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## Card issuers more open to debt deals but fewer qualify

Debt management plan payments prove too high for many consumers



By Connie Prater

In over your head and struggling to pay your credit card bills? Compared to a year ago, credit card issuers are more sympathetic to financial hardships facing many families. Card lenders are more willing to help consumers enrolled in debt management plans repay their loans by slashing interest rates and waiving fees.

### Why?

All of the major credit card issuers are reporting rising defaults and charge-offs as the economy slows and job losses reach their highest levels in decades. Getting something in repayment is better than nothing, especially at a time when banks are reeling from losses in their mortgage portfolios and forced to take government bailout dollars.

"Given the current economic environment, we have continued to look at how we can modify terms to address customers' situations," says Betty Riess, spokeswoman for [Bank of America](#), one of the top three credit card issuers in the United States. Over the past year, Riess says BofA has stepped up efforts to identify card users "before their financial situations become too distressed" and offer assistance, including referring them to accredited consumer credit counseling agencies.

### Making more concessions

[American Express](#) recently extended its debt management program repayment period from 50 months to 60 months, says spokeswoman Lisa Gonzalez. She adds: "Extending the payment period by these 10 months allows more flexibility and greater access for our customers."

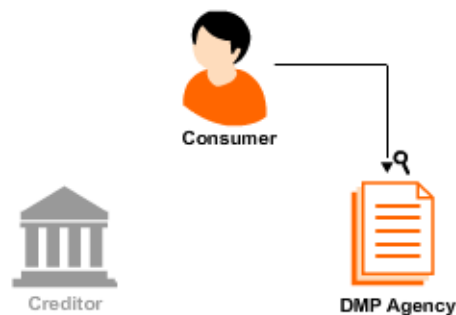
Mayel Vasquez, an accredited financial counselor at Pioneer Credit Counseling in Rapid City, S.D., agrees that creditors are accepting more hardship cases.

### How debt management plans work

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#### Locate

Most credit card issuers have negotiated guidelines with nonprofit consumer credit counseling agencies to setup terms for a debt management plan. Find and investigate the appropriate one for you.



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### Debt management plans: Not for everyone

As credit card charge-offs rise, debt management plans -- which allow consumers to pay off their debts over time under more lenient terms -- may be options for families who want to pay off their debts. But many are finding repayment terms aren't low enough to make affordable payments on increasingly large credit card debts.

"In recent months, there's been an improvement," Vasquez says. "We hope to see a better improvement within this next year because of the economy. We hope the issuers will make it easier."

While creditors are more willing to make concessions to help those who earnestly want to repay all of their debts, the economy is making it more difficult for consumers to get into so-called debt management plans (DMPs). These are programs administered by accredited consumer credit counseling agencies to help families drowning in debt work out reasonable long-term repayment plans with creditors.

A DMP bundles unsecured debts from several creditors that agree to more lenient repayment terms and determines a monthly payment amount necessary to pay off the loans in three to five years. Depending on the consumer's debt load, that monthly payment can be \$500, \$1,500 or \$2,000 or more.

### Bigger debt loads

These days many consumers are carrying larger debt loads. A recent write-up from The Nilson Report, a monthly card industry newsletter, estimates the average credit card debt for households with at least one credit card is about \$10,600, although credit counselors say they are no longer surprised to find a family with \$100,000 or more in credit card debt. Family budgets are stretched so thin that fewer people are able to make the monthly payments required in the DMPs -- even with lower interest rates and waived fees. People who are unemployed or underemployed -- a growing segment of the American population -- do not have the income to sustain debt management plans.

As a result, some credit counseling agencies report enrollment in DMPs is flat or declining, although others say they've seen a greater willingness in the past two months on the part of creditors to accept DMPs.

"There's a lot more people who need more help," says Sandy Shore, a manager at Novadebt, a New Jersey-based consumer credit counseling agency. She said only about 2 percent of her agency's cases are going into debt management plans. Shore emphasizes that a DMP may not be for everyone and is just one option in an arsenal of choices available to consumers drowning in debt. ([See: In over your head in debt? Here are some options.](#)) "A number of creditors are offering additional hardship programs for people who could not go on a DMP because the payments are too high."

### Recouping losses

What's in it for credit card issuers? People who want to repay their debts, but can't because payment amounts are too high are left with two alternatives: Default on the debt and get sent to debt collectors or file for bankruptcy. [Rising personal bankruptcy filings](#) are proof that more families are taking the bankruptcy route. But banks never recoup loans that are discharged in bankruptcy. With a DMP, lenders are able to get nearly all of the card loan back over time.

"They are trying to get whatever they can from whoever they can get it from," says Andrew Bernstein, a senior certified credit counselor at DebtHelper.com, a nonprofit consumer credit

#### In over your head in debt? Here are some options.

Credit card issuers and credit counselors agree that consumers experiencing difficulty paying their debts should contact creditors or counselors sooner rather than later. The reason: There may be more options available to you the earlier you reach out for help.

Here's a list of things to consider:

**Local government or social service charity aid.** Are you eligible for any government-sponsored assistance programs? Check with your local or state government. Some offer programs to help, including unemployment assistance, food and counseling.

**Budgeting is best.** If you don't already have one, get a family budget. Look at both expenses and income. Can you cut back on spending (cable, cell phones, land lines, groceries, dining out, entertainment, clothing or other nonessentials)? Are there ways to boost your income (getting a second job, having a spouse return to work, putting in overtime hours at work, getting a roommate)?

