Debt Developments in an Aging Economy: Discussion

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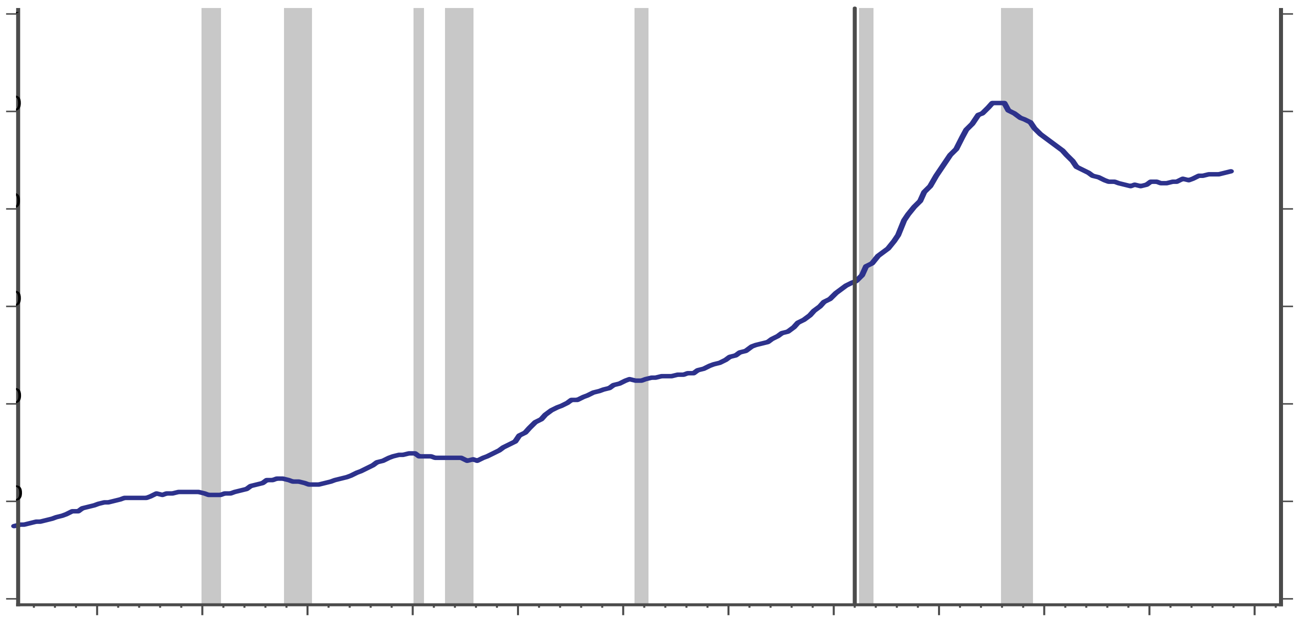
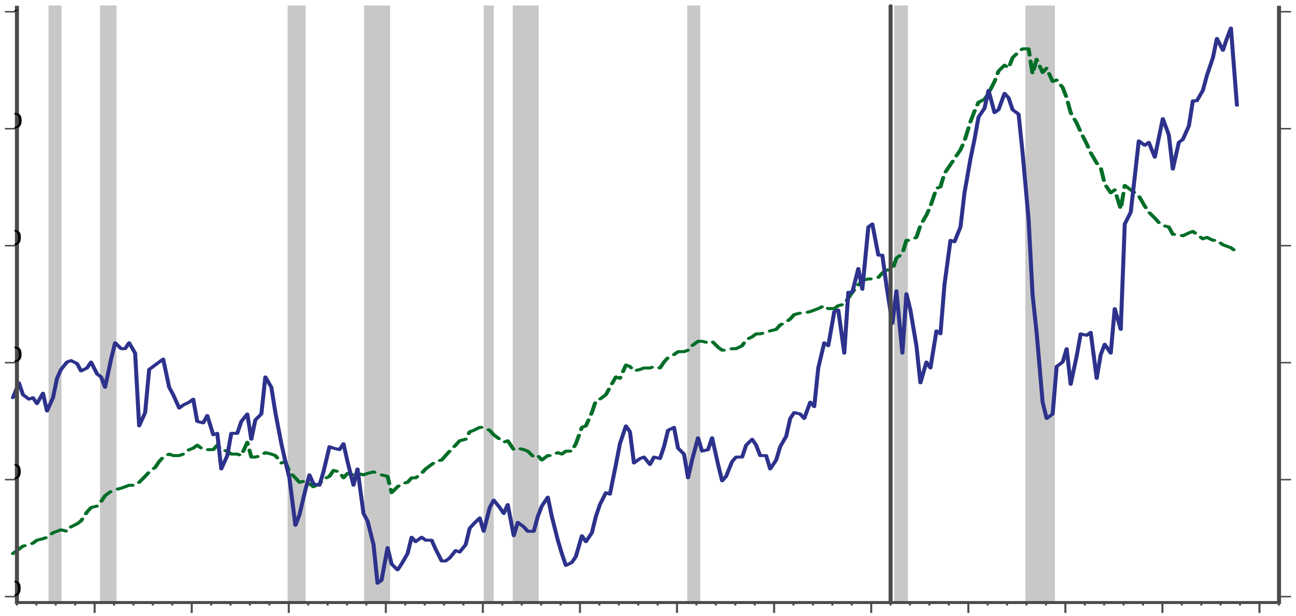
Real Debt Per Capita Grew Rapidly Starting in the Mid-1980s and has Declined on Balance Since the Financial Crisis



