DATA REPORT

Consumer Finances, Student Loans and Debt Repayment in 2023

A data-driven look at the consumer financial landscape, student loan debt and implications for other loan repayment

The purpose of this report is to construct a comprehensive picture of the financial landscape for consumers with debt in delinquency. This report analyzes aggregated and anonymized data of 100,000 US consumers in debt collection with TrueAccord from January 1, 2021 - July 1, 2022 and appended with information to gain insights into their financial health and outlook. The appended information looks at those accounts at snapshots over time from January 29, 2020 - January 29, 2022. While demographic trends are included in this report, TrueAccord does not use any demographic data in its debt collection practices.

The economy took a wild ride in 2022, and with interest rates continuing to rise, inflation expected to remain relatively high and household savings dwindling, 2023 could be just as challenging. As consumers battle high inflation and interest rates to afford necessities, budgets will be stretched and many will have to prioritize when and where they spend. Unsurprisingly, paying off debt will likely take a back seat to food, housing and transportation needs. But what will that mean for lenders and creditors? Industry people in the know are predicting a rise in delinquencies, which translates to potential losses for businesses. In this report, we'll analyze data of thousands of consumers in debt collection to explore how they are positioned to handle financial stressors as well as how different financial burdens impact the repayment ability of consumers in debt collection, especially in this tumultuous economy.

Key Takeaways:

- **Economic indicators** show a rough road ahead for consumers, especially for minorities and low-income individuals
- **Resumed student loan payments will impact ability to pay debts** - consumers with student loans have an average of $11,373 in non-student loan debt, or 92% more than consumers without student loans ($5,917)
- **Student loan holders increased their average number of open trade lines by 10.3%** since 2020, while open trade lines decreased by 7.7% for non-student loan holders
- **Consumers with student loans have an average of $811 more in auto loan debt** than those without student loans as of 2022
- **Engaging consumers** with multiple debts requires understanding, personalization and patience in 2023

The Situation Impacting Consumers in 2023

After a year of piling on credit, delinquencies on consumer loans have already started to rise, a trend that is expected to continue. TransUnion predicts that Americans will fall behind on their personal loan and credit card payments in 2023 at the highest rates since 2010, which is concerning given that consumers took out a record 87.5 million new credit cards and 22.1 million personal loans in 2022. The credit reporting agency estimates that delinquency rates could rise to 2.6% at the end of 2023 from 2.1% by year-end 2022.

The past few years saw a unique economic situation and pandemic-era stimulus that introduced more cash, resulting in new debt trends and unexpected consumer financial behavior. Early days saw debt paydown and increased savings, but as the surplus runs out and economic stressors persist, it's important to understand where consumers stand today so we can determine how to best engage them if they fall behind tomorrow. Consumers have multiple types of debt including mortgages, student loans, medical bills, auto and personal loans, credit cards and the ever more popular Buy Now, Pay Later products, which all combine to build a debt burden that consumers must balance, and which may become unwieldy when money is tight or when faced with financial emergencies.

Key Economic Indicators

Inflation and interest rates continue to play a big role in consumers' finances. According to the U.S. Bureau of Labor Statistics, the "all items" consumer price index increased 6.4% for the 12 months ending January 2023. Also in January, the Federal Reserve raised its benchmark interest rate by another .25 percentage point to 4.5-4.75%, the highest level since 2007, indicating that the inflation battle is not over yet despite some promising signs. And unfortunately, those interest rates will continue to go up and be harder to bear for cash-poor consumers.

Spending more means saving less, and that puts consumers at greater risk of financial hardship, especially when faced with potential job losses. The U.S. savings rate came up slightly in December to 3.4%, but was down from 7.5% from the year prior and only slightly up from a 17-year low in October. The latest Paycheck-to-Paycheck Report from PYMNTS and LendingClub shows that in December 2022, 64% of U.S. consumers were living paycheck to paycheck, a 3% rise from the year prior.

Tasked with making ends meet and running out of savings, many consumers have turned to credit cards for extra funds. Credit card balances saw a $27.9 billion increase in November, a 16.9% year-over-year increase. Many of those credit cards belong to subprime borrowers who not only pay more for credit access but are also more financially at risk to inflationary pressures and unexpected expenses. Equifax data reported by Bankrate shows that about 3.95 million traditional credit cards had been issued to subprime borrowers (consumers with a VantageScore 3.0 below 620) in Q1 2022, jumping by 18.3% and representing an overall credit limit of $3.29 billion, compared with the same period in 2021. And carrying balances on those cards will get more expensive as interest rates go up, increasing the likelihood of default.

