New Study Traces Unprecedented Use of Short-Term Payment Relief During the Pandemic to Assist Consumers Struggling with Credit Card Debts

FinRegLab and National Foundation for Credit Counseling Research Focuses on Financial Shock Recovery

WASHINGTON, D.C., January 19, 2023 – A new study finds that more consumers obtained short-term payment relief on their credit cards during the first 18 months of the pandemic than on any other type of loan except student debt, where forbearances were mandated by federal law. The study also finds evidence that pandemic relief initiatives may have reduced damage to the credit reports of consumers who sought long-term assistance through credit counseling and debt management programs.

Debt Management Insights for Distressed Borrowers: Credit Counseling and Lender Forbearances Post-COVID is the first major empirical analysis to focus primarily on consumers struggling with unsecured debts during the pandemic, and will be followed by additional research to explore the impact of unprecedented short-term relief programs on long-term recovery. Issued by FinRegLab in collaboration with researchers at Charles River Associates and The Ohio State University, the study uses data from the National Foundation for Credit Counseling (NFCC) and Experian to analyze consumers who obtained loan forbearances, sought credit counseling from non-profit agencies, and enrolled in “debt management plans” (DMPs) to repay multiple unsecured loans over several years.

The study’s analysis of a nationally representative sample of credit bureau data finds that more consumers were able to defer payments on at least one credit card account than on any other type of credit except student loans, where most accounts received automatic forbearances under federal law. The card forbearances may have had the most impact in the second quarter of 2020 while other relief programs were still launching, though most had ended by early 2021.

The study also finds that average quarterly credit counseling volumes dropped by about 30 percent in the last three quarters of 2020 and an additional 10 percent in first three quarters of 2021. Black and Hispanic consumers made up a larger proportion of the counseled population during the pandemic era, increasing to 23 percent and 14 percent, respectively.

Consumers who sought counseling during the pandemic differed significantly from consumers who sought counseling in 2017 through early 2020. For example, consumers who sought counseling after March 2020 were more likely to have experienced income and job losses, yet were less likely to have experienced delinquencies and had higher credit scores than earlier cohorts.

“Our findings raise important questions about how short-term relief programs can help households both manage immediate shocks and bridge into long-term assistance where needed,” says FinRegLab CEO Melissa Koide. “Securing assistance before household finances deteriorate substantially can potentially increase the speed and breadth of financial recovery.”

“Providing tailored financial counseling to consumers in crisis has been our focus for more than seventy years, and these findings underscore the importance of that mission,” says Mike Croxson, NFCC CEO. “They also emphasize the need to expand financial coaching and access to tools that can help consumers build financial resiliency to better help them weather large scale economic downturns as well as life event financial crises.”

Focus on Credit Card Forbearances

Most studies of borrower relief during the pandemic have focused primarily on mortgage forbearances, which lasted up to 18 months under federal programs and typically accounted for at least a third of households’ monthly budgets. Yet about half of lower income consumers and Black and Hispanic households rent their homes, so they were not eligible for those forbearances. The new study finds:

- Nationwide, more than 11 percent of consumers obtained at least one credit card forbearance, compared to only about 2.3 percent of consumers who obtained mortgage forbearances and even smaller percentages for auto and personal finance loans. Excluding student loans, only about 1.4 percent of consumers obtained forbearances on multiple types of loans.
- Prior to the pandemic, the consumers who went on to obtain credit card forbearances after March 2020 tended to have higher debt loads across multiple loan types and slightly lower credit scores than consumers who did not go on to obtain forbearances, although they were also less likely to have account delinquencies. This pattern may reflect the fact that some lenders did not offer forbearances to consumers who were already delinquent in 2020, although they may have offered other relief. It could also reflect differences in how particular consumers decided which types of loans and which individual accounts to prioritize in seeking forbearances.
- Consistent with greater financial distress, consumers who sought counseling were much more likely to obtain pandemic forbearances than the general population. For example, counseled consumers were almost three times as likely to obtain card forbearances and six times as likely to obtain forbearances on multiple types of non-student loans than the national sample.
- Among the counseled population, consumers who did not obtain card forbearances tended to have a longer track record of chronic delinquencies, while consumers who obtained forbearances had some evidence of having experienced shocks that caused rapid shifts in their credit report metrics. This may explain both why they obtained forbearances and why they tended to have more delinquencies and charge offs over 2020 and 2021.
- While the results suggest that the short-term relief was not enough for recipients to stabilize their finances completely, counseled populations during the pandemic were substantially less likely to have experienced delinquencies and charge offs and had higher average credit scores than consumers counseled prior to the pandemic. Relief programs such as forbearances and unemployment insurance may have helped reduce damage to their credit reports.

Future research may explore how consumers prioritized among loan types and accounts when seeking forbearances, the effect of lender policies on consumer outcomes, and transition processes and programs as forbearances ended. The project will also analyze whether consumers who were able to obtain counseling and enroll in DMPs with stronger credit records experience faster recoveries.

Broader research project

For millions of Americans, unmanageable credit card and loan balances can become barriers to financial stability and personal savings growth. These circumstances disproportionately impact households of color, compounding racial wealth gaps. Despite more than a decade of policy and research focus on mortgage and student loan repayment solutions, less public attention has been paid to options for families struggling with unsecured credit.

The new study is the first phase of a longer project that will evaluate alternative repayment plan structures and data and technology pilot initiatives by nonprofit counseling agencies as a springboard for considering broader market and policy changes. The study also includes a profile of consumers who are enrolling a longer-term “less than full balance” pilot program that helps consumers resolve multiple severely delinquent debts at the same time.

Additional information about the broader project is available in the October 2022 FinRegLab report, Debt Resolution Options: Market & Policy Context.

About FinRegLab

FinRegLab is an independent, nonprofit research organization that conducts research and experiments with new technologies and data to drive the financial sector toward a responsible and inclusive marketplace. We also facilitate discourse across the financial ecosystem to inform public policy and market practices. For more information about FinRegLab visit finreglab.org or contact us at contact@finreglab.org.

About the National Foundation for Credit Counseling

Dedicated to educating Americans about how to reduce personal or household debt responsibly, the National Foundation for Credit Counseling is a trusted, nationwide resource for education and support in building financial management skills. Through its network of nonprofit agencies and certified counselors, the NFCC offers impactful approaches to debt reduction and improved credit standing, whether consumers are struggling with credit card debt, decisions about housing, or student loans. For more information about the NFCC or to be connected to a certified counselor, please call 800-388-2227 or visit www.nfcc.org.

Support for the Research

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