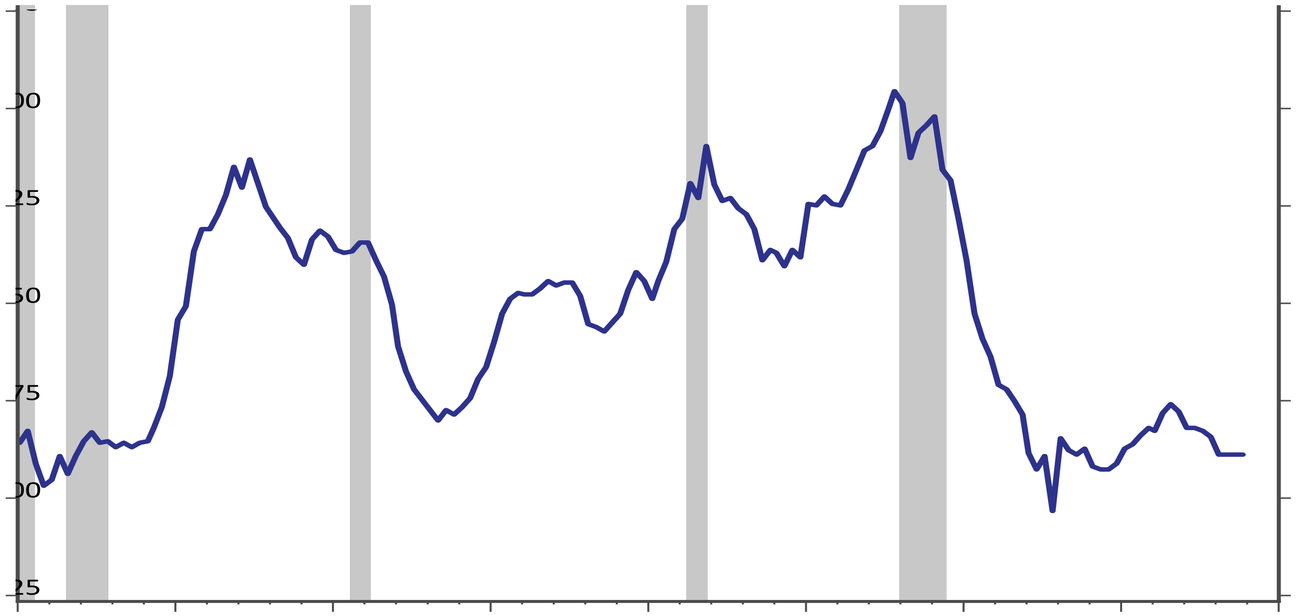
- Real household debt per US resident stood at $43,730 at the end of 2018. It has grown 40% since 2000, 17% since 2003 and has doubled since 1989.
- A positive development reflecting improved technology & financial markets that reduces liquidity constraints or a risk to economic security?