Other loan types have picked up steam, as well. TransUnion reports that as of Q3 2022, 22 million consumers had an unsecured personal loan, the highest number on record, while total personal loan balances in the same quarter continued to grow, reaching $210 billion – a 34% increase over last year. Similarly, Experian reports that HELOC balances grew by 1.5% in November 2022 after increasing over 9 of the last 12 months. With HELOC originations down, the increase in balances is attributable to homeowners tapping into existing lines of credit as the cost of living rises.

The ever-present risk of recession and associated job loss presents a precarious situation for consumers, but especially the most financially vulnerable. According to a December report from the Consumer Financial Protection Bureau (CFPB), many consumers are not financially prepared for a disruption to their main source of income, with nearly [37%](#) of households reporting that they could not cover expenses for longer than one month. And financial disparities persist - that number rises to 51% for Black and Hispanic households. The CFPB report also shows that the finances of Hispanic consumers, renters and consumers under age 40 deteriorated rapidly between 2021 and 2022; and Black, Hispanic and low-income consumers are far more likely to have difficulty paying bills or accessing the credit they need.

Younger borrowers with limited income are also more vulnerable to financial difficulties. According to a report by the Urban Institute, nearly one in five adults between ages 18 and 24 with a credit record in the U.S. currently have debt in collections. Further, young adults in majority-Black and majority-Hispanic communities have nearly twice the rate of credit card delinquencies as young adults in majority-white communities and are even more likely to struggle with credit and hold past-due debt, the report found.

Long story short: the debt burden for consumers has dramatically increased and indications are that it will continue to grow, along with the disparity on economically disadvantaged consumers and minorities.

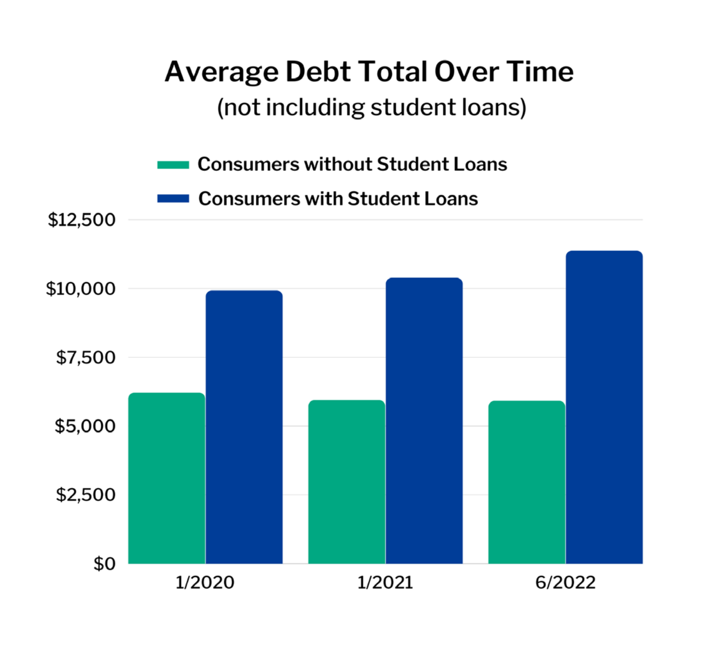
Student Loans Will Impact Ability to Pay Debts

While TrueAccord does not collect on student loans, it is important to understand the role that student loan debt plays in consumer finances in today's economy. Financial health and flexibility are key to consumers' ability to meet debt obligations, so the following analysis of consumers in debt collection for non-student loan accounts explores the financial landscape of student loan holders and how resumed payments or a reduced student loan debt obligation would impact this population.

As President Biden's student loan forgiveness program meets legal challenges, student loan relief is still a possibility in 2023 as tens of millions of Americans wait to see what it means for them. If successful, many consumers will see their overall debt burden decrease. If unsuccessful, those consumers will see no reduction in their debt and will be responsible for resuming paused payments.

Consumers with student debt made up nearly 19% of the population in February 2022, with Black consumers nearly twice as likely as non-Hispanic white and Hispanic consumers to hold student debt, according to the same CFPB report. Further, a substantial percentage of consumers without a vocational, 2-year, or 4-year degree held student debt as well, and those consumers have much lower financial well-being. In 2020 and 2021, many student loan holders benefited from the option to defer payments, which meant no payments due now and no accrued interest to worry about later.

