



# Americans May Face a Crisis with Past Due Debt in 2021

## Credit card defaults and delinquencies are expected to rise next year.

If you focus solely on cold numbers, it looks like Americans are doing exceptionally well when it comes to consumer debt. The St. Louis Federal Reserve shows that credit card delinquencies were on the decline in the third quarter of this year, the third quarterly decline consecutively. That follows a 0.2% decrease in household debt in the second quarter of 2020.

However, experts are warning that the headway consumers are making against debt may run out quickly next year once the second stimulus passes. According to Ted Rossman, a credit analyst at Bankrate, the stimulus and ongoing Congressional relief efforts from the CARES Act are, "keeping a lid on delinquencies."

Essentially, the Economic Impact Payments and deferment and forbearance programs granted through the CARES Act have contributed to helping consumers stay out of credit card default. This year, consumers have been able to defer their credit card payments up to 180 days due to financial hardship. What's more, many Americans used their stimulus to pay down debt.

The issue is that once CARES Act protections run out, consumers may be on the hook with more debt than they can handle. And while a second round of stimulus would help, many experts say it will only delay the inevitable.

"Unless the job market can bounce back significantly over the next few months, many families will be facing a crisis once stimulus checks and other consumer protection programs run their course," warns Gary Herman, President of Consolidated Credit. "We could be looking at significantly higher credit card delinquency rates next year."

### **The challenges of past-due debt and credit card delinquencies**

Credit card delinquencies happen when an account is more than one billing cycle behind. If you miss a payment by more than 30 days, then your account becomes delinquent. This delinquency can be reported to the credit bureaus, leading to missed payments on a consumer's credit report. According to FICO, just one missed payment can affect a consumer's credit by up to 180 points in certain situations.

"The challenge with past-due debt is that once you get behind, you must catch up completely to bring the account current," Herman explains. "If you miss a \$100 payment one month and



then make a \$100 payment the next month, you will still be behind. You must make the current month's payment as well as the arrears before you will be brought current."

This means that a consumer can quickly find themselves in a hole that can ruin their credit. A decreased credit score means that someone may have limited options for debt relief. Certain solutions, such as debt consolidation, generally only work when people have good credit.

### **What solutions can work for past due debt when someone has bad credit?**

The good news is that there are solutions that can work for people who are facing credit damage from missed payments and delinquencies. One solution is a debt management program.

"Even if a debt is several months behind, it can often still be included in a debt management program," Herman explains. "As long as the debt has not been charged-off or sold to a collector, you still have time to get things back on the right track. Past-due accounts can be included in the program and most creditors will agree to bring the account status current once you make three consecutive payments on a debt management program."

With a debt management program, all a consumer's debts are rolled into one affordable monthly payment. Creditors get paid every month on an agreed schedule, which means you avoid the credit damage caused by other solutions, such as debt settlement.

This type of program is meant primarily for credit cards that are still with the original creditor, even if those accounts are past due. However, the program may also work for collections if a defaulted credit card has been charged off and sold to a collector.

"A debt management program can be an ideal solution to help consumers who are falling behind to stop the spiral and start catching up," Herman says. "Our credit counseling team can serve as your advocates to help you get back to financial stability faster without sacrificing your credit."

If you're facing challenges with debt and feel like you're falling behind, take action now. Talk to a certified credit counselor today.