CONSUMER FINANCIAL PROTECTION BUREAU | JULY 2021

The Recovery of Credit Applications to Pre-Pandemic Levels

CFPB Office of Research Special Issue Brief

Consumer Financial Protection Bureau

1. Introduction

The pandemic brought about a substantial drop in credit applications compared to the usual pre-pandemic year, especially in the very beginning, as we reported in a May 2020 report and in a December 2020 blog update.[1] In this current report, we extend the credit applications series further and document that credit applications mostly recovered to pre-pandemic levels for all credit types considered by May 2021. Despite recovery for all types of credit, the path to recovery has been very different across types of credit. After a large drop in March 2020, auto loan applications recovered most of their initial drop by late May 2020, stayed somewhat sluggish through the Fall 2020, and recovered close to their usual level by the beginning of 2021. In contrast, credit card applications stayed depressed much longer after their initial decline. They were still 30 percent below pre-pandemic levels in September 2020 and the pre-holiday boost in applications was more modest than in a usual year. Nevertheless, by the spring of 2021, credit card applications were also back to pre-pandemic levels. As we documented earlier, after an initial dip, applications for new mortgages were above their usual levels in pre-pandemic years and this has continued through May 2021.

When a consumer applies for new credit to purchase a car or a home or for a new credit card account, most lenders will seek information about the consumer from a nationwide consumer reporting agency. This is often referred to as a “hard inquiry.” Inquiries typically appear almost immediately in credit record data when a consumer’s credit report is pulled. Changes in hard inquiries may represent a change in credit demand as consumers change their purchases or credit seeking behavior, or change their expectations as to whether they will be approved for credit. Changes in hard inquiries may also represent a change in credit supply as creditors change the terms of credit, their advertisements, or their credit offers.

Beyond documenting trends in credit applications by type of credit, we also examine trends within credit score groups and across states. Despite the overall trend towards a recovery, we find that consumers with deep subprime and subprime scores still have not recovered to their pre-pandemic levels, likely in part due to a tightening of credit for these consumers. At the same time, the auto loan and credit card applications of consumers with super prime scores also did not fully recover to their pre-pandemic level, likely due to depressed demand for these types of credit among these consumers. In terms of variation in credit applications across states, changes in auto loan and new mortgage applications were quite varied across the states while changes in credit card applications were rather uniform across the states.

[1] Report prepared by Éva Nagypál, Ph.D in the Office of Research.

2. Data

As in our original May 2020 report, we use the Bureau's Consumer Credit Panel (CCP), a longitudinal 1-in-48 sample of de-identified credit records from one of the three nationwide consumer reporting agencies. The sample includes approximately five million credit records representing the universe of approximately 240 million credit records. After the end of each month, the CFPB receives updated credit records for all sampled credit records, if available.

The records include information about the credit accounts included in each consumer's credit record (such as auto loans, mortgages, credit cards, student loans, and other bank installment loans). Also included is information about any credit record inquiries made by lenders in response to an application for credit, and details on non-credit-related debts. In addition, the CFPB receives de-identified information on the borrowers in the panel on a quarterly basis, including geography (census tract), credit score, and birth year information.

We focus on hard inquiries for auto loans, new mortgages,[2] revolving credit cards, and inquiries that either fall into smaller categories[3] or do not contain enough information to determine their exact nature (unspecified and other inquiries).[4] These four types of inquiries made up 86.5 percent of all inquiries in the month of March in 2013 through 2019.[5]

To accommodate the longer time period covered in this update, we make two changes to our methodology compared to our earlier work. First, we explicitly compare the inquiry trend during the pandemic to that during the pre-pandemic years as opposed to using the pre-pandemic years to normalize the pandemic observations and reporting the relative trend. This allows for depicting seasonal variation in both series, which is more important to show given that here we are using 15 months of data.[6] Second, we use a consumer's most recent credit score available to categorize an inquiry rather the consumer's score in December 2019 as we did before. We do this for two reasons. First, with the longer time period, changes in credit score become more

[2] As before, a mortgage inquiry is categorized as new if the consumer does not have an open mortgage tradeline already. These inquiries are likely to correspond to purchase mortgage inquiries, though they do not capture all purchase mortgages since many home purchases are by people who hold a mortgage on their existing home.

[3] These include personal installment and revolving loans, and some other small categories.

[4] These are inquiries where there is not enough information in the credit record to determine the type of inquiry. For example, the most common combinations that are categorized as unspecified have an unknown account type and have a business category related to unspecific banking or finance.

[5] Replacement mortgage inquiries make up another 7.3 percent. The remaining 6.1 percent of inquiries are made up of student loan inquiries, of which there are very few in March, business loan inquiries, collection inquiries, and inquiries not related to credit extension, such as for the purpose of screening tenants.

[6] In the original report we used 1 month of data while in the December update we used little over 6 months of data.

likely. Second, with more time passing since December 2019, more and more inquiries are generated by consumers without a score in December 2019. As we explain in the section on credit scores, this change has a non-negligible effect on the reported time patterns. With regards to additional details on methodology, the original report contains these.

