$8,195	-28%	+$11,191	+47%
Credit card	-$1,121	-36%	-$11	0%
Auto loan	-$292	-6%	+$1,102	+29%
Student loan	+$6,912	+174%	+$857	+886%

Source: New York Fed Consumer Credit Panel / Equifax, Census Bureau

How did we get here?

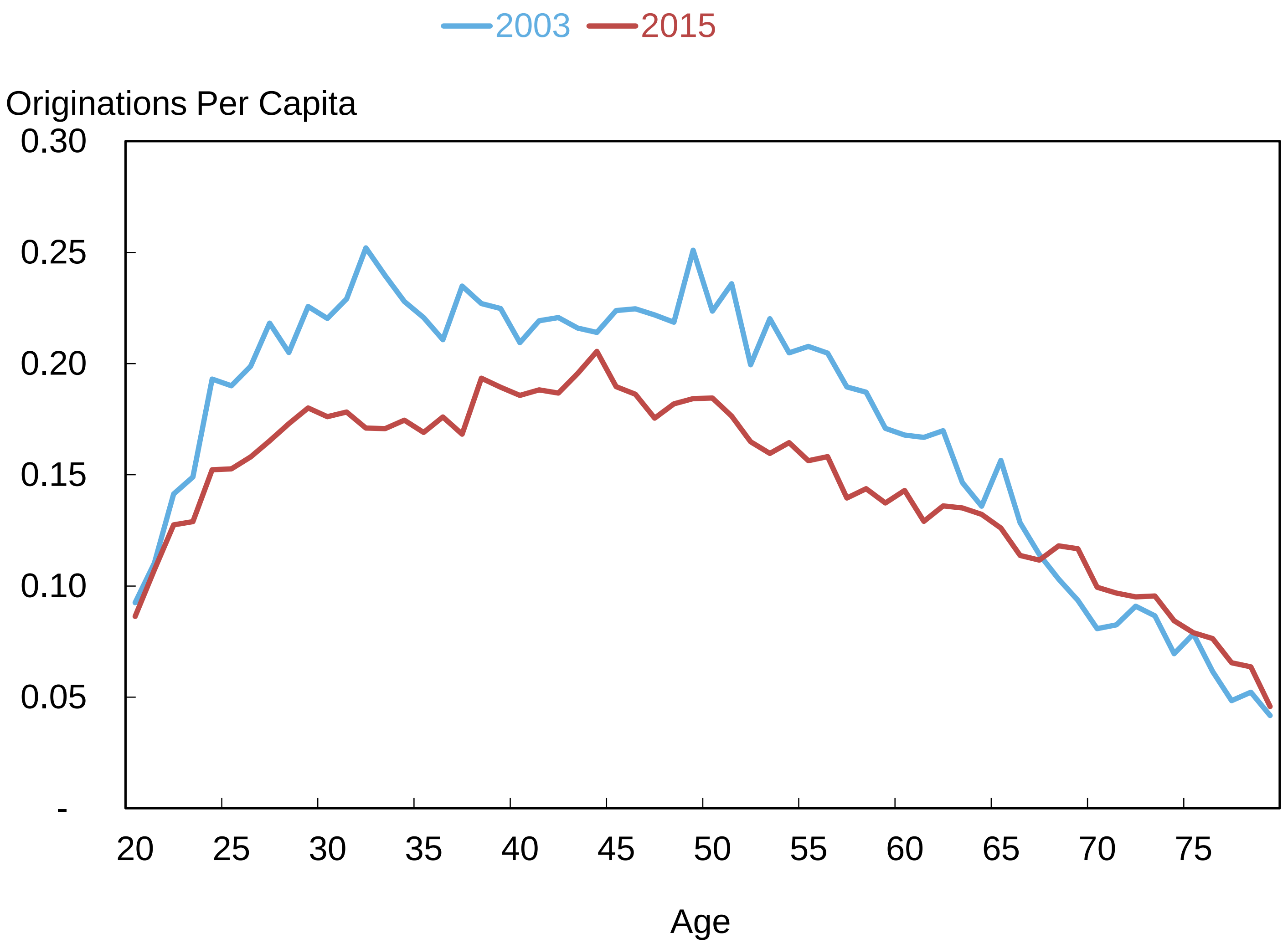
- An acceleration and then slowdown of lending across the board will lead loans, and their associated borrowers, to be older on average.
  - Credit boom that characterized the mid-2000s
  - Stark change in underwriting standards from 2009 forward

- And/or new loan originations could increasingly favor older over younger borrowers.

