ACHIEVEMENTS

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Understanding the Effects of Missed Payments

Whether it's from forgetfulness or lack of funds, missed credit card payments will affect your finances more than you think.

Why People Miss Payments

Two surveys were recently conducted which asked how likely credit card users are to miss a payment. The first survey, from Nerd Wallet, asked 2,000 people if they had made a delinquent payment. The second survey, done by CreditCards.com, polled 1,000 adults to ask the same question. In Nerd Wallet's survey, nearly one in four respondents (22.4%) said they had missed a payment by more than 30 days. The CreditCards.com survey found that 42% of participants had missed at least one payment.

The survey results yielded some interesting findings. According to the CreditCards.com survey, women were more likely to miss a payment than men (48% vs 35%). Also, employed cardholders were more likely to miss payments than unemployed cardholders (46% vs 34%).

Beyond the demographics, what is even more concerning are the reasons why payments were missed. Both surveys explored why cardholders hadn't made their payment. The responses were interesting, to say the least.

On CreditCards.com:

- 60% forgot they needed to make a payment
- 35% didn't have enough funds to make the payment
- 13% were too busy to pay
- 11% were traveling

On Nerd Wallet:

- 35% forgot to pay
- 33% used the funds to cover other essentials
- 32% had an unexpected emergency

Impact of a Missed Payment

Missed payments can have a significant impact on your credit score. Also, late fees can pile up quickly. You're not doing yourself any favors by missing payments.

Let's define a delinquent payment. A missed payment – also known as a delinquent payment – is any payment that is more than 30 days late. If you make the payment prior to 30 days from the original due date, the payment is late, but it is not considered delinquent.

Missed payments affect your credit, because creditors report them to the credit bureaus. That means that the delinquency appears in the payment history of your account. Since your credit history accounts for 35% of credit score calculations, it is the single biggest factor in determining your credit score. According to Equifax, a single delinquent payment can drop your score by as much as 90 to 110 points.

But even before a payment is officially missed, the financial consequences of not paying on time can be steep. The maximum fee for a first-time late payment is $27. Subsequent late fees can be higher. Every loan and credit card you get afterward will likely have higher interest rates. That means higher monthly payments and more interest charges to pay each month.

Keep in mind that the impact of missed payments increases with each month. Creditors report missed payments at 30, 60, 90, 120, 150 and 180 days. The damage to your score increases with each month. After 60 days of nonpayment, most creditors also apply a penalty APR, which can be double your normal interest rate. Once the penalty APR goes into effect, you must make six consecutive payments on time before the creditor will restore the original rate. If the payment is more than six months late, the creditor sends the account to collections.

Use Automated Payment Systems

Using automated payments is a great way to avoid missing payments due to a busy schedule or travel. Most credit cards have an autopay feature, and most financial instituations have a direct debit or bill payment system. Both of these options will help ensure you never miss a payment.

It is also a good idea to set up bill payment reminders on your calendar, or a budgeting tool.

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What if I Don't Have the Funds?

If payments are missed due to a lack of money, tools like Autopay and recurring Direct Debit payments can hurt instead of help. If you don't have the funds in your account, you can incur NSF (non-sufficient funds) fees, in addition to late fees. Instead, you need to find a solution that can provide debt relief, so you can balance your budget and start to get ahead.

One of the first steps to take when you are struggling to make payments is to call your creditors. Don't treat your creditors like collectors. Creditors are often willing to work with you, if you call before problems begin. They may even help you set up a payment plan you can afford or pause your payments until your situation improves. Credit card companies don't want your accounts to become delinquent, because that's not good for their bottom line. Therefore, it is often worth it to see if they will work with you.

If your creditors will not help, then it's time to call a credit counselor. A certified consumer credit counselor can help you explore options for debt relief, such as debt consolidation. If you can't qualify for do-it-yourself options because you don't have a good credit score, then the counselor may recommend a debt management program.

Many of these debt relief solutions can also help you balance your budget in the process. These solutions make repayment more efficient, because they usually focus on paying off debt at the lowest interest rate possible. The lower the interest rates on your balances, the faster you get out of debt, even though you may pay less each month.

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