TrueAccord

Consumer Debt in the Age of COVID-19

July 7, 2020

Introduction

The COVID-19 crisis has ushered in a wave of unprecedented economic uncertainty. With no clear end date to the pandemic in sight, it's unclear when, or how quickly, the economy will start to recover.

In this report, we will discuss how U.S. consumers are engaging with their debts during this crisis, including how payments and other behaviors have changed. Then, we'll explore the steps companies can take to better service consumers while also driving revenue during these uncertain times.

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About the Data

All data featured in this report is proprietary, aggregated, and anonymized data from TrueAccord, based on our work helping more than 12 million consumers of major banks, issuers, eCommerce companies, and direct lenders since 2013. It is important to note that TrueAccord is a digital-first debt collection agency — less than two percent of the consumers we serve speak with an agent over the phone.

Executive Summary

Pre-coronavirus, cash flow & consumer sentiment were drivers of debt-related behavior
In the past, consumers tended to set up their payment plans around paydays and leverage their tax refunds to pay off debts at record rates. Engagement with debt also increased during times of general economic growth. (pg. 4)

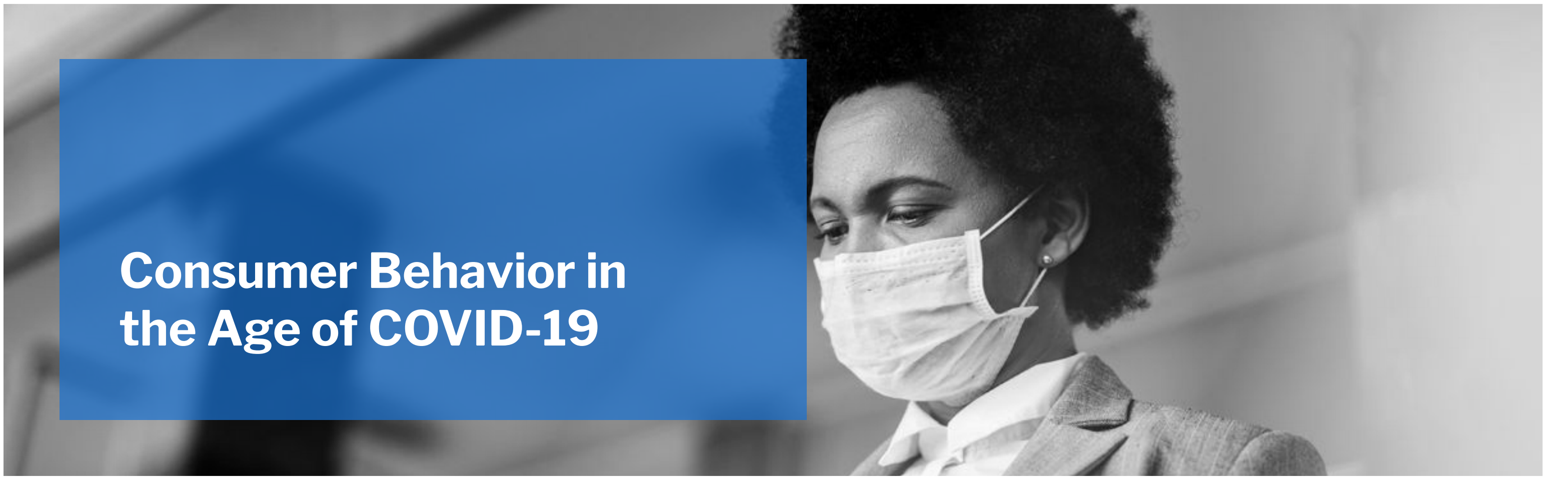
Nationwide panic led to decreased engagement and payment activity
After a national emergency was declared, click through rates were down 40% year over year (pg. 7) and payments were 13% lower than expected (pg. 8).

Consumers used CARES Act checks to pay debt
Even before the stimulus checks were distributed, consumers started to engage with their debts again (pg. 7). On April 15th, there was a near-instantaneous increase in debt payments as the first wave of checks hit bank accounts. Payment dollars were 25% higher than the previous tax season peak (pg. 9).

With unexpected cash, consumers changed their payment behaviors
With stimulus checks in hand, consumers flocked toward paying off their debts in full — the rate of lump-sum payments was 50% higher than the same period last year (pg. 10). The ones who did sign up for payment plans chose shorter payment terms with higher monthly installments (pg. 11).

Plan modifications were an important option for consumers in need
Web traffic to plan modification tools increased as the crisis worsened, underlining the importance of flexibility during times of financial hardship. However, this activity slowed as government aid arrived. (pg. 12)

Debt collectors need to change their operations to thrive in a post-coronavirus future
Clearly, consumers need the ability to pay when they are able to, and the flexibility to change their plans when they aren't. We provide four recommendations to help debt collectors best serve consumers, both when they need some extra help and when they choose to pay their debts. (pg. 13)



Consumer Behavior in the Age of COVID-19

Pre-pandemic: Establishing a baseline

To best understand how consumer behavior has changed during this crisis, it's important to first establish a baseline. Based on our six years of working with millions of consumers to resolve their debts, TrueAccord has found a few key pre-pandemic consumer behavior trends.