Controlling for Growth in Real Income and Appreciation of Assets *May* Suggest Less Cause for Concern



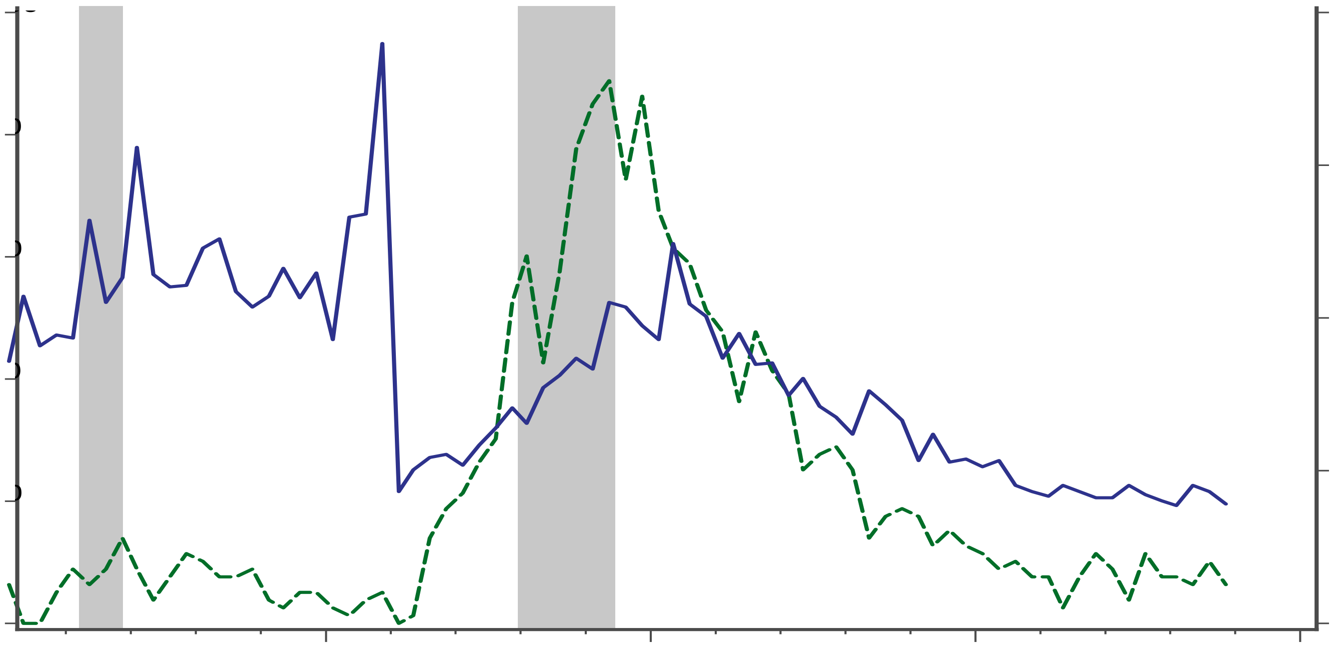
- Debt as a % of disposable income has risen 5% since 2000, it has declined 7% since 2003 and risen 25% since 1989.
- Household net worth as a % of disposable income is up 8% since 2000, 21% since 2003 and 30% since 1989

Low Interest Rates Have Eased the Burden of Servicing the Debt



- Households service three times the amount of debt at the same cost of their income as in the 1980s