3. Analysis by credit type

Figure 1 shows the evolution of auto loan inquiries during the pandemic and in the pre-pandemic years of 2013-2019. Inquiries are shown as an index that takes on the value of 100 during the first week of March 2020 and the index is extended past 52 weeks (to the 64 weeks covered by the pandemic data) assuming that the same pre-pandemic seasonal changes take place as in the year before. Auto loan inquiries experienced a drop of 52 percent by the end of March against the usual drop of just over 1 percent usual for this period. Auto loan inquiries recovered starting in mid-April and by the week ending June 19 they were 8 percent below their early March level compared to being 5 percent below as in the pre-pandemic years. The recovery stalled, however, in the summer. By the week ending August 28, auto loan inquiries were 15 percent below their early March level compared to being 8 percent above as in earlier years. Finally, it was in early January – after experiencing their usual pre-Thanksgiving lull and holiday drop – when auto loan inquiries returned to their usual pre-pandemic trend and stayed there not withstanding some week-to-week variation. There was a notable spike in inquiries the week ending March 19, 2021, coinciding with the direct deposit of the American Rescue Plan Act stimulus payments starting on March 12.

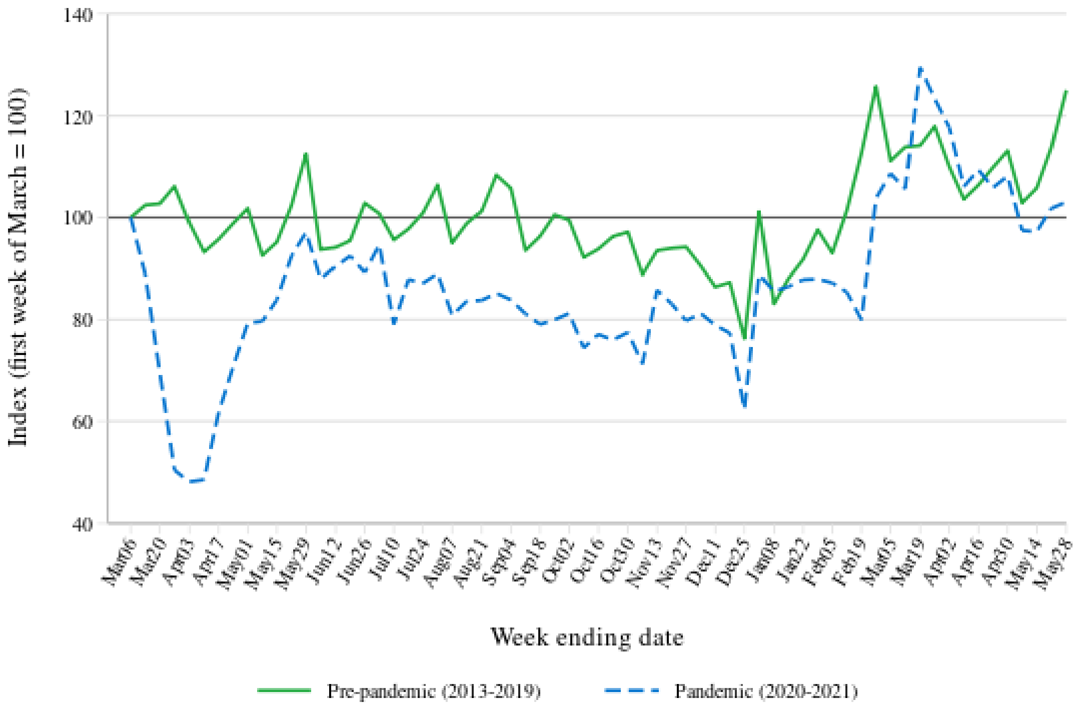

Figure 1: Auto loan inquiries' evolution during the pandemic and in pre-pandemic years (using an index that is set to 100 during the first week of March 2020)

Figure 2 shows the evolution of new mortgage loan inquiries during the pandemic and in the pre-pandemic years of 2013-2019. As we documented already, new mortgage inquiries experienced a smaller drop initially than other types of inquiries. By May 2020, the volume of new mortgage inquiries showed a pronounced recovery. Subsequently, new mortgage inquiries showed the same seasonal patterns as in prior years (dropping substantially around holidays, especially around Thanksgiving and Christmas) but they consistently exceeded their usual volume by 10 to 30 percent. This reflects the unusually high activity in the mortgage market throughout the pandemic.