Consumer confidence in the economy matters

Before consumers even consider paying a debt, they start engaging with the debt collector. This engagement can take many forms, from clicking a link in an email or a text message, listening to a voicemail, visiting a debt collection website, or even calling into a call center. All of these actions indicate that a person is reviewing their options — a serious first step toward payment. Our work with consumers has shown us that engagement tends to increase when consumer confidence about the economy (and their own financial situation) is high and decrease when consumers are more skeptical.

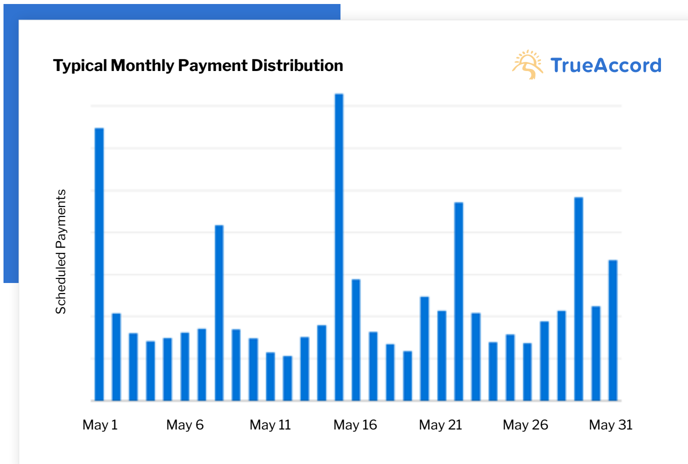
For example, the graph below shows click through rate (CTR) trends for TrueAccord's collection emails through late 2019 and early 2020, alongside the monthly change in U.S. personal income levels, based on data from the Bureau of Economic Analysis[1]. While CTR is a more volatile metric, the overall direction mirrors the changes in personal income.

Engagement metrics, like CTR (shown here), trend positively with monthly changes to personal income.

Source: TrueAccord data and [Bureau of Economic Analysis](#)

Payments are scheduled around paydays

Based on TrueAccord data, it's clear that consumers prefer to make payments on Fridays more than any other day of the week. Fridays accounted for only 14% of the days in 2019, yet 35% of payments from payment plans were made on Fridays. The first, fifteenth, and last of each month also have large surges of payment volume. It make sense that consumers plan their debt payments around when they receive their paychecks each month because they have the money available to pay.



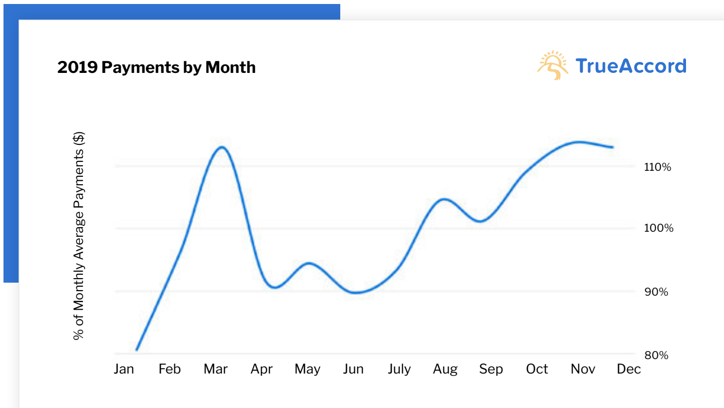
In a typical month, payment volume is highest around popular paydays: Fridays, the 1st, 15th, and last day of the month.

Source: TrueAccord data

Tax season is the busiest time for paying off debt

During tax season, we see both of the above trends in action. Nearly 80% of U.S. households receive a tax refund each year[2], amounting to about $2,800 on average. This influx of cash can be a lifeline for many families struggling financially. A recent survey by the National Retail Federation found that 34% of consumers who expect a tax refund plan to use it to pay down debt[3].

TrueAccord's data reflects this finding. Late February through early April is the busiest time of the year for paying off debt. In fact, we generally see a one-day peak in the last week of February, the first possible time to get a tax refund. After April, debt payments generally slow down again until Q4, when seasonal employment and gifting once again provide many American households with additional boosts of income.



Payments peak in March due to tax season, then slow down in Q3. There is another surge of payments during the holidays.

Source: TrueAccord data

The COVID-19 Impact on Debt Collection

Given the economic downturn, mass layoffs, and furloughs, it's no surprise that Americans are spending less and saving more. In April 2020, the personal savings rate hit an all-time high of 33%[4]. At the same time, consumers did not delay paying off their debts post-outbreak. While there was an initial slowdown in debt repayment early in the crisis, the introduction of stimulus payments led to record-high payment volumes.

