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Consumer Credit Card Payment Deferrals During the COVID-19 Pandemic

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Abstract

In response to the economic hardships stemming from COVID-19, many U.S. card-issuing banks offered measures to assist their customers who were financially affected by the pandemic. Unlike previous disaster assistance programs that were typically short in duration and localized, the COVID-19 pandemic affected millions of consumers across the country for a protracted period of time and required application of broad-based relief measures. These measures, along with federal and state stimulus and benefit payments, provided some stability to many consumers' financial circumstances during the pandemic. It is important to consider how effective these measures have been at stabilizing consumer finances not just for those for whom these programs served as a bridge, but for those consumers who continue to need support after the programs have expired. This paper discusses several aspects of one relief measure implemented by banks during the pandemic: consumer credit card payment deferrals.

Keywords: household finance, consumer credit, credit cards, payment deferral, COVID-19

JEL Classification Codes: D14, G01, G28, G51

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1. Introduction

In response to the economic hardships stemming from COVID-19, many U.S. card-issuing banks offered measures to assist their customers who were financially affected by the pandemic. Unlike previous disaster assistance programs that were typically short in duration and localized, the COVID-19 pandemic affected millions of consumers across the country for a protracted period of time and required application of broad-based relief measures. These measures, along with federal and state stimulus and benefit payments, provided some stability to many consumers' financial circumstances during the pandemic. It is important to consider how effective these measures have been at stabilizing consumer finances not just for those for whom these programs served as a bridge, but for those consumers who continue to need support after the programs have expired. This paper discusses several aspects of one relief measure implemented by banks during the pandemic: consumer credit card payment deferrals.

This paper finds that, based on the strength of consumer credit quality leading up to the pandemic, public fiscal stimulus and benefits support combined with private payment deferral programs provided financial stability to consumers adversely affected by dislocations generated by the pandemic. Had the economy been headed in a different direction prior to the pandemic and without public and private sector relief efforts (which were dynamic and not perfectly known to each other as they changed over time), many consumers could have experienced a very different financial outcome. However, there remains a segment of consumers who relied on these support programs and continue to need them even as the programs expire.

The rest of the paper is organized as follows. Section 2 describes federal and state stimulus and benefit payments programs and payment deferral programs. Section 3 provides an overview of the availability and terms of consumer credit card payment deferral programs offered by banks. Section 4 describes the take-up and performance of accounts enrolled in accommodation. Section 5 outlines some of the options available to borrowers who still need assistance in repaying their debts after the pandemic relief programs expire. Section 6 discusses the effects of fiscal stimulus and forbearance programs on consumer credit performance as well as the uncertainty on banks' operational and risk management decisions. Section 7 concludes.

2. Pandemic Relief Programs

Within a month of the declaration of a national emergency concerning the COVID-19 pandemic, the total civilian unemployment rate peaked at 14.8 percent, with millions of people remaining out of work for months.[1] To address the public health and economic challenges that families faced because of the pandemic, the U.S. Department of the Treasury provided assistance under the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, the Tax Relief Act of 2020, and the American Rescue Plan of 2021.[2] Under the CARES Act, beginning in March 2020, the first in a series of three direct relief measures in the form of Economic Impact Payments were earmarked for eligible individuals in the amount of up to $1,200 per adult and $500 per qualifying child under 17 years of age. Enacted in late 2020, the Tax Relief Act provided additional payments of up to $600 per eligible adult and each qualifying child under 17. A third round of Economic Impact Payments was authorized under the American Rescue Plan, which was enacted in March 2021. In this round, payments of up to $1,400 were provided for eligible adults and an additional $1,400 for each of the qualifying dependents of a family, regardless of age.[3]

The American Rescue Plan also extended unemployment compensation assistance beginning in March 2021 and, subject to adjusted gross income thresholds, waived federal income taxes on a portion of federal and state unemployment benefits received in 2020. In addition, the American Rescue Plan expanded the Child Tax Credit for 2021 by increasing the credit amount from $2,000 to $3,600 for qualifying children under the age of 6 and to $3,000 for qualifying children under 18. The plan also made the credit fully refundable, with half of the estimated 2021 credit available to eligible taxpayers during 2021.

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[1] Proclamation 9994 of March 13, 2020, beginning on March 1, 2020.

