The Heritage Foundation

CONGRESSIONAL TESTIMONY

Testimony before the

Subcommittee on Consumer Protection and Financial Institutions

U.S. House of Representatives

March 11, 2021

Joel Griffith
Research Fellow in Financial Regulations
The Heritage Foundation

Thankyou Chairman Perlmutter, Ranking Member Luetkemeyer, and other members of the subcommittee for the opportunity to testify today. My name is Joel Griffith. I am a Research Fellow in Financial Regulations at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

This testimony will provide an overview of the economic conditions facing consumers in the wake of widespread shutdowns and restrictions imposed over the past year. This testimony will also briefly examine the counterproductive nature of some proposals offered ostensibly to benefit consumers.

Are American consumers "slipping through the cracks" throughout this pandemic? Without a doubt, many are still suffering from government-mandated closures and restrictions. Never before have state and local governments intentionally suppressed the supply of goods and services. Never before governments suppressed demand by prohibiting or severely restricting consumer activity. The historic plunge in economic output in the second quarter of 2020 of 33.1% annualized is a direct result of this government action.[1] Within months of these widespread shutdowns, more than 20 million jobs were lost. In April 2020, the U.S. unemployment rate reached 14.8 %, a full four points above the previous post-World War II high.[2] Hundreds of thousands of businesses closed forever, including more than 100,000 restaurants.[3]

The reopening of the economy spurred a robust recovery following this devastating

[1] The nation's economy in the second quarter of 2020 shrank at a 31.4% annualized rate. Personal consumption dropped at a 33.2% annualized rate. Consumption of personal services dropped 41.8% annualized. Table 1.1.1, Bureau of Economic Analysis,https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey (accessed February 24, 2021). By the middle of 2020, the economy had contracted by 10.2% from its peak. Federal Reserve Bank of St. Louis, Series GDP, https://fred.stlouisfed.org/series/GDP (accessed February 24, 2021).

[2] Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," https://data.bls.gov/timeseries/LNS14000000 (accessed February 13, 2021).

[3] "Restaurant Industry in Free Fall; 10,000 Close in Three Months," National Restaurant Association, December 7, 2020, https://restaurant.org/news/pressroom/press-releases/restaurant-industry-in-free-fall-10000-close-in (accessed February 24, 2021).

contraction. Nationally, economic growth in last year's third quarter smashed all prior records — growing at a stunning 33.4% annual pace.[4] Record growth occurred even as government transfer payments and Paycheck Protection Program expenditures dropped by 20% in the quarter.[5] The strong recovery of the third quarter along with continued—albeit slower-- growth in the fourth quarter closed more than two-thirds of the drop in output. Gross domestic product finished only slightly below 2019 levels at the end of 2020.[6] However, much damage remains. Although the unemployment rate fell by more than half between April 200 and October 2020, ending the year at 6.7 %,[7] 9.9 million fewer individuals are employed now compared to one year ago.[8]

Financial Conditions for Most Consumers Show Marked Improvement

Delinquency data on rental homes, mortgages, revolving debt, and automobiles indicate that consumer financial health has not deteriorated broadly this past year. In fact, for many, the financial outlook improved. An increase in credit scores overall reflects this surprising reality.[9]

Consumer credit delinquencies are near historic lows. Over the past year, the delinquency rate on consumer loans plunged from 2.44 % in the first quarter of 2020 to 1.84% in the third quarter of 2020. In fact, these delinquency rates are the lowest in more than thirty years of Federal Reserve data. Contrast this with the Great Recession when delinquency rates soared from just under 3.5% at the end of 2007 to 4.85% in the midst of the recession. This was this highest in more than 30 years of Federal Reserve data.[10] Delinquency rate on credit card debt plunged from 2.68 % in Q1 of 2020 to 2.0% in Q3 of 2020, a generational low. By contrast, credit card delinquency soared from 4.6% to 6.77% during the Great Recession.[11] The 30-day auto delinquencies rates in Q3 2020 were actually lower than the year before, dropping from 2.25% to just 1.56%.[12]