Consumers want to pay off their debts when possible, but in uncertain times, they may not be sure that they can afford to do so. We can see this through a variety of consumer behaviors.

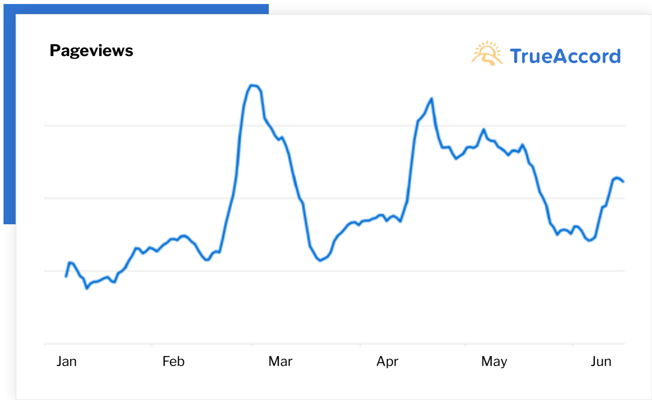
Economic shifts changed consumer engagement behavior

TrueAccord is a digital-first debt collection agency, so we interact with consumers across a variety of channels, primarily by email. These additional touchpoints allow us to implicitly understand consumer sentiment, based on a range of behaviors. For example, when consumers visit our website, open an email, or click on a link, we can tell that they're starting to consider their options in regards to their debt, even if they don't end up taking any action that day. Tracking these intention-driven engagements or "prepayment activity" helps us better understand how likely it is that consumers will pay their debts.

→ As illustrative examples for consumer engagement, we will examine email click through rates (CTR) as well as website traffic. Generally, people clicking on email links or visiting the TrueAccord website are beginning to explore their options for resolving their debt.

In terms of these types of engagement, 2020 started like any other year — there was a notable increase in prepayment activity in late February as the first tax refunds were being distributed. However, by early March, the severity of the coronavirus pandemic became evident and a steep decline in engagement began. Not long after a national emergency was declared on March 13th, engagement dropped to pre-tax season levels. For example, on March 14th, click through rates were 47% lower than their 2020 peak on February 26th and almost 40% lower than the same date in 2019.

On March 27th, the U.S. passed the CARES Act, a $2 trillion relief bill, that included "economic impact payments" for many American families. Despite economists projecting the "worst economic downturn since the Great Depression[5]," engagement rates increased dramatically. The promise of an unexpected windfall caused consumers to consider paying off their debts. Even before these stimulus payments first started hitting bank accounts on April 15th, there was an increase in engagement across all channels.



Consumer engagement declined as the coronavirus spread through the U.S. but started to bounce back following the news of the CARES Act on 3/26.

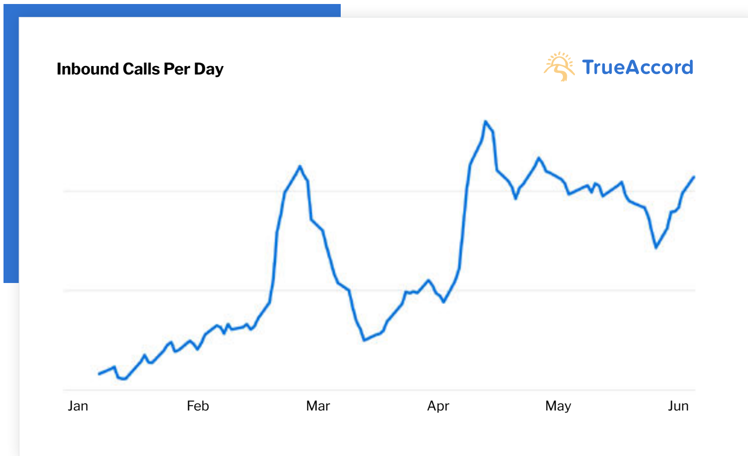
Source: TrueAccord data

These trends are more pronounced when compared to last year. Take click through rates as an example — in a normal year, a longer peak in February and March would have led to stable CTRs for the rest of April and May.

At the beginning of 2020, click through rates closely followed 2019 trends, but exhibited a different pattern after the emergence of COVID-19 in the U.S.

Source: TrueAccord data

Non-digital debt collectors saw these same engagement trends, primarily through metrics such as the volume of inbound calls to call centers. Based on our call-center data, TrueAccord found that the tax season surge in inbound calls was abruptly interrupted as the economy worsened. However, here too, engagement bounced back in early April as Americans began to expect their stimulus payments.



Inbound calls to TrueAccord's call center followed the same trends as digital engagement. Here, peaks in traffic are shown on 2/26 and 4/15.