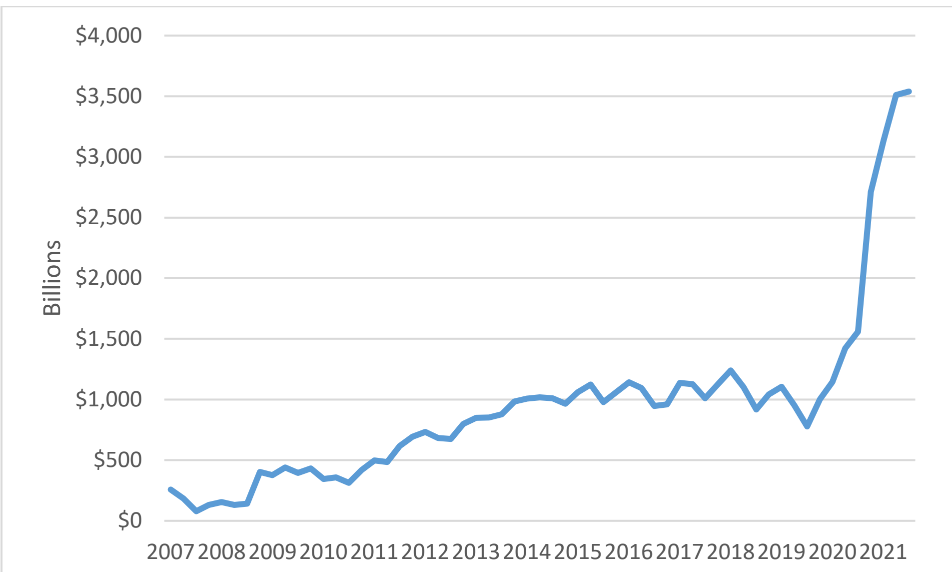
[2] The CARES Act was signed into law on March 27, 2020 (Public Law 116-136, 116th Congress.) The Consolidated Appropriations Act (2021) was signed into law on December 27, 2020, to continue programs implemented by the CARES Act.

[3] Payment amounts were reduced for eligible individuals with adjusted gross incomes greater than $75,000 for single filers, greater than $112,500 for heads of household, and greater than $150,000 for married couples filing joint tax returns.

Additional relief for individuals and families during the COVID-19 pandemic included expanded state-level pandemic unemployment insurance, expanded state-level food assistance benefits under the Supplemental Nutrition Assistance Program, and an eviction moratorium for tenants who were unable to make rent or housing payments because of the pandemic.

In aggregate, pandemic-related government financial assistance boosted households' liquidity (**Figure 1**). In its analysis of the distributional effects of stimulus payments on checking account balances by income quartile, the JPMorgan Chase Institute found that the accounts of low-income families experienced the largest percent increases in balances and the fastest depletion of those funds.[4]

Figure 1. Household Assets, Checkable Deposits, and Currency



Note: Quarterly level, not seasonally adjusted, through Q3 2021.

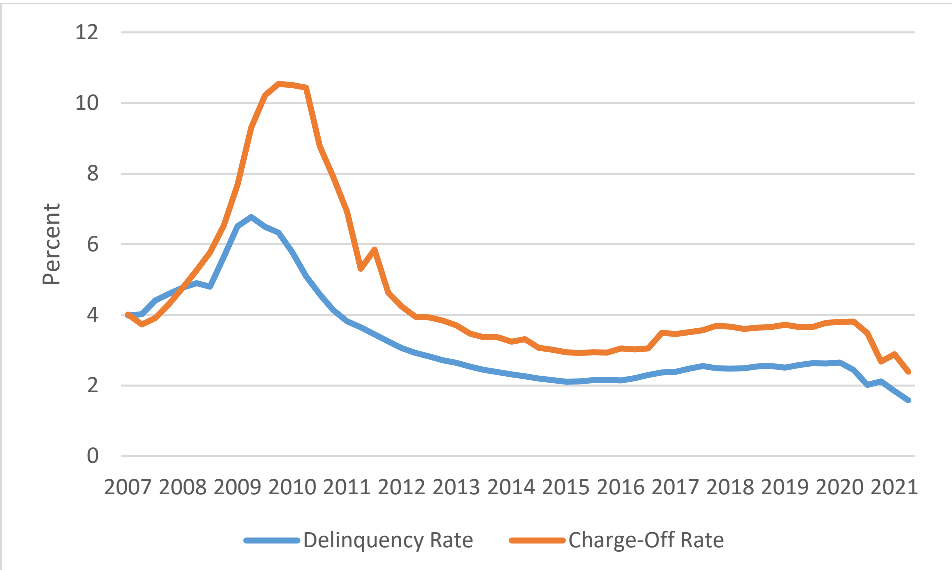
Source: Board of Governors of the Federal Reserve System, Z.1 Statistical Release: Financial Accounts of the United States