**Call the lender.** Several of the major credit card issuers offer hardship (or [forbearance](#)) programs that feature interest rate reductions, waiving over-limit fees and other measures to

counseling agency in West Palm Beach, Fla. He says creditors have two basic questions when he contacts them about setting up a DMP for a client: How much and how soon? "If you get 80 percent of every \$100, that's better than a one-time write-off. If they can get something, that's always going to be their main thrust."

Another factor working against debt management plans: Today more consumers are facing more complex financial problems. While a year ago some may have just had credit card bills to contend with, many more have defaulting auto loans, personal loans and mortgages vying for scarce repayment dollars.

Cate Williams likens helping these clients to triaging patients in a hospital emergency room.

"They've been in a serious financial wreck," says Williams, vice president for financial literacy for Money Management International, a Houston-based network of counseling services.

"It's presenting some challenges, but we're sending full disclosures to the creditors when we offer up a payment plan: 'We're not only asking Sears to take a smaller payment, we're asking six other creditors.' Those budgets and those lists of creditors really tell the story. There isn't any other money here, folks."

Riess from BofA says they are working with the nonprofit consumer credit counseling groups such as the National Foundation for Credit Counseling (NFCC), to come up with payment options that work in today's economy. "We fully support debt management programs because we believe a holistic solution is the best avenue for consumers who are carrying a lot of debt with other lenders as well as Bank of America."

#### **Regulator rejects concession plan**

Hoping to get more debtors into DMPs, banking industry representatives and consumer advocates announced a proposal in October 2008 that would have allowed creditors to forgive up to 40 percent of the principal on credit card loans and stretch repayment plans over five years.

"The economic reality of the recession and having more and more Americans facing trouble paying their credit card debt led the industry to try to find ways to alleviate the pressure," says Scott Talbott, senior vice president of government affairs for the Financial Services Roundtable, an banking industry trade group.

The plan involved setting up a test period and using 50,000 people already enrolled in DMPs to see if repayment rates increased. But a key part of the plan relied on federal regulators to waive banking rules that require lenders to charge off outstanding debts held on their books within three to six months of forgiving or settling loans. The plan also relied on the IRS to waive rules that treat certain [forgiven debt](#) as taxable income.

help. These are typically short-term programs lasting less than a year and may not help consumers completely pay off their debts.

#### **Enroll in a debt management plan.**

Accredited consumer credit counseling agencies can go over your budget (or help you make one) and determine your ability to work out a reasonable repayment plan for ALL of your debts. The plan, if approved by your creditors, allows you to make payments to the credit counseling agency, which in turn pays the creditor. Depending on the size of the debt, the plan can take three to five years to complete. While enrolled in a DMP, your credit report may indicate "paying through third party" on the affected accounts. Note: Some unscrupulous private debt management companies have been sued by the Federal Trade Commission for taking payments from consumers but never forwarding the money to creditors.

**Debt settlement.** Consumers can negotiate to pay less than the full balances on their credit card debts. The settlements can be negotiated by the consumer or through third-party agencies. Beware, however, that settling a debt for less than the original amount owed can lead to IRS tax obligation. According to the IRS, forgiven debt is taxable income. Settlement also damages credit scores.

**What about filing for bankruptcy?** Consult with a credit counselor and a bankruptcy attorney. If you have no assets that can be seized and rely on protected income (Social Security, for instance), creditors would gain little by filing civil suits against you for collection. Remember, bankruptcies can remain on your credit report for seven to 10 years and should be considered only as a last resort.

The Office of the Comptroller of Currency (OCC), the federal agency that regulates national banks, [rejected](#) the portion of the plan involving delaying charge-offs. Under current OCC rules, when principal balances on debts are forgiven, the balance must be repaid within three to six months and banks must write off the amounts forgiven and report it to the IRS. For debtors, that means they may be hit with the double whammy of a tax burden while they are still trying to pay off their credit card debts.

In September 2008, the NFCC issued a "[Call to Action](#)" asking all credit card issuers to agree to more reasonable repayment terms for debt management program participants. The NFCC sought to allow debtors in DMPs to make monthly payments of 1.75 percent (in hardship cases) or 2 percent of their outstanding balances. In addition, the credit counseling group wanted agreement from issuers that clients could put \$25 to \$200 a month into savings plans.

The NFCC is planning an April 17 announcement updating the status of its Call to Action efforts.

### **Saving for a rainy day**

Having a rainy day or emergency savings fund to tap when the car breaks down or other crisis arises is the backbone of any good personal finance plan. However, when DMP clients submit budgets to creditors detailing income and expenses, those that include any kind of savings element often have been rejected, credit counselors say.

"If you're putting money in a savings account, they frown on that," says Bernstein from DebtHelper.com. "Anything that takes away from what they're supposed to get ... a lot of creditors don't find that acceptable. If you have this money just lying around they would say, 'Pay your darn bills.'"

Williams, from Money Management, says clients should be allowed to build up a minimum of a \$200 cushion for emergencies so they "at least have some kind of shock absorber so you're not automatically reaching for the credit card because now there's no credit card to reach for."

Talbott, the financial services industry spokesman, says some lenders may be relaxing those standards, "Everyone can see the benefit of having a rainy day fund. The industry is supportive of Americans savings and investing for a rainy day and retirement."

**See related:** [Creditors become less willing to negotiate with debtors](#)

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