Source: TrueAccord data

Stimulus checks altered payment behaviors

Just as with engagement, we saw consumers exercise caution as the crisis worsened but change course with the introduction of stimulus payments.

Unsurprisingly, there was a huge decrease in debt payments in early March as the downturn began, despite typically being the strongest performance month for debt collection. During the week of March 13th, average daily payments were down 37% compared to earlier in tax season, — a 13 percentage point drop compared to the same week last year.

However, as a result of the CARES Act, the average personal income in the U.S. rose by 10.5% in April 2020[6]. Many Americans chose to use this additional money to pay off debt, even as consumer spending fell by 13.6%[7]. In fact, a Bankrate survey found that 25% of Americans planned to use their stimulus payments to pay off debt[8].

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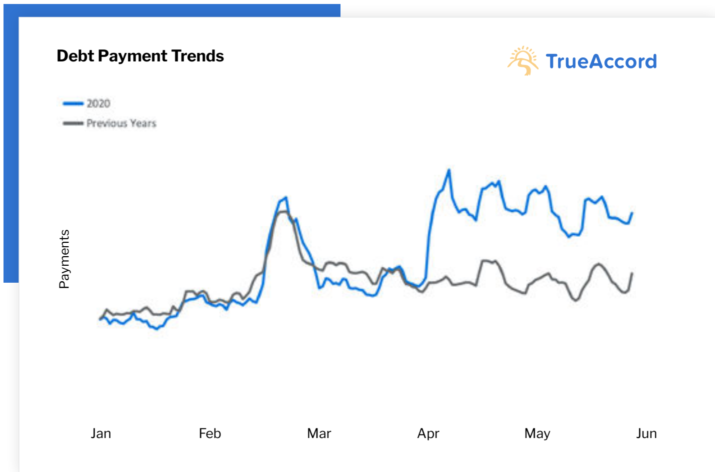
Understanding the CARES Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was a $2 trillion economic stimulus package (the largest ever). Among many provisions to support the U.S. economy through the coronavirus crisis, it included:

- Economic Impact Payments: All U.S. residents with a social security number and adjusted gross income (AGI) of up to $75,000 for individuals or $150,000 for married couples received a one-time payment (by check or direct deposit) of $1,200 for a single person or $2,400 for a couple, plus $500 per dependent. A reduced payment was available for individuals with AGI between $75,000 and $99,000 and couples with AGI between $150,000 and $198,000.
- Federal Pandemic Unemployment Compensation: Provided an additional $600 per week for those receiving unemployment benefits (through July 31st).
- Pandemic Unemployment Assistance: Broadened the eligibility guidelines for unemployment to include anyone who is out of work due to the pandemic, including formerly self-employed, contract, and gig workers.

Note: Economic researchers found that two-thirds of people receiving unemployment benefits may temporarily be receiving more money than they previously made at their jobs[9]. Overall, the median earnings-replacement rate was 134% of lost wages.

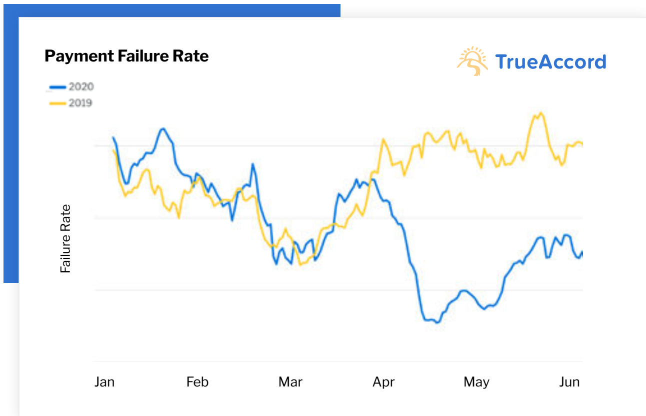
Just like during tax season, when consumers were presented with unexpected cash flow, they used it to better their financial futures, even with the knowledge of an impending recession. Specifically, we saw a near-instantaneous increase in debt payments on April 15th, the day the first major wave of CARES checks hit bank accounts. On that day, debt repayment dollars were 25% higher than on February 26th, the first day of tax season and previous payment peak. This trend is most interesting when compared to “normal” years, where there has always been a single peak in late February, followed by a steady tax season.



Payments data, normalized to tax season, shows a slow down in March compared to previous years due to economic uncertainty. In late April, this trend reversed, leading to weeks of increased payment activity.

Source: TrueAccord data

Despite the increased volume of payments, we saw fewer payments failing in April and May than usual. In fact, for those months, there was a 35% decrease in failed payments year over year. This can be attributed to two factors: consumers preemptively modifying their payment plans (as we’ll discuss later), and the sudden infusion of cash directly to consumers’ bank accounts.



