

Charge-off

From Wikipedia, the free encyclopedia

A **charge-off** or **chargeoff** is the declaration by a creditor (usually a credit card account) that an amount of debt is unlikely to be collected. This occurs when a consumer becomes severely delinquent on a debt. Traditionally, creditors will make this declaration at the point of six months without payment. In the United States, Federal regulations require creditors to charge-off installment loans after 120 days of delinquency, while revolving credit accounts must be charged-off after 180 days.^[1]

The purpose of making such a declaration helps support a tax deduction for bad debts under Section 166 of the Internal Revenue Code. Bad debts and even fraud are simply part of the cost of doing business. The charge-off, though, does not free the debtor of having to pay the debt.

A charge-off is one of the most adverse factors that can be listed on a credit report.^[2] It will then be listed as such on the debtor's credit bureau reports (Equifax, for instance, lists "R9" in the "status" column to denote a charge-off.) The item will include relevant dates, and the amount of the bad debt.^[3]

While a charge-off is considered to be "written off as uncollectable" by the bank, the debt is still legally valid, and remains as such after the fact. The creditor has the right to legally collect the full amount for the time periods permitted by the statutes of limitation based on the location of the bank and where the consumer resides. Depending on the location, this amount of time may be a certain number of years (e.g. 3 to 7 years), or in some places, indefinitely. Methods of collection that can be used include contacts from internal collections staff, outside collection agencies, or if the amount is large (generally over \$1500–\$2000), there is the possibility of a lawsuit or arbitration.

In the US, as the charge off number climbs or becomes erratic, officials from the Federal Reserve take a close look at the finances of the bank and may impose various operating strictures on the bank, and in the most extreme cases, may close the bank entirely.

Effects on credit report

With a chargeoff being one of the worst possible items on a credit report, this may make obtaining any unsecured or even secured credit more difficult.

If the charge-off has been paid in full, it will be listed on the credit report as "paid in full." If settled for less than the amount, it'll be listed as "settled." Even such a listing on a credit report can be negative.^[4]

References

- ¹ ^ Cackley, Alicia Puente (2009). *Credit Cards: Fair Debt Collection Practices Act Could Better Reflect the Evolving Debt Collection Marketplace and Use of Technology* (http://books.google.com/books?id=bj0Qmz04ChwC&pg=PA5&dq=charge-off+account&hl=en&ei=97YxTbLpGoT4sAOe8p3iBQ&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCsQ6AEwADgK#v=onepage&q=charge-off%20account&f=false). United States Government Accountability Office. p. 5.
- ² ^ <http://www.thetruthaboutcreditcards.com/what-is-a-charge-off/>
- ³ ^ "Bad Debts and Charge-Offs" (<http://www.cardreport.com/credit-problems/charge-off.html>). Retrieved 2007-07-12.

- ⁴ <http://financialplan.about.com/od/creditcarddebt/f/Chargeoff.htm>

External links

- What is a charge-off? (<http://credit.about.com/od/creditreportfaq/f/chargeoff.htm>)
- Charge-offs in the United States (<https://spreadsheets.google.com/pub?key=0Aqc7PlugtR1XdG1jVUdmWUtXa21OZIZCeXpJYUk2M0E&hl=en&output=html>)—history since 1985, by the Fed

Retrieved from "<http://en.wikipedia.org/w/index.php?title=Charge-off&oldid=591038316>"

Categories: Credit | Debt

-
- This page was last modified on 16 January 2014 at 22:56.
 - Text is available under the Creative Commons Attribution-ShareAlike License; additional terms may apply. By using this site, you agree to the Terms of Use and Privacy Policy. Wikipedia® is a registered trademark of the Wikimedia Foundation, Inc., a non-profit organization.