In the months leading up to the pandemic, aggregate credit card loan repayment performance as measured by delinquencies of 30 or more days past due and charge-offs were

[4] See Deadman, Greig, and Sonthalia (2021).

near historic low rates (**Figure 2**). However, without knowing the path of the pandemic or the extent of government fiscal support during the pandemic, in March 2020, many U.S. card-issuing banks voluntarily began offering assistance to their customers who reported having difficulty making payments on their accounts because of COVID-19.

Figure 2. Delinquency and Charge-Off Rates on Credit Card Loans



Notes: All commercial banks, quarterly, seasonally adjusted, through Q2 2021. Delinquent loans are those past due 30 days or more and still accruing interest as well as those in nonaccrual status. They are measured as a percentage of end-of-period loans.

Source: Board of Governors of the Federal Reserve System, Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks; Consumer Loans: Credit Cards

3. Availability, Terms, and Screening

Before COVID-19, one of the options available to borrowers who experienced difficulty repaying their unsecured debts was to enter into a workout program directly with individual creditors. Under *bilateral workouts* (or *internal workouts*), the creditor often defers or reschedules repayment of past due amounts and the consumer agrees to make regular payments. The creditor may also provide concessions on interest and fees charged to the borrower. During the COVID-19 pandemic, another form of credit card payment deferrals generally became available to the customers of major U.S. card-issuing banks in March 2020.[5] While this tool has been offered for years by banks to their customers in response to the localized, short-term effects of natural disasters, it was offered on a nationwide basis for an extended period of time during the pandemic. To receive a payment deferral related to COVID-19 hardship, customers typically could find a banner on their bank's website or mobile app inviting them to click on an announcement indicating that help is available to those affected by COVID-19. A number of banks sent emails to their customers with this information. Customers could also call their bank to enroll in a payment deferral program by asking for that assistance and stating that COVID-19 was the reason for the request.[6]

Some consumers who did not actually need assistance in the form of a payment deferral requested one and were in fact granted a deferral, but banks were interested in supporting their customers during these extraordinary times and typically did not require additional eligibility screening. These consumers were concerned about economic uncertainty brought about by the pandemic and used the deferral as a precautionary measure. However, with interest continuing to accrue on consumers' accounts during the payment deferral period, requesting an unnecessary deferral could be an expensive option to choose. Specific implementation details of payment deferral programs varied across issuers and over time, but in general, the terms of the programs included waivers on late fees and deferral of minimum payments one or two billing cycles at a time, with renewal options available for a limited number of additional billing cycles.[7] Generally

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[5] Section 4013 of the CARES Act encouraged banks to work directly with borrowers affected by COVID-19 through credit card loan modification including payment deferral. In addition, the CARES Act required accommodations for consumers reporting a financial hardship because of the COVID-19 national emergency with federally backed mortgage loans who requested forbearance from their mortgage servicer. The CARES Act also provided for automatic suspension of principal and interest payments on federally held student loans.

[6] See the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Consumer Financial Protection Bureau, April 7, 2020, Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised).

[7] JPMorgan Chase, for example, initially offered a three-month deferral of an account's minimum payment. As of Q3 2020, the deferral period was trimmed to one month. Interest continued to accrue during the deferral period and was added to the principal balance. (JPMorgan Chase & Co. SEC Form 10-Q, quarterly period ended June 30, 2021.) In contrast, Citi's program offered waivers on late fees and deferral of minimum payments for two to four payment cycles. (Citigroup Inc. SEC Form 10-K, fiscal year ended on December 31, 2020.) Once the maximum of four payment cycle deferrals was reached and consumers still needed assistance, Citi's standard workout programs

speaking, interest continued to accrue on the account. Consumers would continue to receive their monthly statement as required by law, but the minimum payment due would appear as $0.