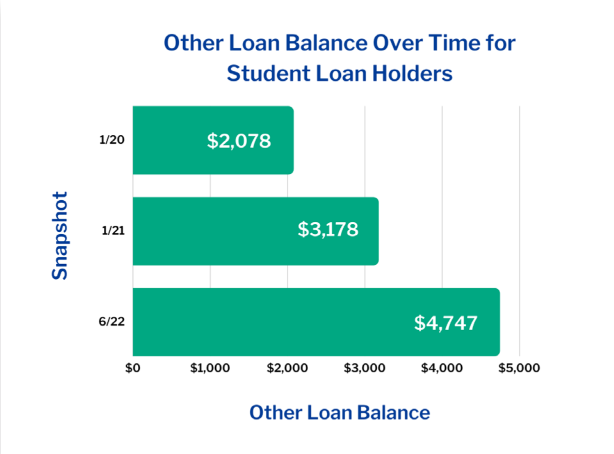
For consumers in debt collection on non-student loan accounts, how did loan deferment impact their financial health? Consumers with student loans took on more debt during the pandemic and have an average of $11,373 in non-student loan debt, or 92% more than similarly delinquent consumers without student loans ($5,917).



The 100,000 accounts analyzed showed the total average debt of a consumer with student loans increased 14.6% from 2020 to 2022, while that of consumers without student loans decreased 4.8%. And some of this increase came from new accounts - the average number of open trade lines increased 10.3% for those with student loans, while it decreased 7.7% for those without.

So what happened? At first, the government stimulus package coincided with a debt balance decrease for both those with student loans and without. Further analysis showed that during the pandemic both those with student loans and without paid down credit card balances, but those who deferred student loan payments paid down even more, with an average debt reduction of $611 compared to $311 for those without student loans and $411 for those student loan holders who didn't defer payments. As consumers across the board repaid debts during the early days of the pandemic, delinquencies were at record lows, causing lenders to become more comfortable serving subprime consumers.

In fact, analysis of the 100,000 accounts in collections showed that those with student loans added credit cards (up 8%), personal loans (up 4%) and personal installment loans (up 5%) to their debt balances. And for those in collections with student loans who deferred student loan payments, the average total balance of other loans more than doubled from 2020-2022, from $2,078 to $4,747, a 128% increase. Without knowing why these consumers took on more loans, whether out of necessity or discretionary, it is worth noting the behavior trend of this population. In effect, the new loans negated the gains of deferring student loan payments, and will make resuming student loan payments more challenging.



Another notable debt change trend was around auto loans. While those without student loans and those who didn't defer them both decreased their auto loan balances in 2020, those who deferred student loans increased their auto loan balance by an average of $264 that year. For those who deferred student loans, their auto loan balance kept increasing in 2021 by another $428, as it did for those without student loans and those who didn't defer payments, albeit at lower amounts ($327 and $200 respectively).

As of 2022, the student loan holders have an average of $811 more in auto loan debt than non-student loan holders. And we're starting to see potential fallout from the hot car market. In recent months, the number of people behind on their car payments has been approaching pre-pandemic levels, and for the lowest-income consumers, the rate of loan defaults is now exceeding 2019 levels, according to data from ratings agency Fitch, and analysts are worried that this trend will continue in 2023.

Monthly financial obligations directly impact a consumer's overall financial flexibility, and the CFPB reported that as of September 2022, 46% of student loan borrowers had scheduled monthly payments for all credit products (excluding student loans and mortgages) that increased 10% or more relative to the start of the pandemic. And student loan payments are a considerable monthly expense to tack on: the average student loan balance in 2022 is $28,950, equating to a monthly payment of between roughly $300-500. While many Americans have taken student loans out of deferment, for the 3.1 million who remain in deferment and 24 million in forbearance (and accruing interest), their overall monthly financial obligations will eventually reflect that debt in 2023 when student loan payments resume.

If the student loan forgiveness program goes into effect, the overall balances of those loans would decrease or disappear along with the associated monthly payments, which could be helpful for the already financially stretched consumers. According to a "Making Ends Meet" report from the CFPB, nearly 18% of student loan borrowers have annual incomes under $125,000 and loan balances under $10,000, meaning these borrowers would have their entire student debt balance forgiven and as a result, a lower monthly debt obligation and freed-up cash flow for other expenses or debts.

However, it's impossible to predict how those extra funds would be used. As we saw with student loan holders who deferred payments during the pandemic, money from government stimulus did help in paying down some debts, but many consumers used the opportunity to take on other new lines of credit.

Understanding the Consumer Mindset

How are consumers feeling about the economic landscape and their personal finances? TransUnion's Consumer Pulse Study reports that 54% of consumers said their incomes weren't keeping up with inflation, while 83% said that inflation was one of their top three financial concerns for the next six months. An early December survey from U.S. News & World Report shows that more than 8 in 10 Americans who have credit card debt are experiencing anywhere from a little to a lot of anxiety about it. The most common reasons given for having credit card debt? Rising costs, insufficient income and unexpected expenses.

Long story short: consumers are struggling to balance cash flow with money coming in not covering increased expenses going out, and that looks like it's going to get even harder in 2023, especially for minorities, young adults, low-income individuals and families and those with student loans, medical or other already outstanding debt. The result of this will be the need to prioritize payments and inevitably, things will slip and delinquencies will happen. As a lender, creditor or collector, how do you navigate this situation and support your bottom line?

