Background on Consumer Revolving Debt

* Revolving debt refers to debt accumulated in revolving credit plans. In a revolving credit plan, a lender will set a periodic borrowing limit that the consumer must repay within a limited period.
  + As opposed to installment debt where the consumer must pay off a single loan via a series of planned payments (e.g., an auto loan).

[Quarterly Report on Household Debt and Credit](https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2023Q4)

[Fed reports massive spike in defaults. Credit cards being shut off.](https://www.youtube.com/watch?v=mVY3lRqUsp8)

* Credit card debt has hit all-time highs.
* Credit card interest rates have also approached record highs (at least since the beginning of the FRED series).
  + [Commercial Bank Interest Rate on Credit Card Plans, All Accounts](https://fred.stlouisfed.org/series/TERMCBCCALLNS)
  + [Commercial Bank Interest Rate on Credit Card Plans, Accounts Assessed Interest](https://fred.stlouisfed.org/series/TERMCBCCINTNS)
* Retail spending is at record-high levels, however, the rate of growth has largely flatlined since October 2022. Youtuber claims that these levels are sustained by the record-high credit card debt levels
  + [Retail Sales: Retail Trade](https://fred.stlouisfed.org/series/MRTSSM44000USS)
* Charge-off rates are hitting levels unseen since the financial crisis.
  + Charge-off rates indicate the rate at which banks write off deposits as uncollectable. A bank may then sell the account to a collection agency which will go after the consumer and attempt to recoup some of the balance.
  + Charge-off rates were similar in Q4 of 2007
  + From Q4 2022 to Q4 2023, credit card charge-off rates increased about 68% (2.42% to 4.07%)
  + [Charge-Off Rate on Credit Card Loans, All Commercial Banks](https://fred.stlouisfed.org/series/CORCCACBN)
* Credit card delinquency rates have reached the highest level since Q4 2011.
  + Delinquency rate gives the percent of balances that are past due.
  + [Delinquency Rate on Credit Card Loans, All Commercial Banks](https://fred.stlouisfed.org/series/DRCCLACBS)
* Charge-off rates vary by state, with states in the sunbelt demonstrating particularly high rates.

[CONSUMER LENDING THROUGH THE PANDEMIC AND THE RECOVERY](https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2022-vol16-1/article1.pdf)

[Consumer Credit and the American Economy](https://academic.oup.com/book/11165)

* “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.”
* “Banks implemented or expanded forbearance programs for their customers in spring and summer 2020, which helped to support loan performance.”
* At the time of writing, the author claims “the outlook for consumer loan performance is strong”. However, it appears this was published around Q4 2021, at which point I don’t think credit card borrowing had returned to pre-pandemic normal. I don’t think charge-off rates had started to rise either.

Covid-19 related stimulus checks, 476 million payments totaling $814 billion [18]

* + Round 1, March 2020: $1,200 per income tax filer, $500 per child (CARES Act)
  + Round 2, December 2020: $600 per income tax filer, $600 per child (Consolidated Appropriations Act, 2021)
  + Round 3, March 2021: $1,400 per income tax filer, $1,400 per child (American Rescue Plan Act)
* In spring 2020, consumers reduced their spending due to mobility restrictions, while at the same time their income increased with the help of government stimulus checks and debt forgiveness on obligations such as rent and student loans [19]

[Value of household debt in the United States as of 3rd quarter 2023, by type](https://www.statista.com/statistics/500814/debt-owned-by-consumers-usa-by-type/)

* Mortgages comprise the vast majority of US consumer debt, followed by student loans, auto loans, then credit card debt.

[Visualizing America’s $1 Trillion Credit Card Debt](https://www.visualcapitalist.com/visualizing-americas-1-trillion-credit-card-debt/#google_vignette)

[Nearly 1 in 4 Americans with debt are putting less money toward credit card payments: ‘People are really struggling’](https://www.cnbc.com/2024/02/22/americans-with-debt-putting-less-money-toward-credit-card-payments.html)

* Americans are spending less on credit card debt compared to 2022 despite higher outstanding balances.
  + Article attributes this difference to higher interest rates and inflation putting pressure on consumers.
  + This is potentially concerning as APRs (Annual Percentage Rates) are at all-time highs. Credit cards are a very easy way to fall into spiraling debt.

[Credit Card Spending and Borrowing since the Start of the COVID-19 Pandemic](https://www.bostonfed.org/publications/current-policy-perspectives/2023/credit-card-spending-and-borrowing-since-the-start-of-the-covid-19-pandemic.aspx)

* “Consumers improved their financial health early during the COVID-19 pandemic, but credit card revolving and delinquencies have been rising since 2021, in terms of both the share of accounts and average balances. Financial stress is especially high among lower-income cardholders, whose credit card revolving and delinquencies have risen faster than those of other income cohorts. This is consistent with excess savings being depleted faster among lower-income cohorts. The rising financial stress suggests a weakening in consumption as utilization rates, revolving amounts, and delinquencies all continue to rise. Balances on delinquent accounts held by lower-income consumers are approaching their credit limits. With utilization rates of 80 to 90 percent on average, these cardholders might have to cut their spending. An unemployment spell might cause further distress for these individuals and potentially others who are not currently delinquent.”
* Author gives several reasons why loans performance could further worsen.
  + Consumption growth is slowing.
  + Lower-income borrowers would likely be highly sensitive to economic downturns given their slim financial buffer.
  + Student loan repayments have resumed.
  + APRs remain high, as they generally track the federal funds rate.