

YOUR MONEY ADVISER

How to Manage Your Credit Card Bills, Which Experts Say Are Late More Often

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Even with a strong economy, a growing number of people are having trouble paying their credit card bills.

Late credit card payments, while still low, have been ticking upward for the past two years, the Federal Reserve Bank of New York reported in May. Card delinquencies have been rising for borrowers under 30, in particular, but also for borrowers in their 60s, the New York Fed said.

Experian, a major credit bureau, said the average card balance as of May was \$6,553, up slightly from the average balance of \$6,506 in the second quarter of 2018.

Consumer advocates say they are concerned that more people will find themselves in trouble, should the economy slow. “I’m very worried about it,” said Lauren Saunders, a lawyer with the National Consumer Law Center, which specializes in working with lower-income people.

There are steps, however, that consumers can take if they are having difficulty making payments. They can start by contacting their card companies to see if they can obtain a temporary interest rate reduction or a lower minimum payment. “I would recommend that people first reach out directly to creditors,” Ms. Saunders said. “The earlier you do, the more likely they are to work with you.”

Another option is to seek help from a nonprofit credit counseling agency. Participants can often get a free or low-cost budget review to help them identify areas where they may be able to cut spending and reduce their debt.

Consumers with more serious debt problems, however, may need a more structured approach, said Phil Heinemann, executive director of Debt Management Credit Counseling, a nonprofit organization in Lighthouse Point, Fla.

Those borrowers may be eligible for a debt management plan in which the counseling agency negotiates an interest-rate cut with the card companies. In exchange, borrowers agree to pay off the debt by making fixed monthly payments over three to five years.

If the proposed payment plan is approved, the agencies charge a monthly fee that varies based on the size of the monthly payment, but is typically capped by state law. The overall amount paid still represents a significant savings, Mr. Heinemann said, because of the lower interest rate on the debt, as well as the elimination of late fees and other penalties. (A handful of agencies, along with a few big creditors, are testing a new version of these programs that would cut the debt owed in half to make the programs more accessible for people trying to avoid bankruptcy.)

Mr. Heinemann said his typical client has about \$10,000 in card debt, but he has seen much higher balances. It's important, he said, that the borrowers are able to afford the agreed-upon monthly payment. If they miss two consecutive payments, he said, creditors typically drop them from the program.

Kristen Holt, chief executive of GreenPath Financial Wellness, a nonprofit debt counselor in Farmington Hills, Mich., that provides services nationally, said the agency had seen demand for debt management services rise this year. Often, she said, clients are referred to GreenPath by their creditors. GreenPath's typical client has five different creditors, and an average debt of \$20,000. The agency charges a one-time fee of up to \$50 to set up a plan and monthly fees of up to \$75.

Becky Willard, 73, said she had worked with GreenPath to pay off about \$40,000 in credit card debt, mostly from medical bills after she learned she had breast cancer in 2002.

Ms. Willard, who had worked mainly part time, said she found herself struggling financially six years ago, after her partner died. "I had never been the primary earner," she said. She sold her home in Orlando, Fla., and moved into a small condominium in Bradenton, about 100 miles away.

But, Ms. Willard said, her card debt seemed insurmountable. She learned online about GreenPath, and found its approach appealing. "They'd get the interest rates down," Ms. Willard said, "so there's light at the end of the tunnel."

Ms. Willard found a full-time job caring for Alzheimer's patients. Her earnings let her make twice-monthly payments of \$475 toward her card debt. (Two of her major creditors, she said, reduced the rates on their cards to nearly zero percent.) "I worked my tail off," she said.

She has just finished paying off the debt. Although it took her almost five years, she said, she is healthy and feels immense relief. “I am proud of myself,” she said.

GreenPath said Ms. Willard paid about \$5,500 in interest and fees under her debt plan. If she had paid off the debt on her own, without the lower rates available under the management plan, she would have had to make payments for several years longer and paid about \$30,000 in interest, the agency said.

Here are some questions and answers about credit card debt:

Will a debt management plan hurt my credit score?

A client’s credit score may fall initially. Most debt management plans require borrowers to close the card accounts enrolled in the plan, which may cause scores to drop, Ms. Holt said. But as participants make payments, scores typically stabilize and then begin to rebound.

How can I find a reputable credit counseling agency?

A good place to start is the list of nonprofit agencies that are certified by the Justice Department to provide mandatory counseling for people seeking personal bankruptcy protection. Such agencies often provide broader services, including debt management plans.

Nonprofit debt counseling agencies are different from debt “settlement” or relief agencies, which are considered riskier. Often, debt settlement agencies advise clients to stop paying their credit card bills and instead use the funds to build up a lump sum that can be used in negotiating a settlement. Some creditors, however, won’t negotiate with debt settlement firms, and borrowers may end up worse off, according to the Federal Trade Commission.

Chris Peterson, director of financial services with the Consumer Federation of America, said consumers should ask detailed questions to be sure they are working with a legitimate counseling agency. They should confirm that the agency is licensed in their state, he said. They should also ask what fees will be charged and get a price quote in writing for the agency’s services.

What if I am getting calls from debt collectors?

The Fair Debt Collection Practices Act sets limits on what collectors can do. For instance, they can’t contact you before 8 a.m. or after 9 p.m.

The Consumer Financial Protection Bureau has proposed changes to the law to limit the number of calls a collector can make per week, but also to allow collectors to contact delinquent borrowers by text and email.

Some consumer advocates worry the changes may lead to harassment of borrowers. The public can comment on the proposed changes until Aug. 19.

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