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Credit-Card Users Feel the Crunch

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Robert Rodriguez and Migdalia Wharton, a married couple in Orlando, Fla., have been out of work for more than a month and can't afford to pay their credit-card bills.

When they called Capital One Financial Corp. to explain, the bank told them they could skip their April payments. But they doubt they will have money in May. Ms. Wharton, a school-bus driver, was told she wouldn't get paid until school reopens. Mr. Rodriguez, a cancer survivor, is worried for his health and has stopped driving for Uber.

"We don't know what we're going to do," Mr. Rodriguez said.

Millions of people in the U.S. are skipping their credit-card payments as the coronavirus pandemic puts them out of work. Banks and other lenders that for years relied on heavy consumer spending to create big profits are preparing to struggle alongside their customers.

As the economy spirals, credit-card payments are one of the first places where the effects will show up. They are often the first loans people stop paying when money is tight. They are usually unsecured, which means lenders have little recourse if a borrower stops paying.

Many large card issuers, including Capital One, Discover Financial Services and Synchrony Financial, are letting borrowers pause their credit-card payments for a month or longer. Some are lowering or waiving late fees and interest charges, or even forgiving portions of customers' balances.

Those suspensions will allow some borrowers to stay afloat, but only temporarily. Companies and analysts expect delinquencies and charge-offs to soar later this year. Banks and other lenders can only shoulder the unpaid loans for so long before they face consequences too.

Shares of Discover and Synchrony have lost more than half their value so far this year. That is far worse than the broader market, which has declined about 12%, and sectors less exposed to unemployment worries, such as **technology**, health care and consumer staples.

Discover and Synchrony said last week that they have allowed hundreds of thousands of borrowers to defer their payments, including many credit-card customers. Capital One, which has about 120 million credit-card accounts in the U.S., according to the Nilson Report, said it enrolled 1% of its active card accounts into deferral programs. The three banks are a good gauge of the financial health of a swath of U.S. consumers. Discover and Synchrony generally don't market to affluent customers, and Capital One has a large number of customers with less-than-pristine credit scores.

Banks hope that delaying payments will buy time for the economy to recover and consumers to get back on track. But for people who have no idea when they will be back at work, that likely won't be enough. Many people were already overstretched even before the pandemic, tapping credit cards and other debt at record levels to keep up with soaring costs for college, health care, housing and other expenses.

Marena Owens called Synchrony in March to ask about deferring payments on her T.J. Maxx, American Eagle Outfitters Inc. and J.C. Penney Co. cards. She accepted an offer to skip the April payments on two of the cards, and to erase the roughly $50 balance on her J.C. Penney card. Ms. Owens lost her job at an Ohio car dealership the same week.

Unsure of when she might return to work, Ms. Owens called Synchrony again last week, and was told she could defer her T.J. Maxx payment due in early May for another month. She is planning to ask for the same reprieve on her American Eagle card.

"I probably won't pay if they're not willing to work with me," she said.

A Synchrony spokeswoman said the bank "is here to assist our customers. . . who are experiencing financial hardship as a result of this crisis."

Discover, Capital One, American Express Co., JPMorgan Chase & Co. and other card issuers have together socked away billions of extra dollars to prepare for big potential loan losses.

"We clearly have already had significant deterioration," said Roger Hochschild, Discover's chief executive. "This was very quick and cataclysmic."

Some lenders are also tightening the credit available to new applicants or existing customers.

Banks including Citigroup Inc., Discover and Synchrony are shutting down credit cards that haven't been used in a while or lowering spending limits. The companies said they were taking these measures before the pandemic as a way to reduce risk. But those moves could also leave some borrowers without access to credit just when they need it most.

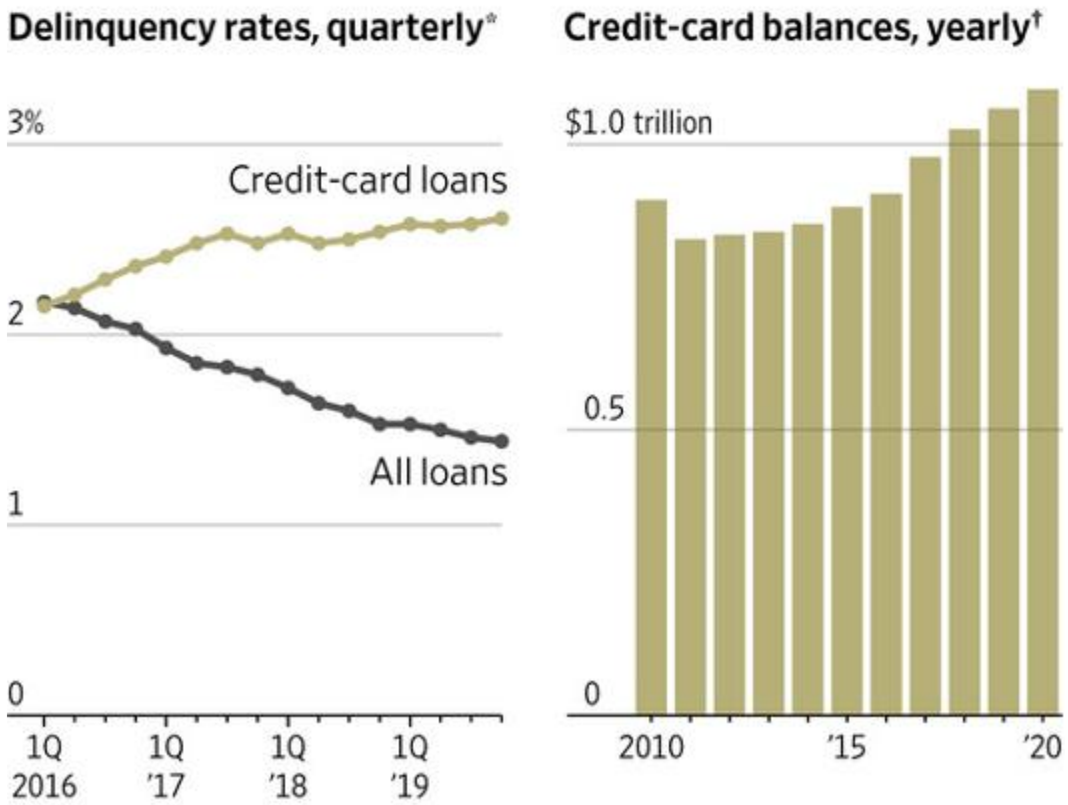
Missed payments, though, aren't the only problem for card issuers.

Card spending in travel and other categories is plummeting, which means banks won't get as much revenue from the swipe fees they collect when consumers pay with cards. And since people under stay-at-home orders aren't out shopping, many of them are spending less on the store credit cards they have. That is a problem for issuers that specialize in store cards, including Synchrony and Alliance Data Systems.

"For the next two years or so until everything settles, [credit cards] will be much less profitable and more risky," said Brian Riley, director of credit advisory services at Mercator Advisory Group.

In Orlando, Mr. Rodriguez and Ms. Wharton used their Capital One credit cards to buy groceries, toilet paper and medicine for several weeks after they found themselves out of work. They recently were approved for food stamps.

They told Capital One they might not be able to pay their bills in May, either. They said they were told to call back at the end of April if they are still in financial distress.



*Delinquent loans are 30 or more days past due. Data are seasonally adjusted.
†Data are as of February of each year, seasonally adjusted; based on revolving consumer credit that mostly comprises cards.
Source: Federal Reserve

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