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Helping Consumers Avoid Credit Problems if They Have Been Impacted by Coronavirus (COVID-19)

v. 5.0

Overview

Questions come up about the impact of the spread of Coronavirus has on consumers' credit histories. The Consumer Data Industry Association ("CDIA") and its credit bureau members have answers. For years, the credit bureaus have had systems in place to minimize or eliminate the negative credit impact of the extreme events, like a natural disaster, or a pandemic.

Consumers who have been impacted (directly or indirectly) by Coronavirus are strongly encouraged to contact their lenders and creditors. Lenders and creditors have programs and plans to assist their customers in a time of a financial crisis, like a pandemic. Lenders and creditors typically offer forbearance or deferred payments programs for their customers who need help. In many cases, a consumer will be reported as "paid as agreed".

Consumers should contact their lenders and creditors first

If a consumer is impacted (directly or indirectly) by Coronavirus, the very first thing that consumer should do is contact his or her lender or creditor. Lenders and creditors have a variety of tools in place to help consumers, but these institutions can help only they know that there is a problem. Lenders and creditors may defer payments or place consumers into forbearance programs.

> Consumers cannot get credit relief without first asking for help from their banks. "As a first step, consumers…having financial issues should contact their lenders…" *VantageScore*

The Consumer Financial Protection Bureau ("CFPB") has informed consumers that "if [they are] not able to pay [their] bills on time, [consumers should] contact [their] lenders and servicers to let them know about [their] situation."[1]

Five federal and state regulators have encouraged financial institutions to work with consumers during this public health emergency,[2]

[1] CFPB, *Protect yourself financially from the impact of the coronavirus*.
[2] On March 10, 2020 five federal financial institution regulators and state regulators issued a joint statement "encourage[ing] financial institutions to meet the financial needs of customers and members affected by the coronavirus." These five agencies (the Board of Governors of the Federal Reserve System, the Consumer

For the many consumers that have mortgages, Fannie Mae and Freddie Mac have reminded mortgage services that "hardship forbearance is an option for borrowers who are unable to make their monthly mortgage payment."[3] The largest bank in the U.S., Citi, told its customers that Citi told its customers that a "range of assistance measures include fee waivers, hardship programs and small business."[4]

"For borrowers that may be experiencing a hardship, I encourage you to reach out to your [mortgage] servicer." *Mark Calabria, Director, Federal Housing Finance Agency (FHFA).*

When a consumer is placed into a forbearance plan, a deferred payment plan, or some other special abatement program, credit reporting codes have been created by the credit bureaus to make sure that the consumer's credit is not treated negatively.

Reporting to the credit bureaus

CDIA has guidance for the approximately 15,000 lenders and creditors who report data to the nationwide credit bureaus to handle a wide variety of data reporting scenarios. CDIA and our credit bureau members are doing our part to help consumers who have been impacted (directly or indirectly) by Coronavirus. To help lenders and creditors offer help consumers affected by Coronavirus, CDIA has guidance for lenders and creditors who put an account either (a) into forbearance as a result of a consumer's inability to make payments due to natural or declared disasters, or for other national crises, or (b) into a deferred payment status.

The nationwide credit bureaus long ago put systems in place to accept reporting from lenders and creditor for handle mass events like Coronavirus

Financial Protection Bureau, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Conference of State Bank Supervisors) "recognize the potential impact of the coronavirus on [consumers]." These agencies encourage "financial institutions [to] work constructively with borrowers and other customers in affected communities. Prudent efforts that are consistent with safe and sound lending practices should not be subject to examiner criticism. These five agencies are the Federal Reserve ("FRB"), the Conference of State Bank Supervisors ("CSBS"), the Consumer Financial Protection Bureau ("CFPB"), the Federal Deposit Insurance Corporation ("FDIC"), the National Credit Union Administration ("NCUA"), and the Office of the Comptroller of the Currency ("OCC").

[3] Press Release, *FHFA, Statement from FHFA Director Mark Calabria on Corovirus*, March 10, 2020.

[4] Website, Citi, *Citi Assists U.S. Customers and Small Businesses Impacted by COVID-19*, March 6, 2020.

The country's leading score developers, VantageScore and FICO note that forbearance and deferred payment scenarios have a neutral impact on a consumer's credit score so consumers in one of these programs, as reported to the nationwide credit bureaus, should have no negative impact as a result of Coronavirus.

When a consumer is in a deferred payment or forbearance program reported to a credit bureau, or with a natural disaster code, there is no negative scoring impact.

Low or no credit score impact

FICO noted that "the placement and reporting of an account in forbearance or a deferred payment plan in and of itself does not negatively impact a FICO® Score."[5] VantageScore makes clear that "[a] loan placed in a deferred payment or forbearance plan will not result in a negative impact."[6] The same is true for a natural disaster coding: "[t]he net impact is that a consumer's VantageScore credit score will not go down, either because negative information is neutralized because of the natural disaster code or because the account is completely removed."[7]

Conclusion

Questions come up about the impact of the spread of Coronavirus has on consumers' credit histories. CDIA and its credit bureau members have answers. For years, the credit bureaus have had systems in place to minimize or eliminate the negative credit impact of the extreme events, like a natural disaster, or a pandemic.