April 2020 had very low payment failure rates, likely due to the influx of cash in consumers’ bank accounts.

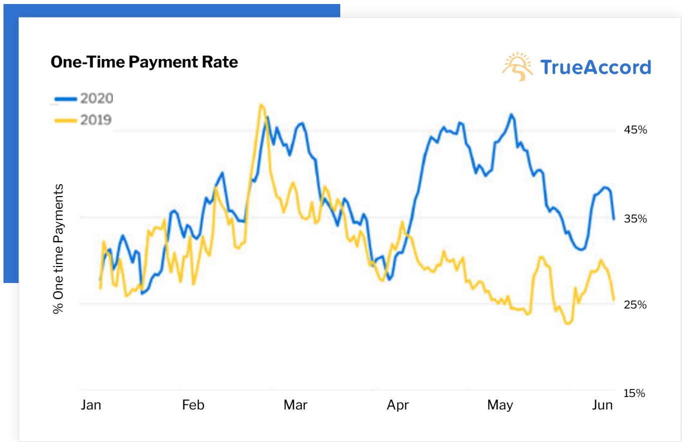
Source: TrueAccord data

Payment failures began to rise in mid-to-late May. Failure rates are still lower than those pre-stimulus, but we anticipate that they will continue to rise as Americans spend the last of their stimulus checks and unemployment remains prevalent.

Improved cash flow increased the rate of one-time payments

When presented with additional income, consumers generally choose to pay off their debts all at once, rather than having to keep up with a payment plan over time. However, when consumers can't afford to pay or settle their debts, they choose to set up payment plans instead. In a typical month, around 70% of payments are made on payment plans.

During a normal tax season (late February through early April), there is a surge in one-time payments. This year, we saw the same trend in late April and into May as consumers received their stimulus checks. In April and May of 2020, 40% of payments were one-time payments — 50% more than the same period in 2019.



In 2020, many more people made one-time payments, likely a consequence of one-time stimulus checks.

Source: TrueAccord data

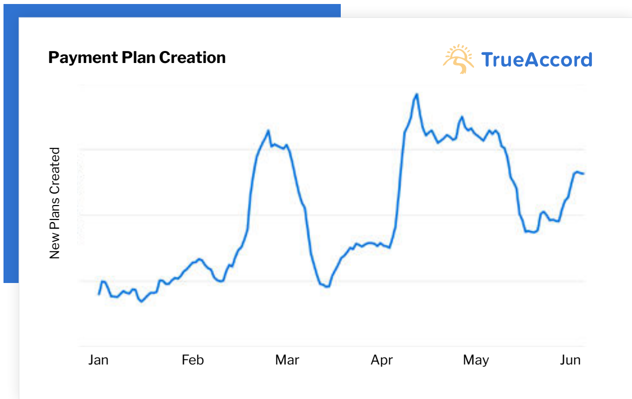
For many people, the stimulus check represented their path to a clean financial slate. In fact, for some households, the combination of a tax refund, stimulus check, and additional unemployment benefits provided unprecedented liquidity. With an uncertain economic future ahead, many opted to clear their debts completely rather than dole out payments over the course of many months. This can be especially important before a recession to ensure easy access to credit lines, should they be needed, in the future.

Consumers opted for payment plans that fit their needs

For those who could not pay their debts in full, stimulus checks still provided the opportunity to reduce debt by setting up a payment plan.

Following an atypical slowdown in payment plan creation in March and early April, we saw an increase after April 15th. In the week following April 15th, there was a 22% increase in new plans created compared to the previous week, despite a 3% decrease in the same period last year. There were even 10% more new plans than the last week of February, the unofficial kick-off of tax refund season and usual annual peak.

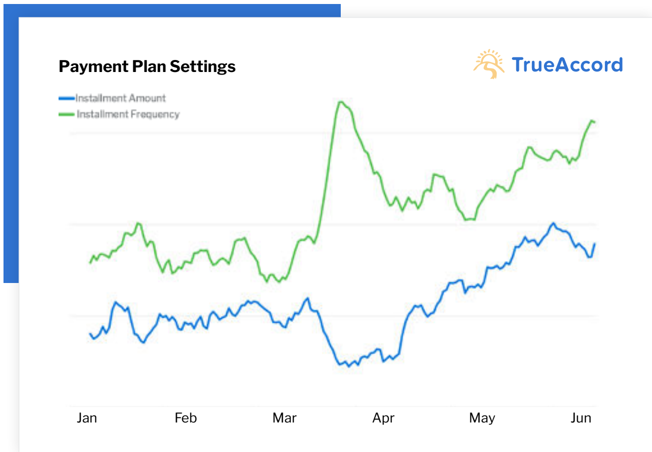
By the end of May, this activity began to slow as Americans had used most of their stimulus payments already. A slight uptick in consumer sentiment in early June[10] and the reopening of many states were likely the cause of the small increase in new payment plans that followed. One thing is for sure — in the age of COVID-19, debt repayment is likely to be irregular.