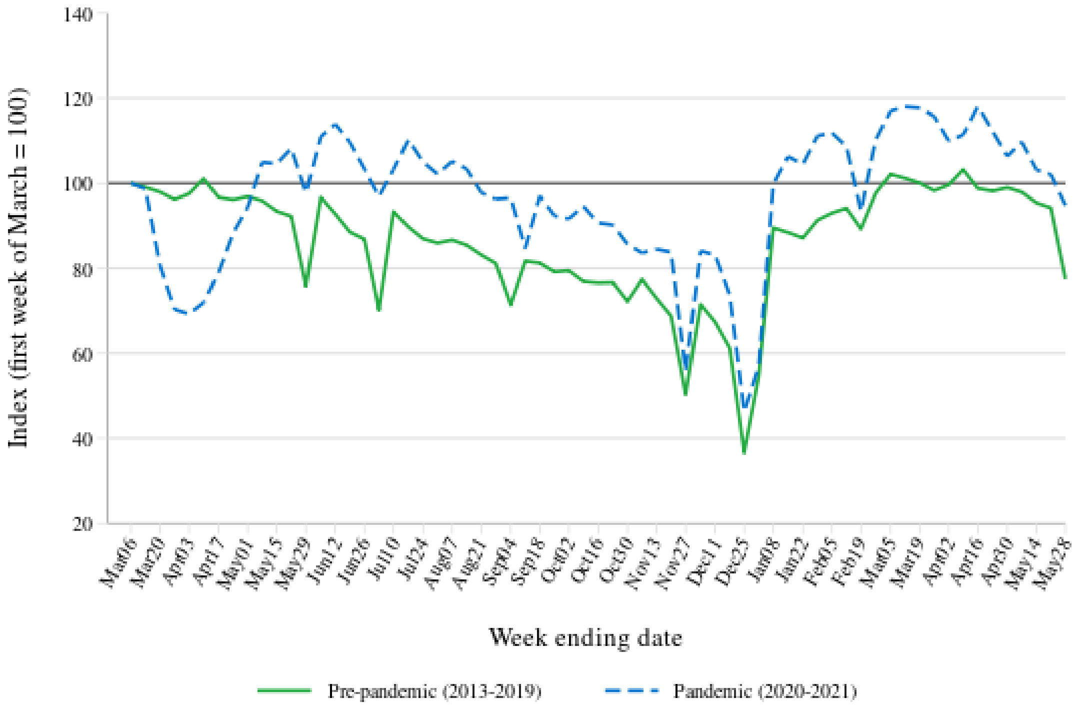

Figure 2: New mortgage inquiries' evolution during the pandemic and in pre-pandemic years (using an index that is set to 100 during the first week of March 2020)

As we showed before, unlike auto loan or new mortgage inquiries, revolving credit card inquiries did not recover much after March 2020. They were 46 percent below their early March level by the week ending June 5 compared to being 6 percent above as in the pre-pandemic years. After some signs of recovery in early August, by the week ending September 4, they were 31 percent below their early March level compared to being at about that level in earlier years. As can be seen in Figure 3, credit card applications usually experience a pre-holiday boost for four to five weeks, which was less pronounced during the pandemic. Finally, in March 2021, the level of credit card inquiries reached back to its usual levels. They have stayed at these usual levels between March and May 2021, indicating that the recovery was unlikely to be only a response to the March stimulus payments.[7]

[7] As we documented in our December update, the CARES Act stimulus payments led to a temporary increase in credit applications in the spring of 2020, but this temporary increase was much more short-lived than the recovery during the spring of 2021. This suggests that the latter is unlikely to be driven only by the American Rescue Plan stimulus payments.