Rental delinquencies do not appear to have substantially increased since the start of this extended period of COVID-19 shutdowns. The latest Census Bureau Household Pulse Survey tracking the impact of COVID-19 on financial health indicates that 21 % of renters failed to pay rent in December.[13] This is up only slightly from the 18 % in the month of March 2020—just as the impact from the pandemic began.[14] Data from the National Multifamily Housing Council, which tracks

[4] U.S. Bureau of Economic Analysis, National Economic Accounts, Table 1, January 28, 2021, https://www.bea.gov/sites/default/files/2021-01/gdp4q20_adv.xlsx (accessed February 16, 2021).

[5] U.S. Bureau of Economic Analysis, Effects of Selected Federal Pandemic Response Programs on Personal Income, https://www.bea.gov/sites/default/files/2020-10/effects-of-selected-federal-pandemic-response-programs-on-personal-income-2020q3-adv.xlsx (accessed February 16, 2021).

[6] Federal Reserve Bank of St. Louis, Series GDP, https://fred.stlouisfed.org/series/GDP (accessed February 13, 2021).

[7] Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey."

[8] Federal Reserve Bank of St. Louis, Series PAYEMS, https://fred.stlouisfed.org/series/PAYEMS (accessed February 24, 2021).

[9] AnnaMaria Andriotis, "Coronavirus Tanked the Economy. Then Credit Scores Went Up," The Wall Street Journal, October 18, 2020, https://www.wsj.com/articles/coronavirus-tanked-the-economy-then-credit-scores-went-up-11603013402 (accessed March 9, 2021).

[10] Federal Reserve Bank of St. Louis, Series DRCLACBS, https://fred.stlouisfed.org/series/DRCLACBS (accessed March 9, 2021).

[11] Federal Reserve Bank of St. Louis, Series DRCCLACBS, https://fred.stlouisfed.org/series/DRCCLACBS (accessed March 9, 2021),

[12] "30- and 60-day delinquency rates improve in Q3 2020, as the automotive industry continues to rebound," Experian, https://www.experianplc.com/media/news/2020/30-and-60-day-delinquency-rates-improve-in-q3-2020-as-the-automotive-industry-continues-to-rebound/ (accessed March 10,2021).

[13] U.S. Census Bureau, "Week 22 Household Pulse Survey: January 6–January 18," January 27, 2021, https://www.census.gov/data/tables/2021/demo/hhp/hhp22.html (accessed February 13, 2021).

[14] U.S. Census Bureau, "Week 2 Household Pulse Survey: May 7–May 12," May 20, 2020, https://www.census.gov/data/tables/2020/demo/hhp/hhp2.html (accessed February 13, 2021).

more than 11 million professionally managed apartment units, likewise shows only a minimal deterioration in rental payments year over year.[15] In December, 93.8 % of units had made a rental payment by the end of the month. This was down just slightly from 95.9 % in December 2019, prior to the pandemic.

Mortgage delinquencies through the current crisis edged up only slightly from 2.38% to 2.79%. Contrast this to the Great Recession when mortgage delinquencies soared from 3.1% in Q4 of 2007 to 11.58% in Q1 of 2010.[16] The decline in delinquencies coincided with a surge in the savings rate last year. This reached an all-time high of 33.7% in April 2020. Savings rates soared as businesses closed their doors, leaving consumers with fewer options to spend their income. [17] In addition, the uncertainties posed by an economy reeling from the first ever widespread restrictions on basic social and commercial activity spurred households to retain more income as well in the form of savings. Also contributing to the rise in the savings rate over the past year were massive government transfer payments, including federal unemployment benefits which often exceeded income lost and multiple rounds of "stimulus" checks.

