DEBT COLLECTION AND THE CREDIT ECOSYSTEM

The accounts receivable management (ARM) industry is instrumental in keeping America's credit-based economy functioning with access to credit at the lowest possible cost.

The industry's debt collection efforts benefit all consumers by lowering the costs of goods and services, especially when rising prices are impacting consumers' quality of life throughout the country.

Research from Federal Reserve Banks, academics, and regulators reflects the industry's integral role in maintaining a healthy economy. This research concludes that overly restrictive regulations on the collection process have led to a decrease in available credit.

Debt collection issues continue to be prominent in regulatory and legislative proposals at the state and federal levels. Too often these proposals are crafted without any input from industry stakeholders and are not based on any research to determine the long-term impact on consumers and the economy.

Access to Credit

- After analyzing the restrictiveness of various state level debt collection regulations, the Federal Reserve Bank of New York found that limiting debt collection practices leads to a decline in access to credit and weakens key indicators of financial health.
- The greater impact of these restrictions causing less access to credit is on borrowers with lower credit scores.
- Overall, the Fed found that debt collection is a significant resource for creditors to recover on delinquent debt. Therefore, restricting debt collection practices should lead to a decline in the overall supply of credit since creditors will be less willing to lend.

Source: ***Federal Reserve Bank of New York report on access to credit.***

Did You Know?

- According to the Board of Governors of the Federal Reserve System financial well-being survey for 2021, the overall percent of adults who would pay for a "small emergency expense" using cash or its equivalent (meaning cash, savings or a credit card) grew to the highest level since the survey began in 2013.

- The survey shows that "relatively small, unexpected expenses, such as a car repair or a modest medical bill, can be a hardship for many families."
- Presented with a hypothetical expense of $400, 68% of all adults in the survey said they would have paid for it with cash, savings, or a credit card paid off at the next statement.
- Therefore, debt collectors who work with consumers to resolve their account in a manageable way help keep access to credit available at the lowest possible cost for consumers who may need the funds on short notice and have the ability to repay a statement period.

Source: ***Federal Reserve System report on financial well-being.***

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Debt Collection Laws and the Cost of Credit

- As demonstrated by research from the Federal Reserve Bank of Philadelphia, placing increased restrictions on the collection of validly owed debt only causes credit access to decrease and the cost of credit to increase.
- More restrictive laws for regulating third-party debt collection lower the number of third-party debt collectors and therefore recovery rates.
- Because creditors' lending agreements depend on repayment rates, lower recovery rates resulting from more restrictive third-party debt collection laws should cause a reduced credit supply and increased costs of credit products.

Source: ***Federal Reserve Bank of Philadelphia report on debt collection and credit supply.***

Garnishment and Access to Credit

- The CFPB's Office of Research examined how changes in laws on wage garnishment to collect debt impact access to credit and the chances consumers will become seriously delinquent on credit card debt.
- For example, the CFPB estimates that a $1 decline in weekly garnishment rates would cause a decrease in median credit card limits of $10.04.
- Therefore, "because civil judgments are an important way for creditors to compel payment, changes in creditors' ability to garnish wages may also cause changes in the availability of credit," the research states.
- As a result, policymakers may need to factor in access to credit in steps to protect consumers subject to wage garnishment. Lenders who cannot collect as much or contract with third-party debt collectors for less may not be as willing to lend, therefore lowering access to credit.
- Using estimates on protections from garnishments, the Philadelphia Fed found the average judgment agreed to would "increase the average judgment amount by $726 (51.6 percent at the mean) and decrease the judgments per1,000 people by 0.74 (6.1 percent)."
- The Fed also found the proposal would cause a decline in credit limits of $1,294 (15.8 percent) and decrease open credit cards per person by 0.184 (7.7 percent).

Source: ***CFPB report on debt collection and wage garnishment.***

What Should Congress Do?

ACA's advocacy team executes a multi-pronged coordinated approach to advocacy to help all stakeholders understand the value ACA members provide to their communities by improving the economy, creating jobs, and helping consumers resolve unpaid debt. Congress should ensure regulators like the CFPB engage in a transparent process for policymaking that follows the Administrative Procedure Act, includes proper public and stakeholder comment opportunities to avoid unintended consequences that result with policymaking that lacks transparency.