When lenders acquired their customers, their profile and financial standing may have looked very different than it does now. In order to adopt the right approach to engage distressed borrowers, the first thing we have to understand is the customer today. What are their needs? What problems do they have? Do they have special circumstances? What will help or encourage them to take care of their debt? Every consumer is different, and every interaction you have with them will be different depending on their individual situation. And the reality is that most consumers are faced with more monthly expenses now than they had at acquisition.

Being in collections for past due debt is not ideal, and consumers want to get out. A recent report from PYMNTS and LendingClub revealed that 31% of consumers living paycheck-to-paycheck with issues paying their monthly bills cite "paying off debt" as the most important reason to set short-term financial goals. The motivation to get out of debt is there, but the ability to do so may not be.

Traditional debt collection methods using endless phone calls are no longer allowed or effective, and don't take consumer preferences or needs into account. Between Regulation F, which limits the number of phone calls to 7 times per week per debt, and the shift in consumer preferences to digital access to financial services, engaging consumers today can be challenging. While a text message or email may get the attention of Gen Z, older consumers may still prefer a phone call over chatbots or in-app messaging. Regardless of channel, Twilio's 2022 State of Personalization Report found that 62% of consumers expect personalization in engagement with businesses. While personalization is key to engaging consumers in debt collection, it is also critical to offering those consumers sustainable ways forward who may not have the ability to repay debts all at once.

Engaging Consumers in Debt Collection in 2023

As consumers wake up in 2023 with a holiday shopping hangover and bills to pay, the economic landscape isn't going to cut them any breaks. Consumers will have to prioritize what they can pay and when, which means repaying some debts may get moved to the back burner while food, housing and other basic needs are addressed. Will delinquencies rise as expected? Will consumers turn to more loans, credit cards or BNPL for a stopgap? What happens to overall debt burden with all the unknowns? And how will lenders recover anything from distressed borrowers?

To engage consumers in debt collection, it's important to have a broad communication strategy and be ready to meet the customer when and where they are ready to engage. This means don't limit communication channels and offer options that consumers can explore, evaluate and select on their own time. Let's break down how to do that:

First, give consumers options for communicating and meet them where they are. While regulations and compliance impacted both phone calls and digital channels in some way in 2022, our takeaway is that a one-size-fits-all approach to debt collection communication won't work at scale. By using an omnichannel approach, collectors are more likely to engage a customer on their preferred channel and open the door for engagement.

Second, give consumers agency to engage on their own time. What do emails and online payment portals have in common? Consumers get to decide when they use them. Just because a call center operates from 9-5, doesn't mean consumers do. Remember that everyone's situation is different, including when they can (or want) to address their debt.

Third, give consumers flexibility on repayment time and terms. Higher monthly financial obligations make it harder to absorb unexpected expenses or carve out funds for debt repayment. Patience will be key in engaging distressed borrowers - give them payment plan options for when and how much they repay, which could mean smaller payments, shifting payments to align with their cash flow schedule or skipping a payment without penalty so they can get back on track.

Finally, a little empathy goes a long way. Whether the goal is to re-engage customers after repayment or to simply collect past-due balances, how they're treated will make a difference. Showing understanding and compassion to distressed borrowers will build good will and create a more positive experience for a population that is facing a very challenging financial time.

TrueAccord has worked with more than 20 million consumers and sends over one million communications per day. For each of those communications, we use machine learning to make decisions on what to say, how to say it, and when it's most likely to be effective, all in accordance with the legal and regulatory compliance obligations. We then use feedback data to continuously optimize and improve our communication method for each individual customer.

We've learned that it's critical to treat debt collection as a part of consumer financial services and use the same customer-centric approach that wins business. While our clients are the creditors and lenders, a focus on doing right by the consumer (our clients' customers) means they are more likely to repay when they can. We find that a better customer experience leads to better outcomes for all - see how we delivered that in 2022 and then schedule a consultation to find out how you can leverage our approach in 2023.

About TrueAccord and the Data

TrueAccord is the intelligent, digital-first collection and recovery company that leaders across industries trust to drive breakthrough results while delivering a superior consumer experience. We developed this report to understand impacts to consumer finances and ability to repay debts, specifically around data relating to student loans. All TrueAccord data featured in this report is proprietary, aggregated and anonymized, and is based on our work helping more than 20 million consumers of major banks, issuers, eCommerce companies, and direct lenders since 2013.

> **"I wanted to thank you all for being so patient with me and understanding the situation that I was in and wasn't able to pay. I kept my word with y'all. I knew that one day I would be able to. Thank you so much again. I truly appreciate it."**
> *-Real Customer Feedback*