**Debt Management Insights for Distressed Borrowers:
Bridging from Emergency Programs to Long-Term Payment Plans**

Research Highlights Benefits of Combining Short Term Payment Relief with Longer Term Assistance Plans for the Most Vulnerable of Consumers Struggling with Credit Card Debt

FinRegLab and researchers from The Ohio State University (OSU) analyzed the potential benefits of combining short-term forbearance programs and long-term debt management plans (DMPs) during the COVID-19 pandemic using data from the National Foundation for Credit Counseling and Experian. Focusing on consumers who were struggling to manage credit card debt, the resulting research paper underscores the importance of evaluating whether the most vulnerable and distressed borrowers need longer-term repayment plans soon after they first enroll in natural disaster or other emergency relief programs with credit card lenders.

The paper finds that forbearance recipients who enrolled in DMPs were roughly 35 to 65 percent less likely to experience defaults and charge offs on their forborne accounts than similar profile vulnerable and distressed consumers who did not participate in DMPs. Moreover, consumers who enrolled in DMPs five to six months after the end of their forbearances had higher levels of delinquency than those who enrolled earlier. This suggests that there is a relatively short window to transition still-distressed borrowers to longer-term programs before their finances deteriorate further.

As credit card lenders consider the lessons learned from the pandemic in structuring emergency relief programs going forward, the research underscores the importance of building early assessment and transition programs to help more severely distressed and vulnerable borrowers. While not having to make minimum payments can provide some initial breathing space to households, consumers with larger and more expensive card balances are more likely to need longer and more substantial support to stabilize their finances after major shocks.

Examining Credit Card Debt Through the Lens of Financial Inclusion

While studies that have focused on the effects of lenders' pandemic-era relief programs have tended to focus most intensely on mortgage forbearances, about half of lower income consumers and Black and Hispanic households rent their homes (U.S. Census Bureau, 2022). This research focuses on credit card programs to better understand the effects of the pandemic on populations that tend to be disproportionately impacted by economic hardships and to foster the improvement of short-term and long-term assistance programs going forward.

Focus on the Most Vulnerable and Distressed Consumers

Because a substantial number of borrowers with relatively large incomes and high credit scores obtained card forbearances during the pandemic, the study separately analyzed the outcomes for consumers in the national sample of credit bureau records who were particularly vulnerable and for consumers who sought advice from nonprofit credit counseling agencies during the pandemic. Defined as borrowers who *both* had credit scores below 660 and credit card debt of $8,000 or more, the most vulnerable consumers were more likely to experience post-forbearance delinquencies and charge offs than forbearance recipients nationally.

Consumers Who Sought Credit Counseling Without DMP Enrollment

Consumers who sought credit counseling during the pandemic but did not enroll in DMPs tended to experience even higher levels of post-forbearance delinquencies and charge offs than the vulnerable consumers in the national sample. This may indicate that they experienced more severe shocks in early

2020 that prompted them to seek additional help beyond the short-term forbearances. The study also found that this group of consumers were as much as five times more likely to experience delinquencies and charge offs after forbearance on their credit cards ended compared to forbearance recipients in the national sample overall.

Limited Access to Debt Management Plans

Among longer term options offered by lenders and others, debt management plans that are administered by nonprofit credit counseling agencies often provide significant interest rate reductions and a structure for paying down balances across multiple credit card lenders. However, as many as half of consumers seeking credit counseling do not qualify for DMPs because their finances are too damaged, while other consumers may not be aware of the existence of DMPs as an option.

Key Considerations

The research focuses on lessons learned during the COVID-19 pandemic as informative for credit card lenders as they consider how to structure emergency relief programs going forward. Specifically, the research findings have three primary implications for program design:

- Consumers who enter lenders' temporary payment hardship programs are not all the same, and households that are already vulnerable or experiencing distress prior to a financial shock are likely to need more help. Our findings suggest that consumers with large credit card balances (where balances are constructed across multiple accounts) and with marginal credit scores (less than 660) prior to obtaining temporary payment relief are more likely to benefit from deeper interventions.

- Evaluating particularly vulnerable and distressed consumers to determine whether long-term relief would be appropriate may be beneficial as soon as borrowers' personal circumstances permit. For instance, lender referral programs to counseling agencies and other types of early intervention programs could potentially help consumers understand their long-term options and reduce the risk of disruptions and gaps as initial payment relief programs end. Consumers who did not enroll in DMPs until 5 to 6 months after forbearances ended experienced greater short-term delinquencies than those who transitioned more quickly.

- Product innovation and alternative debt resolution strategies could be helpful to ensure that consumers who need longer term support are able to find an option that fits their circumstances. While DMP participants experienced more favorable outcomes after temporary forbearances than forbearance recipients who did not enroll, the fact that roughly 50 percent of counseled consumers cannot qualify for DMPs and that substantial numbers of consumers who qualify choose not to participate. These patterns highlight the importance of developing additional long-term options to help already vulnerable and distressed borrowers stabilize their finances after experiencing substantial financial shocks.

Ongoing Research

This study is part of a broader research project to evaluate ways to improve debt resolution options for consumers who are struggling to manage credit card and other general unsecured debts. The project recognizes the importance of unsecured debt as a component of financial inclusion and household stability, and the need for better strategies to manage unsecured household debt as part of addressing the nation's racial wealth gap and general economic resiliency.

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