As previously noted, deferring payments in these programs is not without cost to consumers, since interest will continue to accrue on outstanding balances. At the same time, the deferral programs created costs for the lenders because they had to increase their allowances for potential credit losses on the accounts in deferral. That is an expense that reduces reported income. Allowances for credit losses surged during the pandemic, and the opportunity cost of holding that capital in reserve meant that the money couldn't be used for other purposes including making new loans.[8]

4. Enrollment in Payment Deferral Programs

Examining the regulatory filings and financial results of some of the largest credit card-issuing banks with outstandings that represent over 50 percent of the U.S. market, a consistent picture across issuers emerges.[9] Enrollment in consumer credit card payment deferral programs peaked soon after the programs were offered. In addition, the vast majority of customers' accounts were current upon enrollment, and the majority of consumers continued to make payments on their accounts despite being enrolled in a payment deferral program, lending support to the theory that many consumers enrolled as a precautionary measure. As an example, Capital One's customer enrollment trends in its COVID-19 consumer credit card payment deferral program through Q4 2020 showed that first-time enrollments peaked in April 2020 and declined almost consistently

applied which include closing an account after a 60-month period to pay down the balance with accommodation on interest and fees.

[8] For example, allowances for consumer card credit losses at JPMorgan Chase increased from $11.2 billion ($5.5 billion plus $5.7 billion for CECL) as of January 1, 2020, to $17.8 billion as of June 30, 2020. Allowances for credit losses remained at $17.8 billion through the end of 2020. As the payment deferral program wound down, the reserves related to the program could be released. Allowances for consumer card credit losses decreased to $14.3 billion as of March 31, 2021. (JPMorgan Chase & Co. 2Q20 Financial Results, July 14, 2020 and 1Q21 Financial Results, April 14, 2021.)

[9] Data based on dollar volume of outstandings for calendar year 2020 as reported in *The Nilson Report*, Issue 1192, February 2021.

week-over-week after that. Cumulative enrollments remained below 3 percent of active accounts over the entire period.[10]

Similarly, in Q4 2020, Citi noted a decline in enrollment of approximately 21 percent quarter-over-quarter in its formal COVID-19 assistance programs. As a result of the significant and steady decline in enrollment, Citi ended the programs as of December 31, 2020, for the majority of products, while discussing assistance options with customers who experienced ongoing financial hardship on a case-by-case basis. For its North American credit card loan portfolio at the end of Q4 2020, Citi reported that the company provided relief assistance to over 2.6 million modified accounts, representing aggregate enrollment balances of approximately $9.2 billion.[11]

As noted, many issuers reported an interesting phenomenon in which customers who were enrolled in payment deferral programs continued to make scheduled payments.[12] It is thought that these consumers were using the payment deferral status as a precautionary measure in case their financial situation worsened.[13] Still other customers were able to exit the deferral program early, and most consumer accounts remained current once they exited the program.[14] Like Citi and Capital One, Bank of America reported that its customers' accounts in deferral declined significantly soon after it launched its Client Assistance Program on March 16, 2020. As of August 2020, enrolled consumer account balances on deferral represented just one-third of peak balances. Driven by loan payment deferrals and government stimulus, credit card

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[10] Capital One Fourth Quarter 2020 Results, January 26, 2021.

[11] Citigroup Inc. SEC Form 10-K, fiscal year ended on December 31, 2020.

[12] For example, Bank of America noted that, as of August 2020, more than 60 percent of consumers with credit card payment deferrals made at least one payment, and more than 30 percent made a payment every month. (Bank of America Chairman and CEO Brian Moynihan's presentation at the Barclays Global Financial Services Conference, September 15, 2020.)

[13] More than 95 percent of Bank of America's customers who requested card deferrals were current on their payments at the time of the deferral request.

[14] Citi, for example, reported that by the end of Q3 2020, approximately 89 percent of its enrolled credit card customers had successfully exited its payment deferral program, and approximately 86 percent of those customers continued to make payments on their accounts. (Citigroup Inc. SEC Form 10-K, fiscal year ended on September 30, 2020.) Bank of America reported that after automatic deferral expiration, 90 percent of customers with expired deferrals across products had made at least one payment.

delinquencies in aggregate remained below prepandemic levels as deferral programs expired and enrolled balances declined.[15]

5. Following the Expiration of Expanded Public Benefits and Payment Deferral Programs, What Options Are Available to Borrowers Who Continue to Have Difficulty Repaying Their Unsecured Debts?

As many COVID-19-related fiscal relief and payment deferral programs have expired, what options are available to consumers who needed both kinds of assistance?[16] As discussed in Section 3, one option available to borrowers who are having difficulty repaying their unsecured debts is to enter into a bilateral workout program directly with individual creditors.[17]

Another available option is simply defaulting, also known as *informal bankruptcy*. Failure to repay unsecured debt can be costly for consumers beyond being assessed fees and interest. When an account is closed, the liquidity provided by the line of credit is lost. Creditor collection efforts can include telephone calls and letters demanding repayment and even legal action, including wage garnishment. Informal bankruptcy can also damage borrowers' credit scores as debts written off for nonrepayment can remain on borrowers' credit records for up to seven years.