Consumers who have been impacted (directly or indirectly) by Coronavirus are strongly encouraged to contact their lenders and creditors. This is the advice banks and bank regulators have given. Lenders and creditors have programs and plans to assist their customers in a time of a financial crisis, like a pandemic. Lenders and creditors typically offer forbearance or deferred payments programs for their customers who need help. In many cases, a consumer will be reported as "paid as agreed". Yet, the only way a consumer can get they help she deserves is by asking for help from their lenders and creditors. Asking for help should the first call or the first click.

[5] FICO Website, *Protecting Your Credit during the Coronavirus Outbreak*.

[6] VantageScore Website, *VantageScore statement advising on scoring options for those impacted by COVID-19 (Coronavirus)*. VantageScore notes that when a loan is in a deferred payment for forbearance, that loan "will continue to positively impact one's credit history and credit score, while the related balance and payment obligations under the plan will not be considered for purposes of a credit score calculation during the forbearance period. The net impact to a consumer's VantageScore credit score is 'set to neutral,' so the consumer's credit score is not harmed.

[7] *Id.*

Additional information on medical debt and credit

Medical debt is treated differently by credit bureaus and scoring models than other kinds of debt.

- *Unpaid medical debt* does not go on a credit report unless it's 180 days past due or longer. This grace period allows consumers six months to resolve any insurance or billing disputes, or to work out a repayment agreement with the medical provider.
- For *paid medical debt*, the nationwide credit bureaus will remove from credit reports, previously reported medical collections that have been or are being paid by insurance. The treatment of unpaid and paid medical debt are part of the National Consumer Assistance Plan ("NCAP") created by the nationwide credit bureaus following a settlement between 31 state attorneys general, led by Ohio, and a separate settlement with the New York Attorney General.[8]

Consumers not only benefit from the changes made by credit bureaus for unpaid and paid medical debt, there is also a credit scoring lift for consumers. VantageScore and FICO do not count paid medical collections in their scoring models.[9]

It is important to also note that federal rules generally require nonprofit hospitals to give consumers at least 120 days before taking "extraordinary collection actions," which include reporting debts to credit bureaus and using debt collection agencies.[10] According to the American Hospital Association in 2018, 48% of all hospitals in the U.S. are community, non-profit hospitals; 21% are for-profit hospitals, and the remainder are federal, state, and local government hospitals, and other hospitals.[11]

(continued...)

[8] *See*, *Attorney General DeWine Announces Major National Settlement with Credit Reporting Agencies*, Ohio Atty. Gen. Mike DeWine press release, May 20, 2015; A.G. Schneiderman Announces Groundbreaking Consumer Protection Settlement With The Three National Credit Reporting Agencies, N.Y. Atty. Gen. press release, March 9, 2015.

[9] *Your score vs. medical debt*, VantageScore blog, Oct. 27, 2018, *Are Medical Collections being removed? Yes – see which one*, FICO blog, Sept. 28, 2017.

[10] 26 U.S. Code § 501(r)(6), 26 CFR § 1.150.

[11] Am. Hospital Assn., *2019 AHA Hospital Statistics*.

Key terms

- A **deferred payment** is a loan arrangement in which the borrower is allowed to start making payments at some specified time in the future.
- **Forbearance** is a period during repayment in which a borrower is permitted to temporarily postpone making regular monthly payments. The debt is not forgiven, but regular payments are suspended until a later time. As an example, forbearance may be granted if a borrower is experiencing temporary financial difficulty. The consumer may be making reduced payments, interest-only payments or no payments.

Additional resources

Nationwide credit bureaus

- Equifax: COVID-19 (Coronavirus) and Your Credit Score
- Experian: COVID-19 (Coronavirus) and Your Credit Report
- TransUnion: Managing Your Credit Through a Financial Hardship

Score developers

- FICO: Protecting Your Credit during the Coronavirus Outbreak
- VantageScore: VantageScore statement on scoring options for those impacted by COVID-19 (Coronavirus)

Government agencies

- CFPB: *Protect yourself financially from the impact of the coronavirus*.

About the Consumer Data Industry Association

The Consumer Data Industry Association (CDIA) is the voice of the consumer reporting industry, representing consumer reporting agencies including the nationwide credit bureaus, regional and specialized credit bureaus, background check and residential screening companies, and others. Founded in 1906, CDIA promotes the responsible use of consumer data to help consumers achieve their financial goals, and to help businesses, governments and volunteer organizations avoid fraud and manage risk. Through data and analytics, CDIA members empower economic opportunity all over the world, helping ensure fair and safe transactions for consumers, facilitating competition and expanding consumers' access to financial and other products suited to their unique needs. Find us online at www.cdiaonline.org.

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