Fewer consumers started new payment plans in March, as uncertainty due to the coronavirus was escalating. However, after stimulus checks were distributed, activity resumed at tax-season levels.

Source: TrueAccord data

Consumers who did choose to start a plan in March opted for a longer time horizon and lower monthly payments. This trend was accelerated by many creditors offering longer payment plan options to better serve consumers at the start of the pandemic. In mid-March, the average payment plan was 25% longer than ones started during tax season. As uncertainty loomed, it's likely these people tried to minimize their cash outflows. But as more money was infused into the economy with the stimulus checks, we saw that trend reverse, with consumers once again opting for shorter plans around April 15th.

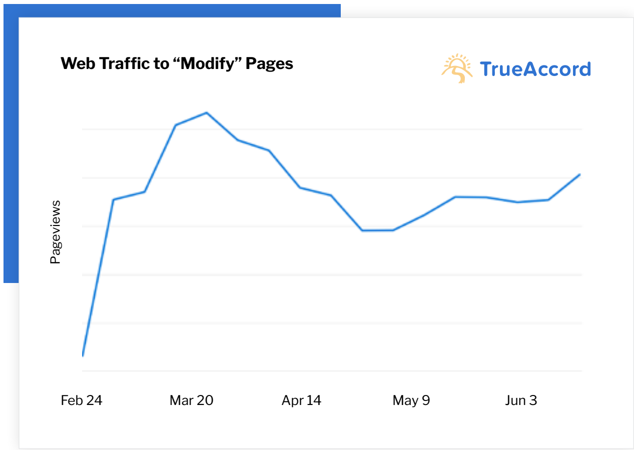


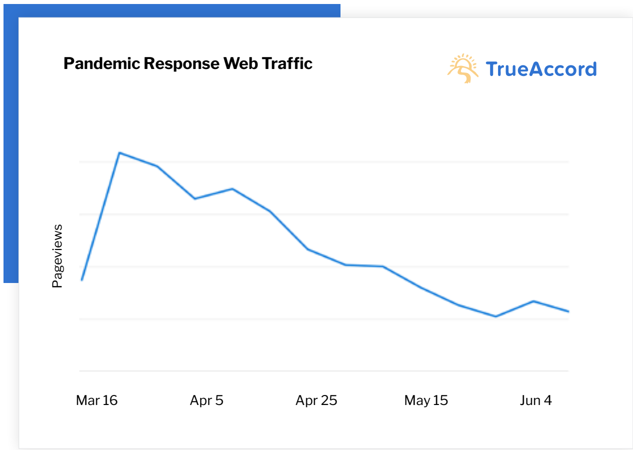
Economic uncertainty led consumers to choose longer payment plans with lower monthly payments.

Source: TrueAccord data

Modifications were key early in the crisis

Many consumers with existing payment plans flocked to modify their payment plans early on in the crisis, both through our payment portal and through our pandemic response webpage. According to the CFPB, this follows a general trend of consumers seeking changes to loan terms, including length of loans, interest rates, and alternative ways to postpone or lower monthly payments[11]. Interestingly, both of these behaviors also slowed around early April.

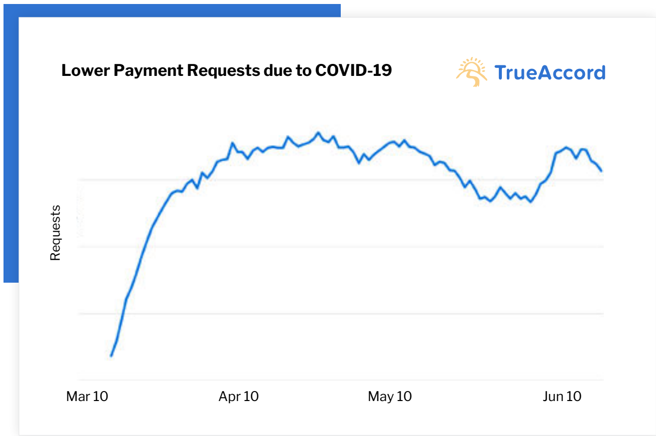




Consumers with existing payment plans flocked to web pages that allowed them to modify their existing plans early on in the pandemic. This trend slowed with the introduction of stimulus payments.

Source: TrueAccord data

Many companies, including TrueAccord, allowed consumers to request payment deferrals or lower payments due to COVID-19. Once introduced, there was an immediate increase in people requesting lower payments due to hardship from the virus. This trend stabilized in early April.



The number of people requesting lower payments due to COVID-19 has stabilized, but not decreased.

Source: TrueAccord data

When consumers have available cash flow, they generally opt to pay off their debts. How they choose to pay depends on the payment options offered to them and their outlook on the economy in general. One-time stimulus payments, such as the one distributed through the CARES act, result in many consumers choosing to make lump sum payments to fully resolve their debts.

