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

Half of Counseled Consumers Do Not Qualify for Longer Term Debt Management Plans

WASHINGTON, D.C., August 28, 2023 – A new research paper released today 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.

FinRegLab and researchers from The Ohio State University analyzed the outcomes of temporary 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. "Debt Management Insights for Distressed Borrowers: Bridging from Emergency Programs to Longer Term Payment Plans" finds that forbearance recipients who enrolled in DMPs were about 35 to 65 percent less likely to experience defaults and charge offs on their forborne accounts than similarly 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.

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, and other consumers may not be aware of the existence of DMPs as an option.

"Early assessment of consumer financial status is critical, but so is the quality and availability of assistance programs," stated FinRegLab CEO Melissa Koide. "This research emphasizes the importance of improving both short-term and long-term options for distressed borrowers."

"These findings underscore the need for positive change as we navigate the evolving landscape of consumer financial hardships," said Mike Croxson, NFCC CEO. "To foster lasting stability, we will continue leading a collaborative effort to pioneer innovative solutions for long-term relief, ensuring no one is left behind."

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 credit counseling during the pandemic. The study found that borrowers who had *both* credit scores below 660 and credit card debt of $8,000 or more were about twice as likely to experience post-forbearance delinquencies and charge offs than forbearance recipients nationally.

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.

Broader Research Project

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.

Additional information about the broader project is available in the October 2022 FinRegLab report, "Debt Resolution Options: Market & Policy Context," "Debt Management Insights for Distressed Borrowers: Credit Counseling and Lender Forbearances Post-Covid" (2023), and "The Countdown Clock for Student Loan Forbearances" (2023). Findings from this project and FinRegLab's other work focusing on debt management solutions for distressed borrowers are available on the organization's website.

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. The organization also facilitates discourse across the financial ecosystem to inform public policy and market practices. To receive periodic updates on the latest research, subscribe to FRL's newsletter and visit www.finreglab.org. Follow FRL on LinkedIn and Twitter.

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

Support for the project is provided by Bank of America, Capital One Financial Corporation, JPMorgan Chase, LendingClub, Synchrony, TD Bank, and the Wells Fargo Foundation.

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