Seeking legal protection from their creditors is another available option and is achieved by filing for *formal bankruptcy*. Chapters 7 and 13 of the U.S. Bankruptcy Code are the most common options available to nonbusiness filers. Under Chapter 7 bankruptcy, borrowers' nonexempt assets are liquidated and the proceeds are used to repay their unsecured debts. Consumers can also file under Chapter 13 in which borrowers must demonstrate sufficient

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[15] Bank of America Q1 2021 Financial Results, April 15, 2021.

[16] For example, the Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation expanded federal unemployment benefits programs, the Economic Impact Payments, and the expanded Child Tax Credit program ended in 2021.

[17] For a discussion of additional options available to borrowers who struggle to repay debts owed to multiple creditors, see Wilshusen (2011).

disposable income to support a court-administered repayment plan over a period of three to five years.

Based on the statistics presented in **Figure 3**, filings for formal bankruptcy under both Chapter 7 and 13 decreased during the pandemic, following the trend in delinquencies and charge-offs.[18]

Figure 3. Nonbusiness Bankruptcy Filings, During the 12-Month Periods Ending on March 31

Source: Administrative Office of the U.S. Courts

6. Effects of Fiscal Support and Forbearance Programs

The top credit card-issuing banks reported robust consumer credit quality metrics leading up to the pandemic. As displayed in Figure 2, for example, aggregate delinquency rates and loss rates before the pandemic were near historic lows and reached them during the pandemic. As many

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[18] Wang, Yang, Iverson, and Kluender (2020) document large declines in bankruptcy filing rates for households after the onset of the pandemic in mid-March 2020. The authors also note a surprising reversal of the close historical relationship between bankruptcy and unemployment rates. They attribute some of this decline in filing rates to the substantial fiscal support offered through COVID-19 relief efforts, but they also find evidence consistent with barriers to accessing the bankruptcy system during the pandemic.

households received significant government and private sector support from fiscal relief and forbearance programs during the pandemic, many increased their savings and used this liquidity to pay down their debts in different ways.[19] In their Q1 2021 regulatory filings, major U.S. card-issuing banks reported expectations around credit quality to remain at or better than pre-pandemic levels, as across the industry banks began releasing allowances for credit losses.

However, the implementation of long-term, nationwide COVID-19 accommodation programs for consumer credit card loans introduced uncertainty across operational dimensions for card-issuing banks. From a risk management perspective, not all card-issuing banks reported the payment accommodations for their enrolled card accounts to the three national credit reporting agencies, while the ones that did were not necessarily classifying them uniformly in terms of remarks codes. This potential suppression and inconsistency of information sharing might affect the informativeness of recent credit bureau data for underwriting and portfolio management decisions going forward. Lack of clarity around consumers' true risk profile may also hinder banks' ability to forecast credit and broader macroeconomic conditions. These effects, however, may recede over time as they applied to accounts in deferral during 2020 and as reporting returns to prepandemic norms. The uncertainty surrounding the informativeness of bureau data during the pandemic necessitated that, at least for a time, banks look for alternative sources of near real-time data on consumers' income and other measures of creditworthiness. At the beginning of the pandemic, this uncertainty resulted in banks significantly increasing allowances for credit losses associated with loans in payment deferral programs. But as the programs wound down and accounts performed well, banks were able to release the allowances and realize considerable profits.

7. Conclusion

The relatively quick implementation of broad-based public and private sector financial assistance programs at the outset of COVID-19 stabilized many consumers' financial circumstances during the pandemic. Consumer credit payment deferrals made available to customers of U.S. card-

[19] See, for example, Armantier, Goldman, Koşar, and van der Klaauw (2021).

issuing banks served as a bridge for many consumers in response to the economic hardships stemming from COVID-19. Given the robust credit performance environment leading up to the pandemic, many customers who requested payment deferrals didn't need them; rather, they requested them as a precautionary measure in the face of economic uncertainty surrounding the pandemic. There remains a smaller segment of consumers, however, who relied on both public and private sector assistance programs during the pandemic and continue to need assistance as many of these programs have expired. Navigating among conventional, prepandemic debt relief programs for managing financial distress is difficult given incentive and information challenges.[20]

[20] See Wilshusen (2011).

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