What This Means: Four Recommendations

When consumers have the money to do so, they choose to pay off their debts. It's up to debt collectors to make this process as simple as possible. As the world settles into a "new normal," the industry will have to be prepared for unpredictable payments based on the ever-evolving economic situation. However, at times when consumers have more cash on hand, companies collecting debt should streamline their experience so that it's as easy as possible for consumers to pay their debts.

Here are four recommendations, based on our data and experience, on how to best serve consumers.

1

Use Context-Aware Messaging

2

Provide Flexible Options

3

Introduce Self-Service Options

4

Implement Smarter Staffing

1 Use Context-Aware Messaging

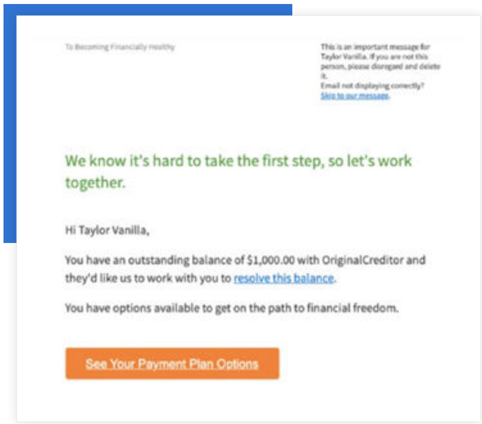
Debt collectors have a relationship with a consumer, even before they start paying. Now, more than ever, it's crucial to take a context-aware approach to these communications.

At TrueAccord, we leverage a machine learning system called *Heartbeat* to optimize our messaging to consumers. We consider the best message for each person, the best time to send it, and how often to reach out. While our system uses a sophisticated process that compares each customers to the millions of people it's seen in the past, other companies can get started by implementing a set of heuristics. For example, optimizing content based on historical performance can increase engagement. We've found that even just optimizing the content in an email can increase click through rates by 20%.

The tone of your messages can make a big difference too. With consumers in a state of extreme stress, it can be helpful to let them know that you both have the same goal — to get them out of debt. Be patient and make sure they know all of their possible payment options.

In fact, in times of extreme financial hardship, like the coronavirus crisis, you can maintain customer relationships with relevant non-account related communications. For example, when stay-at-home orders went into place, TrueAccord reached out to our consumers to educate them about available resources, such as governmental aid programs. These types of communications can help consumers in need, and allow you to take part in their journey toward financial freedom.

To be sure, optimizing content is about tone and timing — not increased frequency of communications. In fact, there are many safeguards in place to protect consumers from email overload. Not only will email service providers identify those who over-email as spam, but consumers can also independently unsubscribe or flag messages as spam if they feel harassed. At TrueAccord, we email less frequently than the CFPB proposed limits on phone calls.



Sample email
Source: TrueAccord

2 Provide Flexible Options

Consumers need the ability to pay when they can. This may mean being able to schedule payments to coincide with their paychecks or being able to adjust a plan to accommodate uneven or unpredictable cash flow. As the past few months have shown, it is especially important for people to feel confident that they can adjust their payments during times of economic hardship and uncertainty.

While these adjustments may affect short-term liquidation efforts, in the long-run consumers will pay off the debts they feel are most manageable first. April (as well as past tax and holiday seasons) proved that when presented with an influx of cash, consumers choose to pay off their debts.

Giving consumers the flexibility to plan payments around their cash flow is not only better for customer experience, but also minimizes the risk of a failed payment due to insufficient funds and leads to lower plan breakage rates. Our research shows that consumers are 50% less likely to drop off a flexible payment arrangement.

New FASB Guidelines

The Financial Accounting Standards Board has released a statement confirming that short-term modifications in response to COVID-19 (to borrowers who were previously current) are not considered troubled debt restructurings (TDRs)[12]. This includes modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant.

3 Introduce Self-Service Options

Today, consumers take care of most of their financial needs without ever talking to a human, so why should paying a debt be any different? Online self-service tools have become the norm across financial institutions and debt collectors need to follow suit to best serve consumers.

The first step is to set up a payment portal, so consumers can make a payment without needing to speak with an agent. Not only is this process better for the consumer, but it will likely lead to better payment outcomes; a survey by Arise found that 56% of consumers would hang up after waiting two minutes to speak to an agent[13].

But to truly introduce the convenience of online banking to the collections industry, digital tools must also allow consumers to take a variety of actions including (but not limited to): adjusting the length and installment amount on their payment plan, deferring a payment, disputing all or a portion of their debt, entering bankruptcy information, or applying for a hardship pause on their debt. At TrueAccord, 95% of users on our platform resolve their debts without ever talking to an agent.