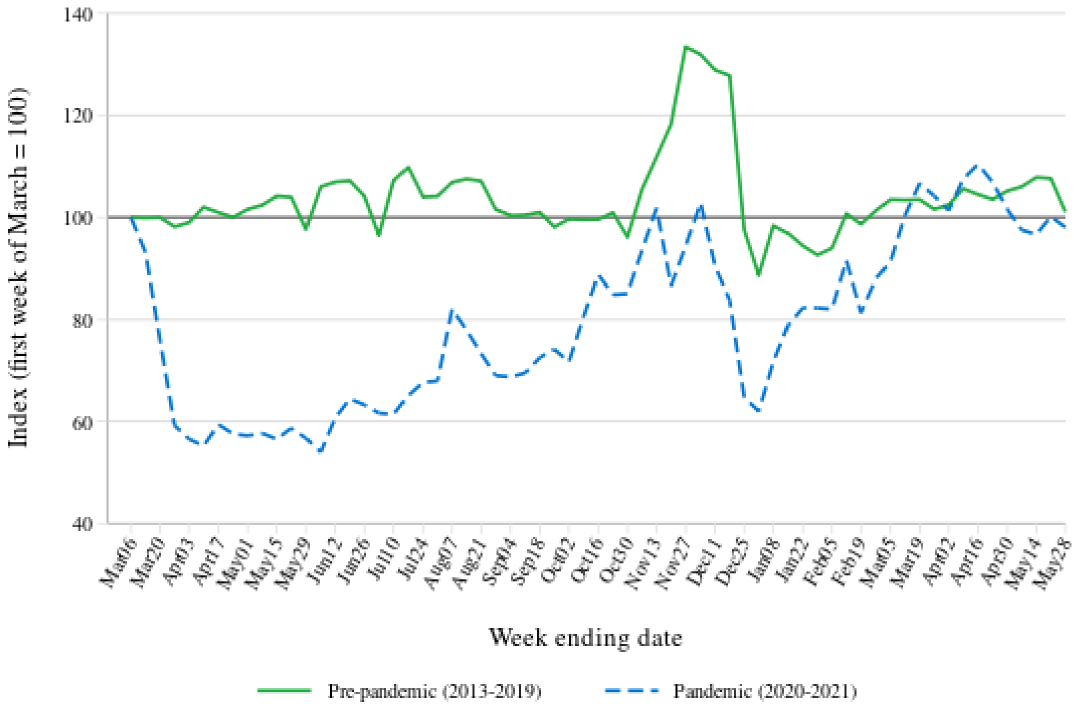

Figure 3: Credit card inquiries' evolution during the pandemic and in pre-pandemic years (using an index that is set to 100 during the first week of March 2020)

Finally, trends among unspecified and other inquiries were quite comparable to those among credit card inquiries, with more of a partial recovery following the initial large drop in inquiries, and a return to usual levels only in March 2021.

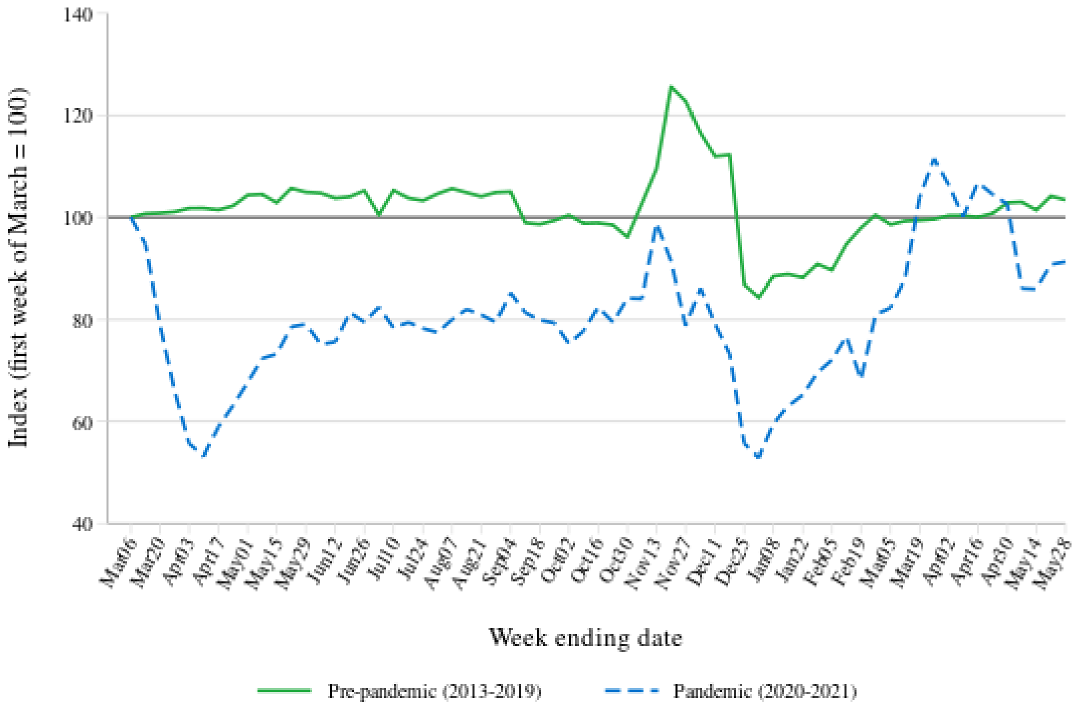

Figure 4: Unspecified and other inquiries' evolution during the pandemic and in pre-pandemic years (using an index that is set to 100 during the first week of March 2020)

4. Analysis by credit score

Next, we examine the patterns in more detail by credit score. We use VantageScore, a credit score that was developed by the three nationwide consumer reporting agencies, as our measure of a consumer's creditworthiness and define credit score groups as deep subprime (score below 500), subprime (score between 500 and 600), near prime (score between 601 and 660), prime (score between 661 and 780), and super prime (score above 780). As explained above, we use a consumer's most recent credit score available to categorize an inquiry rather the consumer's score in December 2019 as in our original report. Overall, this implies larger divergence between the trends of various score groups as changes in scores for individual consumers (which typically represent reversion to the mean) do not attenuate the group differences.