Bankruptcies and Serious Delinquencies are Low and Falling



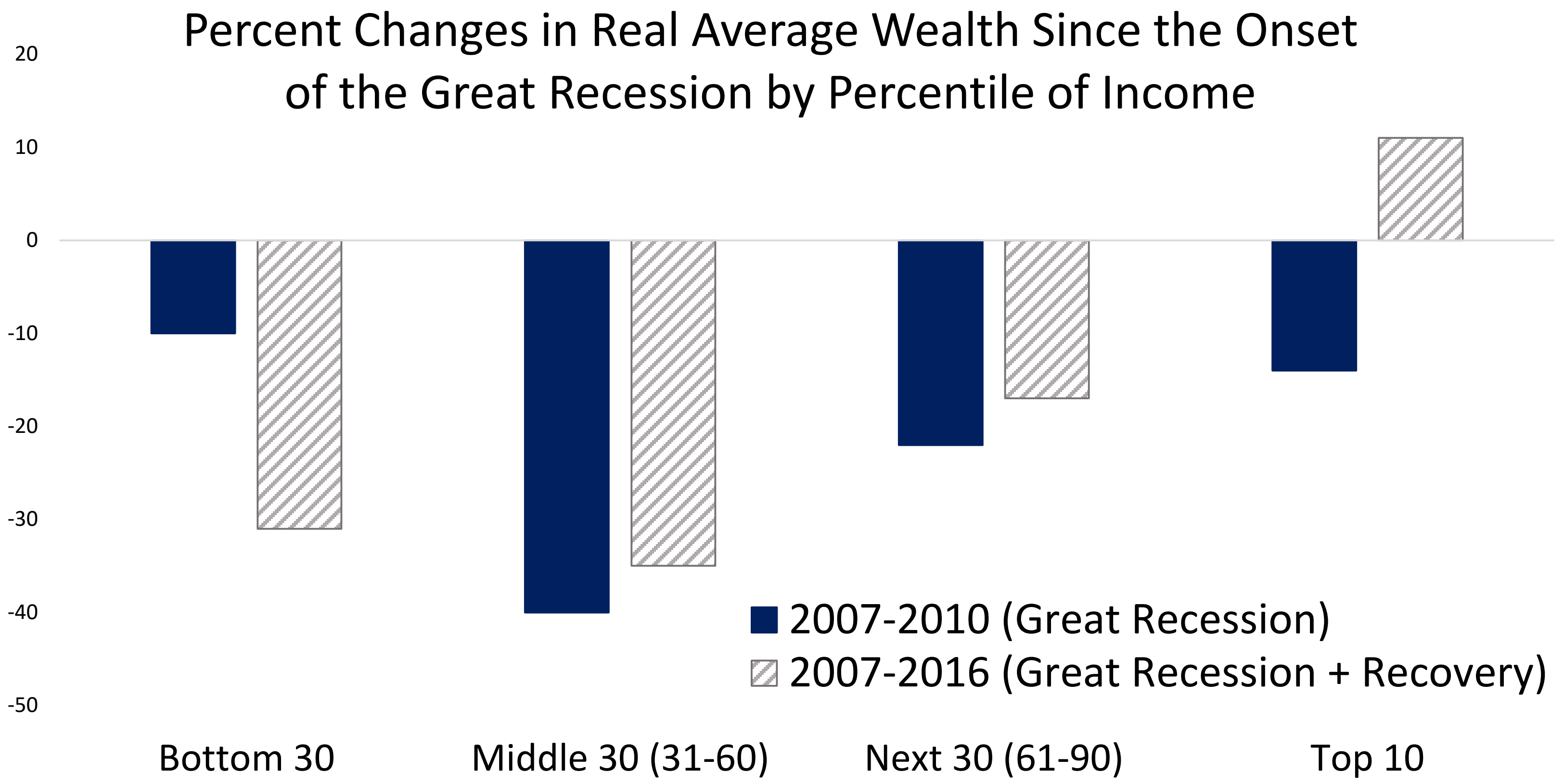
- There are no indications of household or financial system stress

Sanguine Findings on Seniors, Millennials Not So Much

- Using administrative and survey based micro data Brown, et. al. find that nearly the entire increase in debt over the past two decades has been among older households, particularly wealthy households aged 70+ who are leveraging more against real estate with no associated rise in delinquency or default. Meanwhile younger households aged <35 have not increased their borrowing at all, but have shifted away from mortgage debt toward student loan debt.

- Using the same administrative data from the New York Fed Li and White find that the higher proportion of older households in bankruptcy filings may primarily reflect their rising population share and not a disproportionate hit from the 2005 bankruptcy reform or the 2008 financial crisis.