For those seeking credit, the credit markets continue to supply consumer and small business demand. Total consumer credit owned and securitized totaled $4.2 trillion in February 2020 before dipping slightly to $4.1 trillion in May 2020 as shutdowns reached their zenith. By January of 2021, consumer credit neared the all-time high of $4.2 trillion once again, down just 0.7 % from the pre-pandemic levels. This bottomed out in May 2020, just 3 months after the COVID-shutdown recession began February 2020).

Consumer credit is more widely available this recession than the Great Recession of 2007-2009. Total consumer credit owned and securitized did not bottom out until June 2010, 2 ½ years after the recession began.[18]
Although the number of subprime credit card accounts declined by 13.2% from Q3 of 2019 through Q3 of 2020, the number of subprime accounts is still 55% higher than just 5 years ago.[19] Another 18 million new subprime credit card accounts were opened in Q3 of 2020. Although this is down 22% from the year prior, this indicates continued credit availability.[20]

The elevated savings rate is reflected in the amount of credit card credit outstanding which plunged to under 4.5% of disposable income in Q2 of 2020, down from nearly 8% in the midst of the Great Recession more than 10 years ago.[21]

Overall, the financial situation of most consumers is far less precarious now than during the financial crisis. In fact, the data show many consumers are more financially secure now than before the pandemic began.[22]

---

[15] National Multifamily Housing Council, "NMHC Rent Payment Tracker," https://www.nmhc.org/research-insight/nmhc-rent-payment-tracker/ (accessed February 13, 2021).
[16] https://fred.stlouisfed.org/series/DRSFRMACBS (accessed March 9, 2021).
[17] Federal Reserve Bank of St. Louis, Series PSAVERT, https://fred.stlouisfed.org/series/PSAVERT (accessed March 9, 2021).
[18] Federal Reserve Bank of St. Louis, Series TOTALSL, https://fred.stlouisfed.org/series/TOTALSL (accessed March 9, 2021).
[19] American Bankers Association, Credit Card Market Monitor, February 2021, https://www.aba.com/-/media/documents/reports-and-surveys/2020-q3-credit-card-market-monitor.pdf?rev=614856cd60c3450f81f029d0d8585b17&hash=D2D878A05257E8FA459D002430CD2850 (accessed March 10, 2021).
[20] Ibid.
[21] Ibid.
[22] Small businesses likewise are being amply served by the credit markets. Most small businesses are saying they are generally not looking for more credit. Only 3% of respondents in a recent National Federation of Independent Business (NFIB) survey reported their borrowing needs were not satisfied. See William C. Dunkelberg and Holly Wade, NFIB Small Business Economic Trends, NFIB Research Center, December 2020, https://assets.nfib.com/nfibcom/SBET-Dec-2020.pdf (accessed February 23, 2021).

Positive National Data Contrasts Sharply with State Specific Data

This positive national financial data should be compared with state specific unemployment and economic output data. The economic misery from the shutdowns is concentrated geographically in those regions and sectors affected by continued onerous restrictions such as curfews, capacity limitations, onerous distancing guidelines, and full business closures.

The Federal Reserve State Coincident Indexes—an approximation of state GDP—vividly illustrates how variant the economic recovery is based on states.[23] This index suggests economic output at the end of 2020 was actually greater than pre-pandemic in Utah, Missouri, Idaho, Nebraska, Alaska, South Dakota, Mississippi, and Georgia—notably states without crushing, long-lasting shutdowns. The economies in Hawaii, Michigan, Rhode Island, Massachusetts all remain more than 10% smaller. Meanwhile, states like New York, Hawaii, and Illinois remain mired in severe recessions.