Figure 5 shows the percentage change in auto loan inquiries by week across the above credit score groups relative to the first week of March 2020, adjusted using pre-pandemic seasonal trends. As documented earlier, consumers with super prime scores experienced the largest drop initially (likely due to more flexibility in adjusting their demand). Subsequently, however, it was consumers with deep subprime scores who experienced the largest decline in auto loan inquiries compared to prior years, followed by consumers with subprime scores. Consumers with near prime and prime scores recovered their auto loan inquiry activity to their usual level by the summer of 2020, while consumers with super prime scores continued to have 20 percent fewer auto loan inquiries following their large initial drop. The latter trend is likely explained by lower demand from such consumers, for example due to having more of an opportunity to work from home.[8] As far as the spike in inquiries that coincides with the American Rescue Plan Act stimulus payments, this is mostly coming from consumers with deep subprime, subprime, and near prime scores.

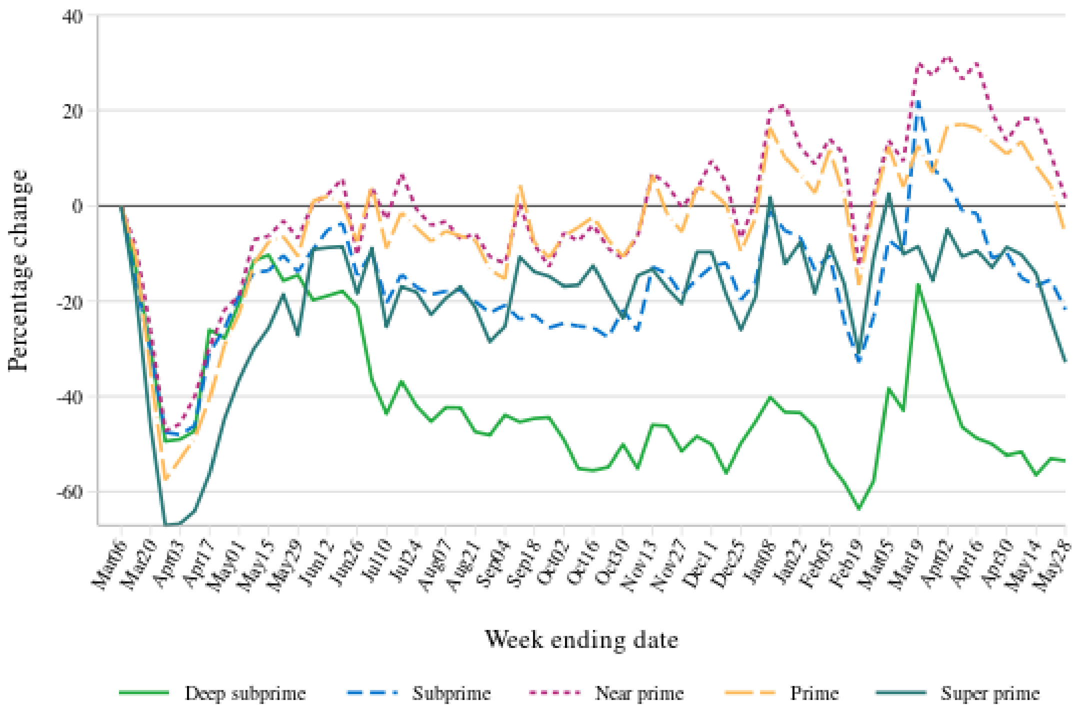

Figure 5: Percentage change in auto loan inquiries relative to the first week of March by week by credit score group (adjusted using pre-pandemic seasonal trends)

Figure 6 shows the percentage change in new mortgage inquiries by week across the above credit score groups relative to the first week of March 2020, adjusted using pre-pandemic seasonal trends. The figure shows that the higher new mortgage activity that started in May 2020 is primarily accounted for by consumers with super prime, prime, and near prime scores.

[8] Changes in the supply of credit are unlikely to explain the observed patterns as it would be contrary to the commonly observed flight to quality for creditors to cut credit supply the most to consumers with the highest creditworthiness.

Consumers with subprime scores, and especially those with deep subprime scores did not share in this higher inquiry activity, in fact, their inquiry volumes are below their usual level as of May 2021. (Note, however, that consumers with deep subprime and subprime scores are less likely to have new mortgage inquiries than consumers with higher credit scores as they account for 2.8 and 18.6 percent of new mortgage inquiries while accounting for 4.5 percent and 21.2 percent of consumers in our sample, respectively.)