- Turn to originations data for evidence

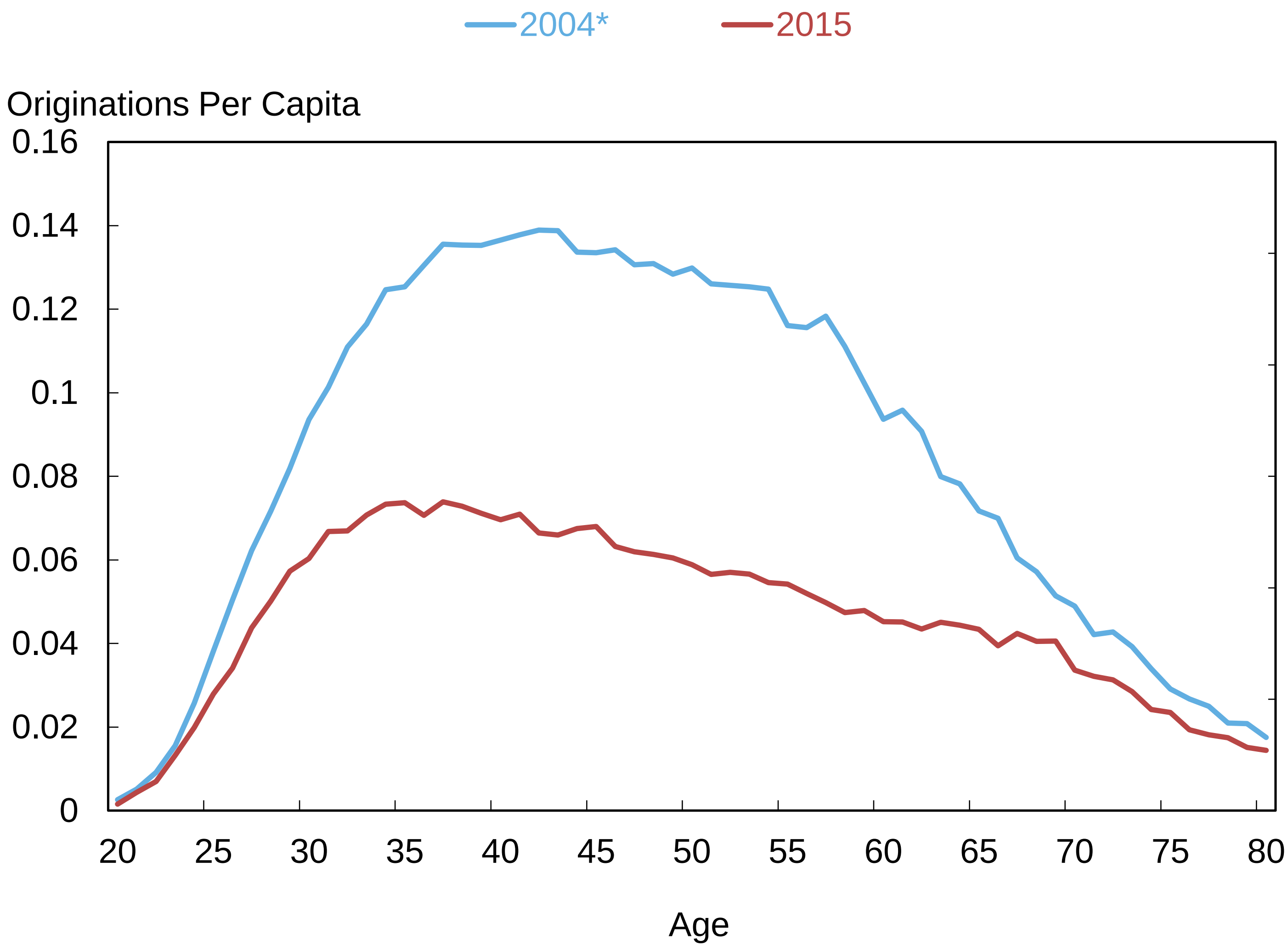
  - Has the number of new credit originations shifted downward since 2003?
  - Have new loan originations tilted away from younger borrowers, and toward older borrowers, since 2003?

Auto Loan Originations Per U.S. Resident, 2003 v. 2015



Source: New York Fed Consumer Credit Panel / Equifax, Census Bureau

Mortgage Originations Per U.S. Resident, 2004 v. 2015



*Given unusual refinancing activity in 2003, here we use 2004 as our basis for comparison. Results using 2003 are qualitatively similar.

Source: New York Fed Consumer Credit Panel / Equifax, Census Bureau

Why the shift of debt from younger to older ages?