For instance, in El Centro, California, 17.7% are unemployed, Los Angeles suffers from 9.9% unemployment. Across New York City, draconian restrictions and an army of compliance officers continue to push tens of thousands of businesses out of business, resulting in 8.4% unemployment.[24]

Meanwhile, unemployment in numerous communities in Alabama, Idaho, Iowa, Nebraska, South Dakota, and Utah is at 3% or less. The statewide unemployment rate of under 4% in Alabama, Iowa, Kansas, Nebraska, South Dakota, Utah, and Vermont contrasts sharply with rates at least twice as high in California, Colorado, Connecticut, Hawaii, Illinois, Nevada, New York, and Rhode Island.[25] Overall, in December, the 10 states with the fewest restrictions in place[26] averaged 4.7 % unemployment—while the 10 states with the most restrictions averaged 7.1 % unemployment.[27]

Millions of those who do remain unemployed or financially underwater are not "slipping through the cracks" of our dynamic economy. Government authorities in select cities and states are pushing them off an economic cliff.

Enabling individuals and businesses to resume operations—as many states have already done—will yield full economic recovery. The historic economic rebound this summer proves that those properly informed of the actual risks of the virus and the appropriate mitigation measures are enthusiastically participating in this reopening.

Unfortunately, some are using the persistent economic troubles in parts of the nation to push through a wish-list of progressive policies which will stunt future economic growth and transfer more power to the federal government. This includes suspension of debt collection, creation of a government-run credit reporting bureau, suppression of credit reporting, and eviction moratoriums. Policy makers should consider the unintended consequences of these actions.

Denying Lenders the Ability to Enforce Contractual Obligations Harms Consumers

[23] Federal Reserve Bank of Philadelphia, State Coincident Indexes, https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/coincident/coincident-revised.xls (accessed February 16, 2021).
[24] U.S. Bureau of Labor Statistics, Unemployment Rates for Metropolitan Areas, preliminary for December 2020, https://www.bls.gov/web/metro/laummtrk.htm (accessed February 23, 2021).
[25] U.S. Bureau of Labor Statistics, Unemployment Rates for Metropolitan Areas, preliminary for December 2020, https://www.bls.gov/web/metro/laummtrk.htm (accessed February 23, 2021).
[26] Adam McCann, "States with the Fewest Coronavirus Restrictions," WalletHub, January 26, 2021, https://wallethub.com/edu/states-coronavirus-restrictions/73818 (accessed February 4, 2021).
[27] U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Data Series, December 2020, https://www.bls.gov/web/laus/laumstrk.htm (accessed February 4, 2021).

Proposals to suspend capitalization of interest, debt collection, repossession, or penalties related to nonpayment of debt during the "COVID-19 emergency" will incentivize some to default on obligations. Lenders will be forced to pass these costs on to others through higher interest rates. In addition, lenders may choose to tighten credit standards in response to this increased risk of default. This penalizes responsible consumers through higher interest rates and fewer credit options. In addition, small businesses which often rely on debt collection agencies to manage their uncollectible receivables will also be financially harmed. Without any government mandate, financial institutions are proactively working with customers in many instances to defer payments, alter payment plans, or reduce interest rates.

A Government-Run Credit Reporting Bureau Poses Additional Risks

A government-run credit reporting program has been proposed as an alternative to compete with the private credit reporting agencies.[28] Government access to private consumer information would be a prerequisite of such a reporting program. Security concerns would also arise with one government agency potentially holding troves of personal data.

Even if private credit scores were still an option, requiring lenders to use this score when available could incentivize consumers to opt-in especially if this score were perceived as more favorable to borrowers. Over time, regulations could conceivably require private lenders to make determinations utilizing this government score when available.

Some government-subsidized lending programs could even require use of this score in determining a loan or award. Isolated islands of nonparticipation will be overwhelmed.

A government-operated credit reporting system would exist to benefit political constituencies rather than to primarily assist lenders in determining risk. Politicians would be tempted to tweak the system in an effort to allocate credit in a more politically expedient manner. Decisions over credit allocation would increasingly be made according to the whims of politicians.