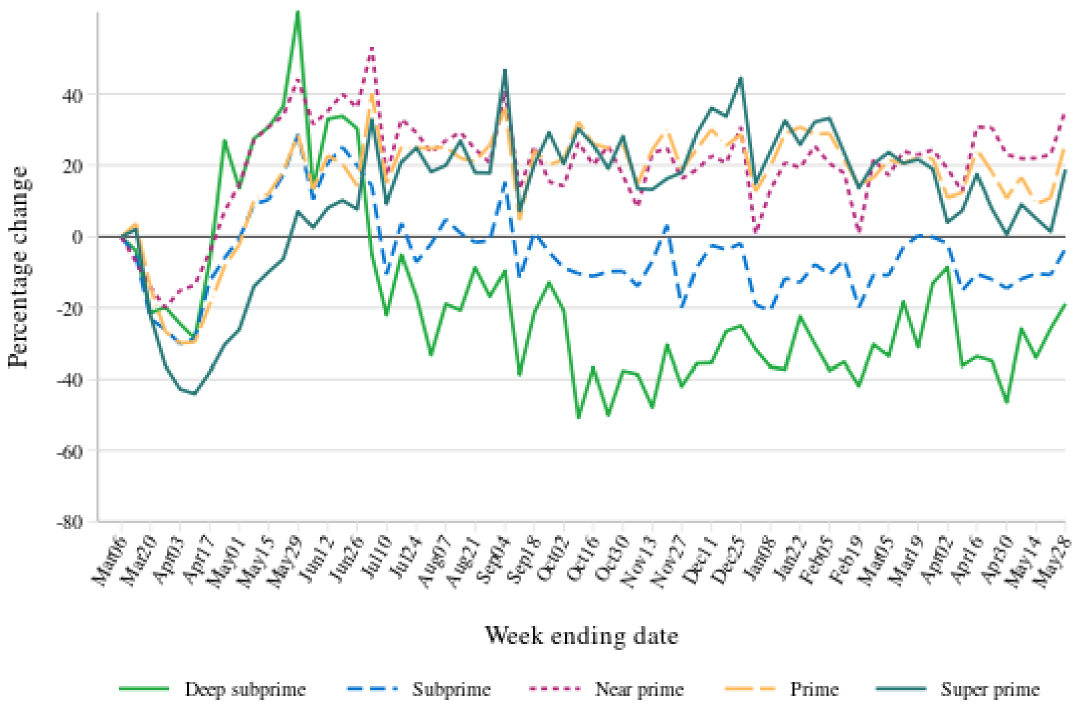

Figure 6: Percentage change in new mortgage inquiries relative to the first week of March by week by credit score group (adjusted using pre-pandemic seasonal trends)

Figure 7 shows the percentage change in revolving credit card inquiries by week across the above credit score groups relative to the first week of March 2020, adjusted using pre-pandemic seasonal trends.

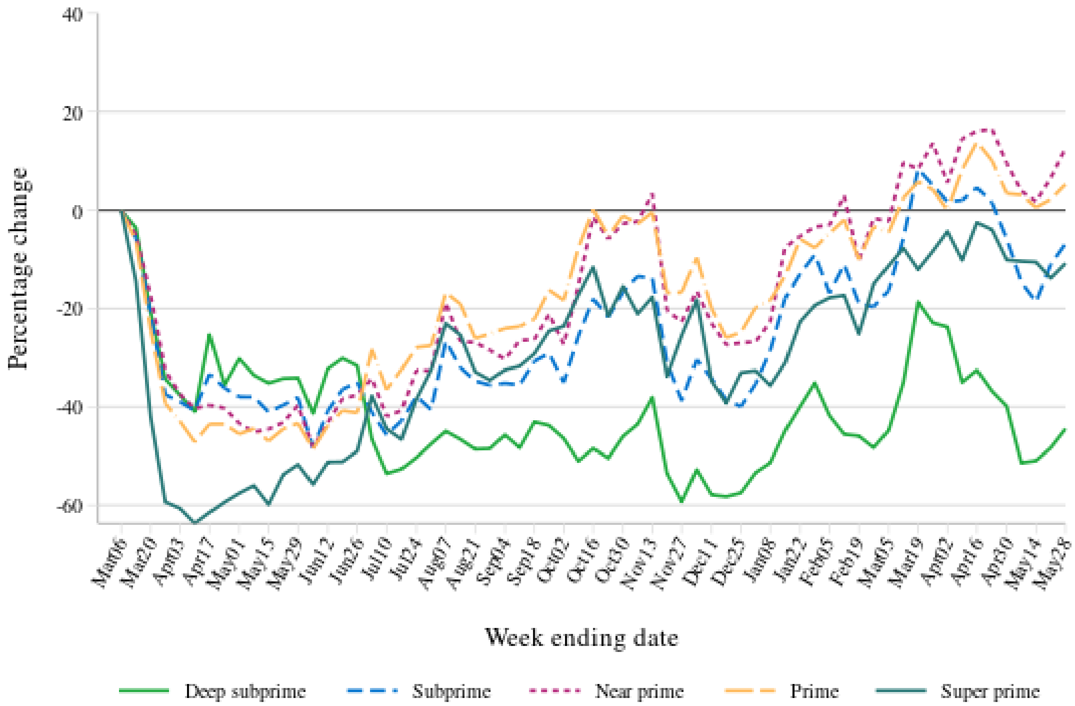

Figure 7: Percentage change in revolving credit card inquiries relative to the first week of March by week by credit score group (adjusted using pre-pandemic seasonal trends)

The patterns are broadly similar to those for auto loan inquiries. Consumers with super prime scores experienced the largest initial drop and then had inquiry levels below pre-pandemic trends, most likely due to a decline in their demand. At the other end of the score range, consumers with deep subprime scores experienced the largest long-term decline and have yet to recover to pre-pandemic levels.