Debt and Wealth Are Increasingly Concentrated

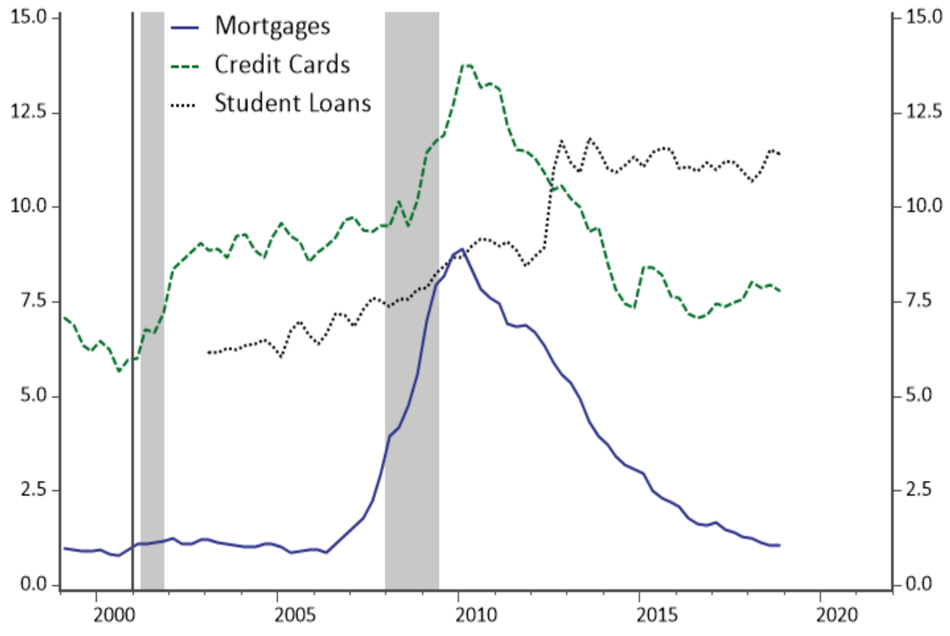


Source: A Wealthless Recovery? Asset Ownership and the Uneven Recovery from the Great Recession, Lisa Dettling, Joanne Hsu and Elizabeth Llanes

- For most households access to debt facilitates wealth accumulation. The authors' findings suggest that inequality has an important generational component

The Changing Composition of Debt Points to Greater Vulnerabilities

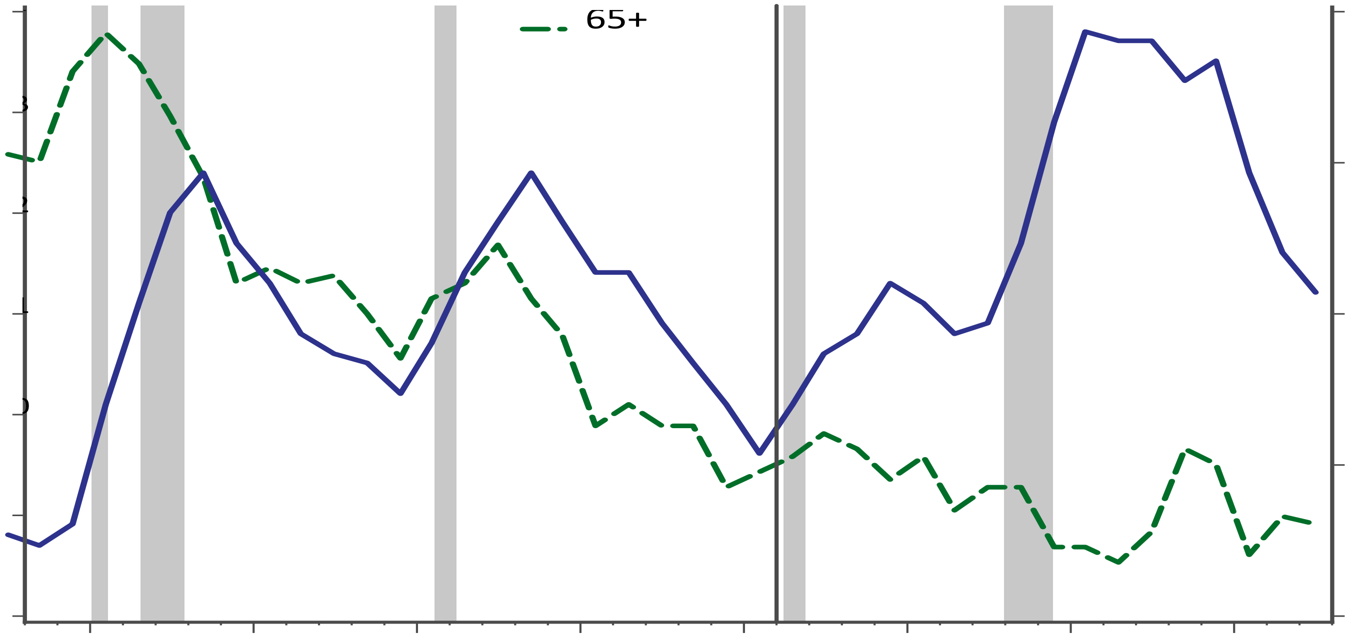
NY Fed Credit Panel: 90+ Days Delinquent: Pct of Balance (%)



