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

March 29, 2020

Overview

Questions come up about the impact of the spread of COVID-19 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 programs in place to minimize or eliminate the negative credit impact of extreme events, like a natural or declared disaster, or a pandemic. These programs also extend to consumers' financial hardships outside of a disaster.

To better understand consumer assistance for their credit during the COVID-19 crisis, there are four basic points:

- Lenders and creditors have programs, like forbearance programs and deferred payment plans, to help consumers through financial distress, including natural and declared disasters.
- Credit bureaus have long had codes in place to enable lenders and creditors to report consumers in financial distress (forbearance plans, deferred payment plans) or who are subject to natural or declared disasters.
- These credit bureau codes for consumers have been in place since before September 11, and have helped consumers then, now, and in the hurricanes, floods, fires, tornadoes in between.
- The leading score modelers, VantageScore and FICO, treat forbearance plans and deferred payment plans neutrally.

Consumers should contact their lenders and creditors first

If a consumer is impacted (directly or indirectly) by COVID-19, the first thing she should do is contact 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.

"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).*

Five federal and state banking regulators have encouraged financial institutions to work with consumers during this public health emergency.[i] These agencies "encourage financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19."[ii] A law passed by Congress on March 27, 2020, requires lenders and creditors who agree to account forbearance or modified payments must treat those obligations as "current" if the consumer has trouble making a full payment during the COVID-19 crisis.[iii]

The CARES Act, passed by Congress in March 2020, requires lenders and creditors to report consumers as "current" if those consumers are in a forbearance or deferred payment plan.

When a consumer is in a forbearance plan or a deferred payment plan, lenders and creditors should be reporting those plans to the credit bureaus using the credit bureaus have in place to help consumers. These codes were in place before the CARES Act and remain in place now.

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 COVID-19. To help consumers, 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 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 COVID-19

Low or no credit score impact

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 a consumer in one of these programs, as reported to the nationwide credit bureaus, should have no adverse effect as a result of COVID-19.

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."[iv] VantageScore makes clear that "[a] loan placed in a deferred payment or forbearance plan will not result in a negative impact."[v] For 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…"[vi]

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.

Conclusion

To better understand consumer assistance for their credit during the COVID-19 crisis, there are four basic points:

- Lenders and creditors have programs, like forbearance programs and deferred payment plans, to help consumers through financial distress, including natural and declared disasters.
- Credit bureaus have long had codes in place to enable lenders and creditors to report consumers in financial distress (forbearance plans, deferred payment plans) or who are subject to natural or declared disasters.
- These credit bureau codes for consumers have been in place since before September 11, and have helped consumers then, now, and in the hurricanes, floods, fires, tornadoes in between.
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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*.
- Interagency information:
    - Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (March 22, 2020).
    - Financial Institution Letter, FIL-22-2020 (March 22, 2020).
    - Interagency Press Release, Agencies encourage financial institutions to meet financial needs of customers and members affected by coronavirus (March 9, 2020).

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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[i] 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." ("Agencies Joint Statement, March 10, 2020"). This statement was restated in a Financial Industry Letter 22-20 on March 22, 2020 ("FIL 22-20"). These five agencies (the Board of Governors of the Federal Reserve System, the Consumer 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. .

[ii] Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus ("Agencies Joint Statement, March 22, 2020").

[iii] H.R. 748 § 4021, Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under this section, furnishers [of information] to credit reporting agencies who agree to account forbearance, or agree to modified payments with respect to an obligation or account of a consumer that has been impacted by COVID-19, report such obligation or account as "current" or as the status reported prior to the accommodation during the period of accommodation unless the consumer becomes current. This applies only to accounts for which the consumer has fulfilled requirements pursuant to the forbearance or modified payment agreement. Such credit protection is available beginning January 31, 2020 and ends at the later of 120 days after enactment or 120 days after the date the national emergency declaration related to the coronavirus is terminated.

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

[v] 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.

[vi] *Id.*