Impeding the Ability to Provide Complete and Accurate Credit Reporting

Impeding the ability to provide complete and accurate credit reporting decreases the predictive value of consumer credit ratings. This also threatens to undermine the safety and soundness of our financial system. Additionally, this could shrink the number of low-cost credit options for consumers as lenders. As explained by the Congressional Research Service, "If lenders view credit reports and scores as unreliable due to premature removal of negative information, they could increase downpayment requirements across the board for all credit applicants or reduce loan amounts. In short, lenders who are uncertain about data reliability might adopt stricter underwriting and lending policies."[29]

Moratoriums on evictions

Those efforts represent an abdication of a core government responsibilities; namely, enforcement of private contracts and protection of private property. Forcing property owners to provide free housing is a subtle form of expropriation of private property without just compensation. Politicians may enjoy a short-

[28] Amy Traub, Establish a Public Credit Registry, Dēmos, March 2019, https://www.demos.org/sites/default/files/2019-03/Credit%20Report_Full.pdf (accessed March 9, 2021).
[29] Cheryl R. Cooper and Darryl E. Getter, CRS Report R44125, "Consumer Credit Reporting, Credit Bureaus, Credit Scoring, and Related Policy Issues," Congressional Research Service, January 22, 2020, p. 11, https://fas.org/sgp/crs/misc/R44125.pdf (accessed March 9, 2021).

term boost in popularity from such measures. However, the unintended consequences are extensive. Initially, the decrease in cash flow affects the landlord only. However, as this persists, delayed maintenance and upgrades ensue.

Some landlords may delay their own mortgage payments, negatively affecting the owners of those mortgages—banks, credit unions, investors, institutional shareholders, and even taxpayers. As landlords postpone property tax payments, local schools, fire departments, law enforcement, and parks experience a decline in funding. Landlords will increase rents to mitigate the heightened risk of future moratoriums and to recoup revenue already lost. Prospective renters may find themselves subject to increased security deposits and tighter credit checks. Ultimately, fewer affordable housing units may be constructed.

The eviction and moratorium processes serve as a safeguard to protect the private property rights essential to ensuring an ample supply of safe, affordable housing.

Conclusion

Families across parts of the nation face economic hardship as a result of the myriad of COVID-19 restrictions enacted by state and local governments. Resolution requires governors and mayors to permit people once again to freely create, work, shop, and engage.

Using the economic misery persistent across portions of the nation as an excuse to advance a wish-list extreme proposals—including expanded government control over the financial system, credit allocation, and contractual obligations--will suppress economic growth far into the future.

Congress should instead focus on better positioning the United States to lead in the years to come. The Heritage Foundation's Coronavirus Commission articulates specific measures Congress can take, including the following: partnering with key strategic allies in Western Europe and the Indo-Pacific, removing barriers to free trade while simultaneously protecting intellectual property rights, and transitioning the temporary waivers and emergency exceptions in numerous sectors into permanent regulatory reform.[30]

[30] *Saving Lives and Livelihoods; Recommendations for Recovery*, National Coronavirus Recovery Commission, a project of The Heritage Foundation, June 10, 2020, http://thf_media.s3.amazonaws.com/2020/NCRC_FINAL.pdf (accessed March 9, 2021).

****

The Heritage Foundation is a public policy, research, and educational organization recognized as exempt under section 501(c)(3) of the Internal Revenue Code. It is privately supported and receives no funds from any government at any level, nor does it perform any government or other contract work.

The Heritage Foundation is the most broadly supported think tank in the United States. During 2017, it had hundreds of thousands of individual, foundation, and corporate supporters representing every state in the U.S. Its 2017 income came from the following sources:

Individuals 71%
Foundations 9%
Corporations 4%
Program revenue and other income 16%

The top five corporate givers provided The Heritage Foundation with 3.0 % of its 2017 income. The Heritage Foundation's books are audited annually by the national accounting firm of RSM US, LLP.

Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own and do not reflect an institutional position of The Heritage Foundation or its board of trustees.