5. Variation across states

Lastly, we examine variation in the effect of the pandemic on credit applications across states. For this purpose, we compare the volume of the different type of inquiries between 2019, the year before the pandemic (defined as March 2019 through February 2020), and 2020, the first year of the pandemic (defined as March 2020 through February 2021). For each state, we calculate and map the percentage change between the two years.

Figure 8 shows that despite the mild national downturn and despite seven states (Connecticut, Illinois, Massachusetts, New Jersey, New Mexico, Pennsylvania, Rhode Island) experiencing more than a 10 percent decrease in auto loan inquiries, four states (Arkansas, North Dakota, Oregon, and Utah) experienced more than a 10 percent increase in auto loan inquiries.

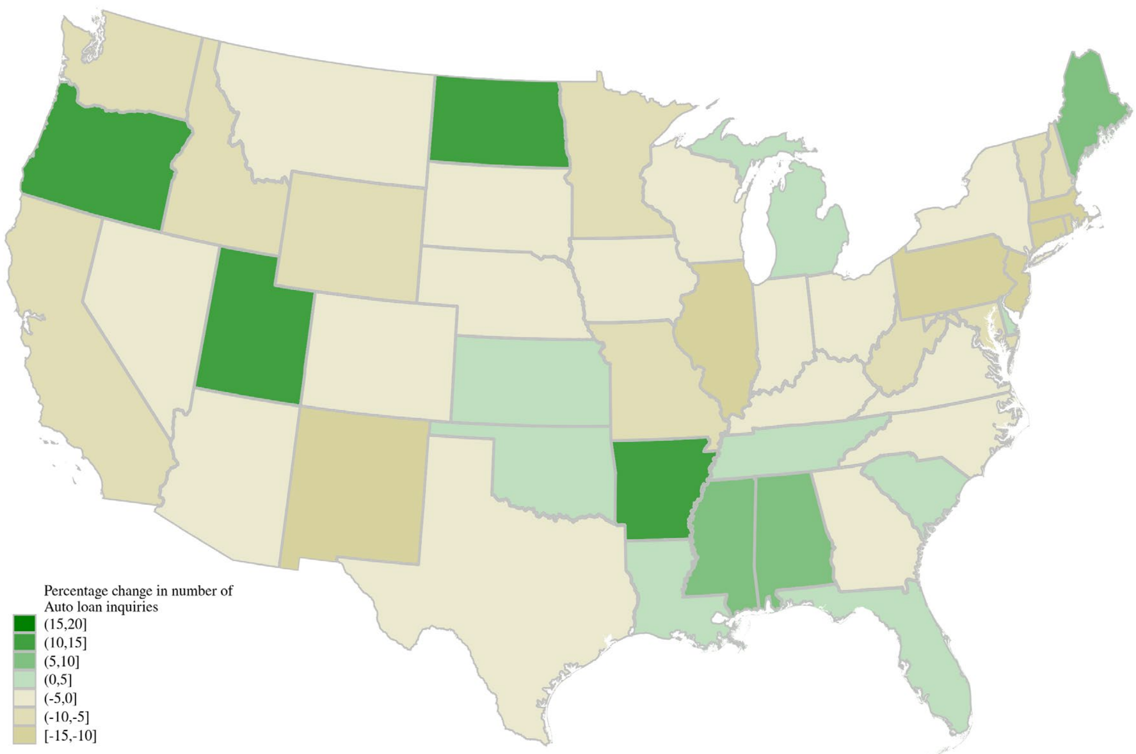

Figure 8: Percentage change in auto loan inquiries between 2019 and 2020 across states (year covering March to next February)

Figure 9 shows that the increase in new mortgage inquiries was experienced in every state but to a different extent, with South Dakota experiencing the largest increase at 40 percent and Nevada experiencing the smallest increase at 10.8 percent.

