Money

Credit In the Age of COVID-19: Consumer Experience and Credit Repair Solutions

By Susan Doktor
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There's reason to be optimistic and also cause for concern as the coronavirus crisis continues to have an impact on consumer borrowing behavior. On the one hand, according to one study performed in March 2021, Americans paid down more than $82 billion in debt in 2020. We still owe more than $14.5 trillion as a nation, but a large part of that total debt—some $10.4 trillion—is mortgage debt. A sharp dip in mortgage interest rates created a real estate market boom in 2020. So while people are borrowing, they're investing in a tangible asset that has a decades-long history of increasing in value. US home values have doubled since 1970. There have been ups, downs, and burst housing bubbles, but home values still increase by an average of 3.5% to 3.8% per year.

On the other hand, more than half of consumers report that they added to their total debt since the onset of the global pandemic and the average household still owes over $8000 in credit card debt alone. That's not surprising, given that half of US households saw a decline in income during the first year of the pandemic. And consumers are experiencing more financial stress, much of it related to debt.

The Emotional Weight of COVID-19

In 2018, about 60% of Americans reported feeling anxious about their personal finances. By March 2020, that figure rose to 74%. Financial anxiety occurs at all income levels. Some 60% of individuals earning between $50,000 and $99,000 reported worrying about their personal finances.

Average figures, however, obscure demographic differences. Women, black and Hispanic individuals suffer from greater anxiety, as do younger adults. Women tend to have higher student loan and credit card debt than men, which may be attributable to a persistent gender wage gap. On average, they also have lower credit scores, which makes borrowing more expensive for them and may compound their financial struggles. Lending institutions reserve their best interest rates for the most creditworthy, least risky borrowers. Buying a home may be more difficult for people with lower-than-average credit scores, though low-interest, government-guaranteed mortgages like USDA and VA loans can help eligible borrowers surmount a poor credit history.

But financially literate people—defined as those who can answer the standard "Big 3" financial literacy test questions—are at least 10% less likely to experience financial anxiety, strengthening the case once again, for making financial education a core part of elementary school, high school, and college curricula.

Sound Strategies for Debt Relief
Overwhelming debt and credit woes can often be addressed by improving consumers' basic understanding of borrowing and budgeting. The US is home to a large network of not-for-profit financial counseling agencies. Credit counseling resources, including those offered by local credit unions, higher education institutions, and the federal government's Extension system, may help borrowers get a handle on their finances.

Sometimes, religion plays a role in contributing to financial hardship. Some religious sects discourage the accumulation of personal wealth but also encourage tithing. That combination of belief and practice may make it even more difficult to manage daily expenses. Faith-based financial counseling is available and may help individuals whose adherence to religious practices makes life more expensive: keeping Kosher isn't cheap, for example. Faith-based credit counseling is often accompanied by direct financial assistance. The St. Vincent De Paul Society, which operates through local volunteer groups, is one organization that helps consumers meet emergency needs and learn the skills that contribute to financial stability. The organization assists all people, regardless of their faith, race, or ethnicity.

Credit Forbearance During COVID-19
The federal government, in cooperation with mortgage lenders, credit card companies, and student loan financing companies, has instituted several credit relief initiatives. Some are mandated by law. COVID-19 forbearance doesn't erase debt, but consumers may be able to delay payment due dates, arrange less onerous payment plans, and help consumers protect their credit until the crisis abates. In some cases, lenders are forbidden from reporting late payments to credit reporting agencies, which provides credit protection for borrowers who find themselves temporarily unable to manage their debt.

Professional Credit Repair: A Controversial Solution
Consumers are exposed to myriad commercial credit repair offers online and on the airwaves. Credit repair is a slow, labor-intensive process that many borrowers have neither the time nor

the stomach to undertake independently. There are, of course, reputable credit repair companies out there. But the industry is tainted by scammers who take consumers' money, promise the world, and deliver little. Consumers should be on the lookout for these common indicators that a company is less than reputable:

- No company can legally remove legitimate negative remarks on your credit report. A credit repair company that promises it can remove a bankruptcy from your report is flat-out lying, for example.

- Unscrupulous credit repair companies that say they can create a "new credit identity" for you are extra-bad news. They may provide you with a substitute social security or EIN number and advise you to apply for new credit with it. That's another illegal practice that may even involve you in identity theft, a federal crime punishable by up to 15 years in prison.

- Credit repair companies that advise you to dispute accurate items on your credit report are asking you to commit fraud. You may face criminal charges if you follow their counsel.

- Beware of credit repair companies that advise you not to contact credit reporting bureaus directly. That's a signal that they're doing something they don't want you to know about.

By contrast, legitimate credit repair companies want you to understand your rights. They will provide you with a Consumer Credit File Rights document. While they may charge you a service startup fee, they will not request you to pay for ongoing services up front. They will make their pricing clear from the get-go and allow you to cancel service at any time without penalty. And they'll provide you with monthly summaries of actions they take on your behalf and periodic progress reports.

GFLEC is an organization you can count on to provide objective, research-based information on current economic trends and issues and financial education resources. Whether you're a consumer trying to improve your financial position or an organization dedicated to teaching consumers financial literacy skills, join our community for regular updates on issues affecting you and advice that can help your reach your goals.

Additional Credit Counseling Resources

Understand how credit scores are calculated:
https://www.federalreserve.gov/creditreports/pdf/credit_reports_scores_2.pdf

Download your free credit reports:
https://www.consumer.ftc.gov/articles/0155-free-credit-reports

Learn about the laws governing credit repair:
https://uscode.house.gov/view.xhtml?req=granuleid%3AUSC-prelim-title15-chapter41-subchapterII-A&num=0&edition=prelim

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