Self-service tools also mean that consumers can choose to pay whenever it's convenient for them, not just during business hours. Our data shows that 17% of consumers access our website before 8:00 a.m. or after 9:00 p.m — times when they could never talk to an agent.

4 Implement Smarter Staffing

Payments will continue to be inconsistent throughout the rest of this crisis. As individuals receive governmental aid or businesses are able to hire back their workers, we may see spikes in payment activity. Unfortunately, staffing becomes very complicated when there is uncertain demand. On top of that, operating a call center is harder than ever, with most states still requiring staff to work from home — a challenge for compliance, IT, and HR.

The first step toward addressing these issues is to better prepare for spikes in payments based on leading indicators of future demand. First are government programs. Just as the CARES Act led to a huge volume of payments, any future stimulus bills could lead to similar results. While the HEROES Act, a $3 trillion aid bill, has not yet passed in the Senate, all companies collecting debt should monitor these congressional negotiations closely to prepare for the next wave of payments.

Companies can also get a sense of consumers' interest in paying from prepayment activities. As discussed earlier, these behaviors begin to trend upward even before payments start streaming in. Monitoring these trends will signal when it may be time to bring in additional staff to ensure your center can adequately respond to increased inbound demand. There is no replacement for a well-trained agent to help customers with more complex situations, especially in a time of crisis.

However, machines are great at handling routine requests and freeing up agents to address more complicated needs. At TrueAccord, each agent is able to service more than 80,000 accounts (and counting) vs. a traditional agency's 1,000-2,500. Plus, once someone decides to pay a debt, having digital payment options alleviates pressure on the call center and on consumers. With the help of digital tools, less than 1% of TrueAccord's consumers ever interact directly with an agent. This hybrid model allows us to provide the best possible customer experience, even during busy and unprecedented times.

In order to succeed in the long-term, debt collection agencies must introduce a digital-first model. Not only is it a better experience for consumers, but in terms of performance and actual dollars collected, our data indicates that this collection model outperforms call-only debt collection by 30-50%.

Conclusion

Right now the future of the economy is uncertain, but if the 2008 recession is any indication, debt levels will rise and consumers will need help. If debt collectors want to keep their businesses running, they need to adapt to an operating model that allows consumers to pay when they want to.

Based on the engagement and payment trends we've seen in the first few months of the coronavirus pandemic, we recommend that all companies collecting debt should use context-aware messaging, provide flexible options, introduce self-service options, and implement smarter staffing.

Endnotes

1. Bureau of Economic Analysis - Personal Income
2. IRS - Filing Season Statistics
3. NRF - Retail Holiday and Seasonal Trends: Tax Returns
4. Bureau of Economic Analysis - Personal Saving Rate
5. International Monetary Fund - The Great Lockdown: Worst Economic Downturn Since the Great Depression
6. Bureau of Economic Analysis - Personal Income
7. Bureau of Economic Analysis - Consumer Spending
8. Bankrate - Survey: 31% of Americans expecting a stimulus check say it won't keep them going a month
9. Peter Ganong, Pascal Noel, Peter Robertson, and Joseph Vavra (University of Chicago) - US Unemployment Insurance Replacement Rates During the Pandemic
10. University of Michigan - Index of Consumer Sentiment
11. CFPB - Complaint Bulletin: Complaints mentioning coronavirus keywords
12. Interagency Board of Governors - Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus
13. Arise - Consumer Survey: Customer Service Wait Times

About TrueAccord

TrueAccord is a full-service digital-first debt collection agency that has worked with more than 12 million consumers of major banks, issuers, eCommerce companies and direct lenders. We are transforming the debt collection industry and helping consumers reach financial health with convenient payment plans, customized billing schedules, and easy documentation.

Email sales@trueaccord.com or sign up for a product demo to learn more.

Automated Collections

96% of our customers resolve their accounts through self-service offered by our product and digital channels. We're conviniently online and accessible 24/7, without relying on a call center team.

Scalable Systems

Our digital automated collections strategy improves and scales up in real-time as placement volume increases.

Superior Performance

Our proprietary machine-learning technology isn't subject to traditional call and collect staffing concerns and provides personalized customer experiences that optimize for liquidation.

Exit this crisis with improved brand perception.

Customers want to get out of debt. We make it easy.

'I love how simple you guys make it to pay off all my debts. ***Well on my way to fixing my credit and I owe it all to you!"***

Google

Better Business Bureau

'The first collection agency I've ever dealt with that ***treated me like a human*** *and not a complete delinquent."*

'This was an ***incredibly convenient solution*** *to something that nobody enjoys doing - contacting collections agencies."*

'You motivated me to repay my debts and monitor my credit. You appreciated me and I felt the ***extraordinary customer service*** *from the day I first took the loan. I am grateful and* ***even during this pandemic*** *I felt my loyalty to complete my payment of this loan over any other bills. Thank you again!"*