Source: FRBNY Consumer Credit Panel/Equifax/Haver Analytics

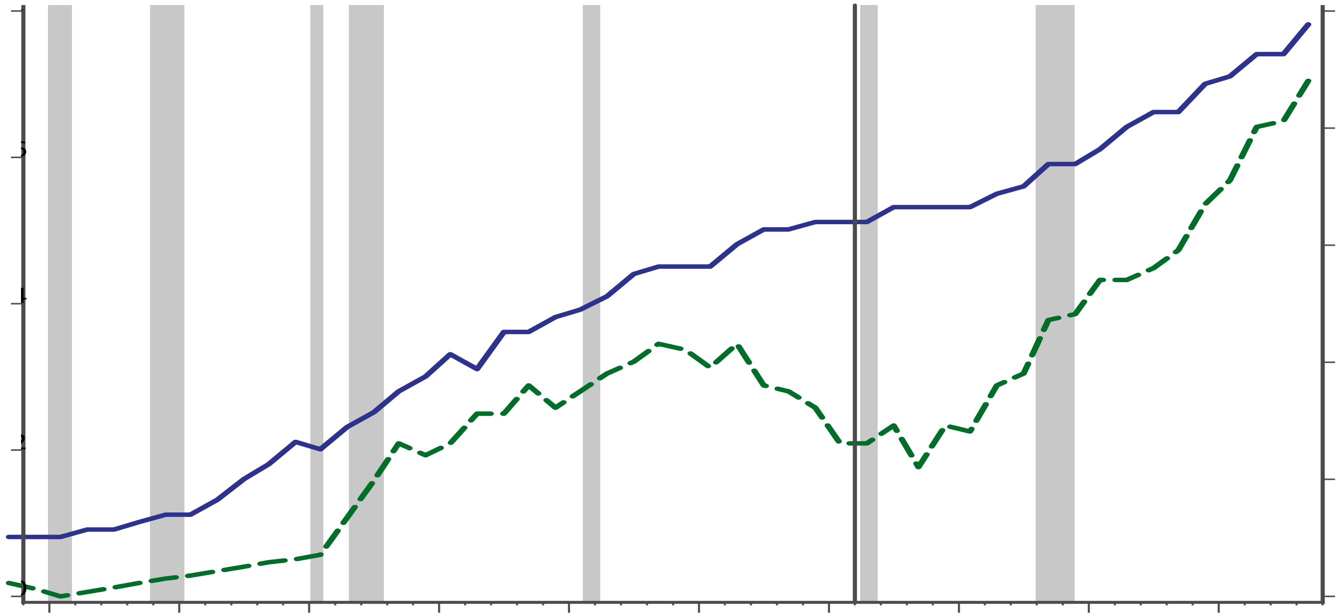
- Delinquencies are much higher for student loans, lower homeownership means less opportunity to build wealth

More Younger Households in Poverty, Fewer Older Households



- Debt isn't the only route to economic hardship, >10% of prime aged households in poverty.

Changes in Debt Likely Reflect Changing Opportunities and Behavior



- Less household formation, more intergenerational linkages

Conclusions

- Changes in debt and bankruptcy patterns suggest the elderly are in pretty good shape and systemic risk in the financial sector is low
- Has increased safety and soundness in the banking system exacerbated inequality?
- There seems to be a deepening generational divide in economic well being that will be the real retirement crisis, or make retirement an obsolete concept.