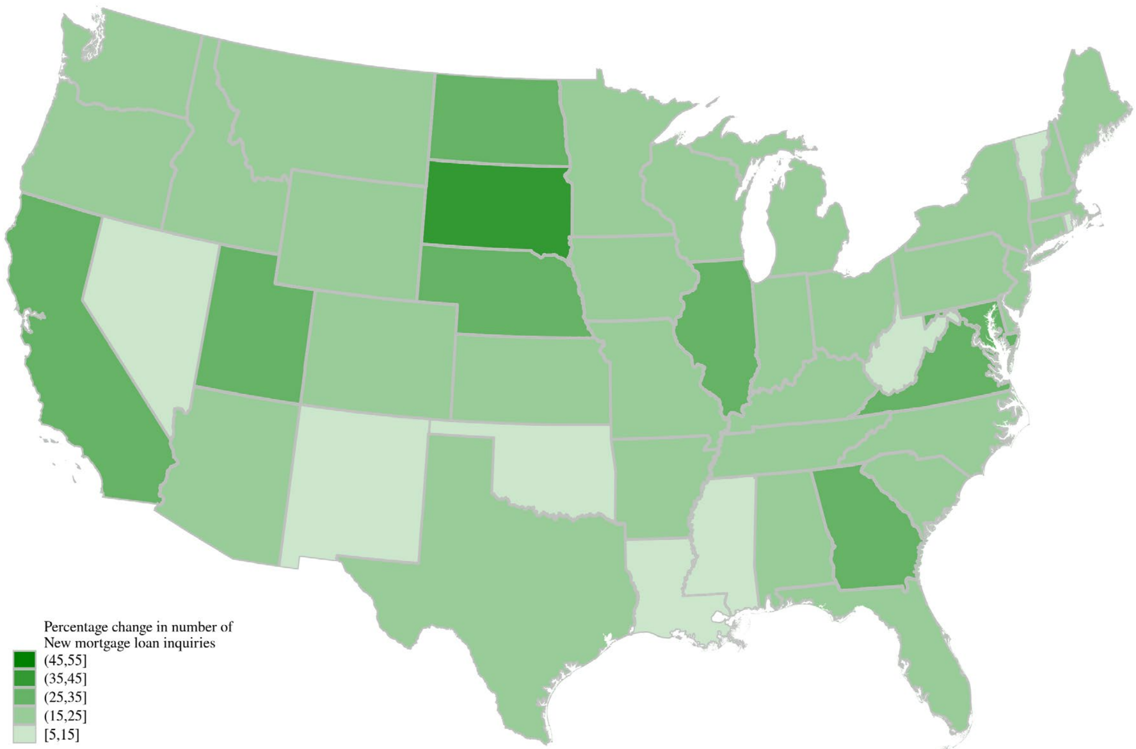

Figure 9: Percentage change in new mortgage inquiries between 2019 and 2020 across states (year covering March to next February)

There was less geographic variation in the decline in credit card inquiries as shown in Figure 10, with North Dakota experiencing the largest decline at 33.1 percent and Wyoming experiencing the smallest decline at 20.8 percent.

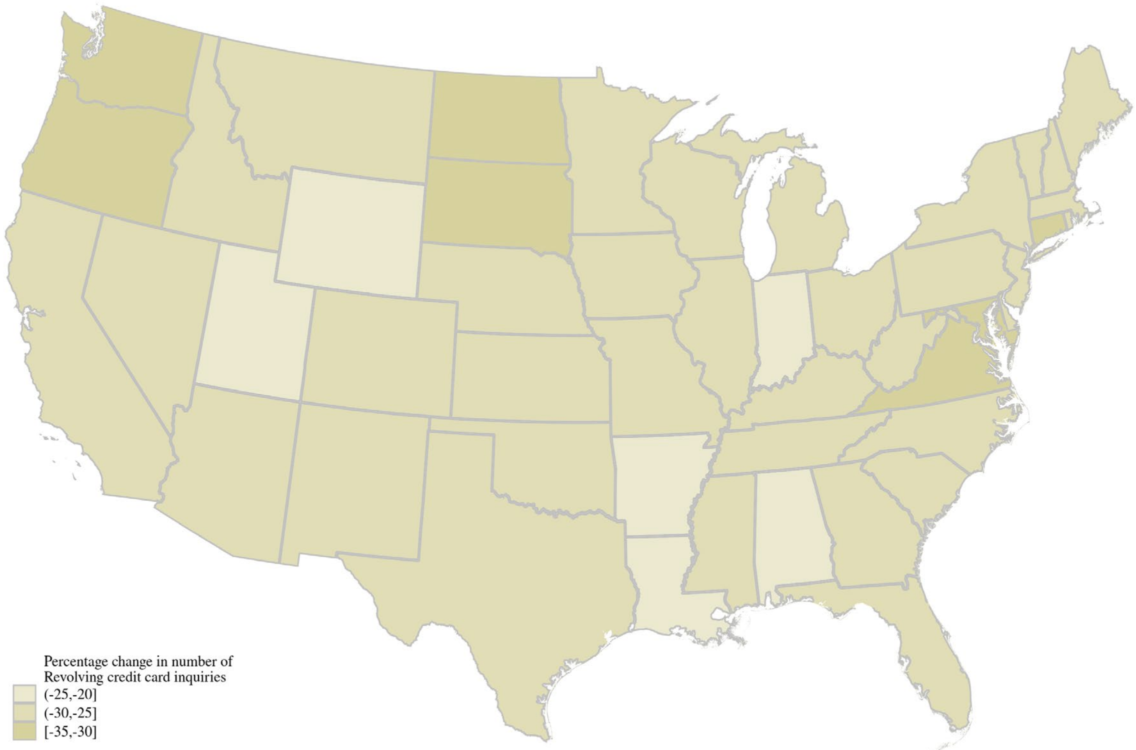

Figure 10: Percentage change in credit card inquiries between 2019 and 2020 across states (year covering March to next February)