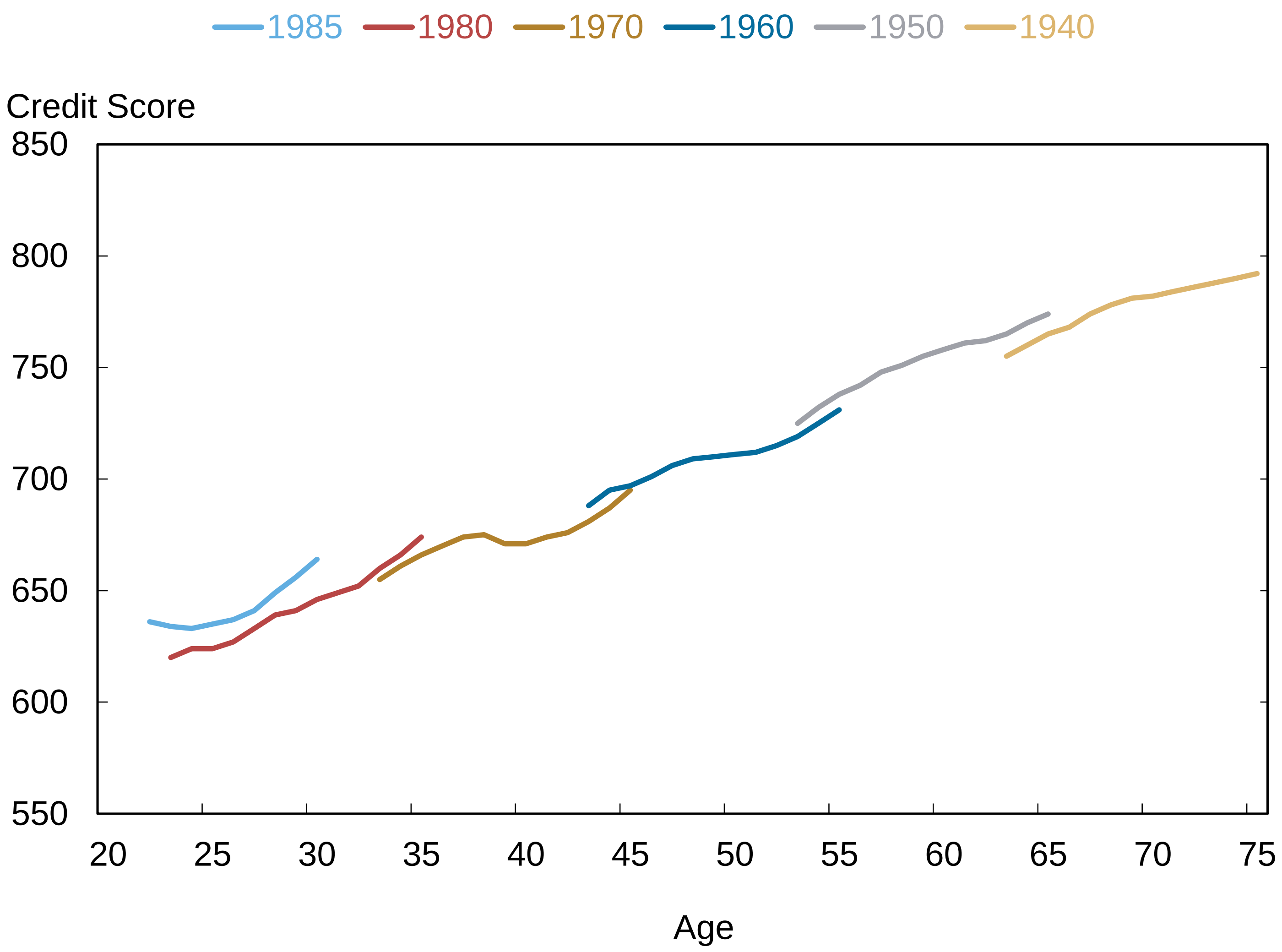
- An acceleration and then slowdown of mortgage lending appears to be the more important factor in the aging of U.S. mortgages & mortgage holders.

- Both auto and mortgage originations show some evidence of a tilt away from younger borrowers, and toward older borrowers, between 2003-4 and 2015. But this change is substantially stronger in the auto loan market.

- Next we consider one possible source of the recent tilt of new originations toward older borrowers.

Median Equifax Credit Score by Age, 2003-2015

Data for six decennial* birth cohorts



Source: New York Fed Consumer Credit Panel / Equifax

Why the shift of new credit from younger to older ages?

- The tilting of new credit toward older borrowers may be an unsurprising consequence of credit tightening

  - …when one considers the close relationship between credit risk score and age.

  - Many repayment measures drawn from the CCP reflect a similarly close association between age and creditworthiness.

- Further, the ballooning of student debt may have substantial effects on young borrowers'

  - Ability to originate new loans
  - Willingness to originate new loans

Implications

- Likely greater resilience of outstanding consumer loans
  - Reallocation of debt from young, with historically weak repayment, to retirement-aged consumers, with historically strong repayment.
  - Retirement-aged consumers' repayment has shown little sign of developing weakness as their balances have grown.
  - SCF: Net worth of households with heads age 65+ is very similar in 2013 and 2004-2007, indicating that their increased debt is balanced by increased assets.
  - In light of 2013-2015 debt and housing market changes, the current picture may look brighter still.

Caveats

- More muted borrowing among younger (23-39yo) consumers
- What balances we observe for this group are increasingly held in student debt.
- Consequences in terms of both foregone economic growth and young consumers’ welfare
- SCF again: 45-54 and 55-64-year-old households’ balance sheets show less evidence of healing between the 2004-2007 and 2013 waves. We believe this pattern merits ongoing scrutiny, though self-reported household asset values may update with a lag. And, importantly, their debts have increased less than those of retirement-aged consumers since 2003.