Center for Responsible Lending

Congress Should Pause Debt Collection and Protect Assets, Including Stimulus Checks During COVID-19 Crisis

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Even before the onset of the COVID-19 pandemic, US household debt was on the rise, reaching over $14 trillion. While much of this debt stems from mortgages, a growing amount stems from non-mortgage consumer debt, including student loans, medical debt, credit cards, installment loans, and auto loans. With the number of Americans facing unemployment, lost wages, and depleted savings due to the COVID-19 crisis, we can expect that household debt as well as defaults and delinquencies will rapidly climb.

- In recent quarters, delinquency and default rates were already on the rise. Financial services debt is the largest source of revenue for the debt collection industry: it was estimated to account for nearly 40 percent of debt collection revenue in 2018.
- The wealth gap drives higher debt loads for families of color. Black families are twice as likely as white families to lack liquid savings to pay each month's expenses, and their community support networks typically have less wealth because historical and systemic discrimination has plagued the entire community.
- Debt collection, collection lawsuits and judgments, and wage garnishments are more common in communities of color, due to systemic and historical discrimination in financial services, housing, employment, and the criminal justice system. Forty-two percent of borrowers living in areas that are predominantly communities of color had debt in collections versus 26 percent of borrowers living in predominantly white areas**.** Thus, the same people who will be hardest hit by the economic fallout of the pandemic will be the same people exposed to abusive debt collection, both immediately and over the long term.
- Abusive debt collection practices can also exacerbate the health impacts of this crisis. All studies that have looked at the impact of debt on health outcomes have shown a link between debt and negative health outcomes, including anxiety, depression, and high blood pressure.

Debt collectors see chaos and crisis as opportunity, and this pandemic is no different. In fact, in many states, debt collectors are fighting to be designated as "essential" businesses, enabling them to continue extracting desperately needed income from struggling families. The combination of the COVID-19 outbreak and a rapidly declining economy could financially drain families for generations.

Congress must act to stop the immediate and long-term public health and economic consequences of abusive debt collection, including use of courts to collect debts:

- Protect stimulus check money and unemployment benefits from immediate seizure by debt collectors.
- The following activities should be prohibited for at least three months: all referrals to debt collectors or sales to debt buyers, all new and existing court filings, garnishments, offsets, repossessions and other ways to seize or deprive the consumer of the use or benefit of wages, income, government payments, bank accounts, cars and other household assets, and any other enforcement actions or adverse actions.
- Any additional federal aid provided to state or local governments should require suspension of the collection of debts owed or assigned to them, including: public utility debt; student loan debt; medical debt; and criminal legal system fines and fees, including suspension of consequences for nonpayment of fines and fees, such as issuing arrest warrants or suspending drivers' licenses.
- Negative credit information should not be reported to the credit bureaus during the crisis; longer protection periods should be available to those facing lasting financial hardship from the outbreak.