Credit Reporting for Clients Facing Extenuating Circumstances

Reporter Webinar
10.17.2019
## Join Our Virtual Trainings

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Event</th>
<th>URL</th>
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</thead>
<tbody>
<tr>
<td>10/24/19</td>
<td>2 – 3 pm ET</td>
<td>Addressing Coerced Debt: Emerging Solutions from Texas</td>
<td><a href="#">bit.ly/coerced_debt</a></td>
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</tbody>
</table>
Upcoming Credit as an Asset Training in Detroit

CBA will host a one-day Credit as an Asset Training in conjunction with the Midwest Asset Building Conference.

When: Tuesday, November 12th, 2019
9:00 am - 5:00 pm
Where: Detroit Federal Reserve Bank
Register: https://creditasanasset-detroit.eventbrite.com

Questions? Contact us at: training@creditbuildersalliance.org
Reminder!

Tech questions? Chat the chair. If you choose to raise your hand, please still chat the chair.

Questions for the presenter? Type them into the Q&A box. These will be answered at the end.
Meet the Presenter

Elisabeth Johnson-Crawford
Chief Technical Officer
Credit Builders Alliance
Disclaimer

This information is not intended to be legal advice and may not be used as legal advice.

Every effort has been made to assure this information is up-to-date. It is not intended to be a full and exhaustive explanation of the law in any area, nor should it be used to replace the advice of your own legal counsel.
Understanding Extenuating Circumstances
Extenuating Circumstances occur when individuals have difficulty paying their debts, often as a result of an unexpected event or disruption.
Extenuating but Accurate Information

- The Fair Credit Reporting Act (FCRA) promotes accuracy, fairness, and privacy of information reported to the credit reporting agencies
- FCRA Requirement: Written credit reporting policies and procedures

Policies should cover basic reporting responsibilities AND how to handle extenuating circumstances
Policies & Procedures

- Fit your loan fund and goals
- Need to be written down & updated to include new products & borrower situations, as they occur
- Revisited regularly, with insight from staff, board, and/or legal resources
- Explain how to respond to both everyday and unexpected situations while maintaining accuracy
Considerations for Policies on Extenuating Circumstances

Products  Funders  Staff Capacity  Software  Existing Policies
Policies for Extenuating Circumstances

1. What common situations do your clients face?
2. Who should clients reach out to when facing extenuating circumstances?
3. What types of evidence or documentation will you require before working with clients?
4. How do you ensure consistency and fairness for all clients in similar circumstances?
5. How do you communicate options with clients?
Reporting on Extenuating Circumstances

- **Via Metro 2® Codes**
  - Special Comment Codes
  - Equal Credit Opportunity Act (ECOA) Codes
  - Consumer Information Indicators

- **Via Metro 2® Fields**
  - Terms, Duration, Frequency
  - Scheduled Monthly Payment Amount
  - Balance/Past Due
  - Additional “segments” that provide more information

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Changes to Metro 2® Codes

Special Comment Codes are reported if a specific condition applies in order to tell a more accurate story of an account.

Common codes:

- **AC** – Paying under a partial payment agreement
- **AS** – Account closed due to refinance
- **AU** – Account paid in full for less than the full balance (settled)
- **AW** – Affected by natural or declared disaster
- **AX** – Account paid via collateral (or security)
- **BT** – Interest-only payment, principal deferred
- **CP** – Account in forbearance
Changes to Metro 2® Fields

- **Simpler Changes**: Updating terms, duration, scheduled payment amounts

- **More Complex Changes**: Adding information through additional segments, retroactive adjustments, updating balance/past due

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Do NOT manually edit Metro 2® files to make changes.
Understanding Special Comment Codes
Meet Eduardo

Eduardo’s company recently relocated and laid off all of its local workers. Eduardo reaches out to his local CDFI, concerned he may have issues paying his SBA loan – which he is using to start a small business.

What options may be available to assist Eduardo?
Special Comment Code BT: Interest-Only Payments

**Uses**
- Short-term needs
- Longer-term needs
- Seasonal work
- Unexpected changes

**Short-term**
- Considered current as long as they make interest payments

**Long-term**
- Payments eventually go back to principal + interest
- May include balloon payment
### Reporting Interest-Only Arrangements

<table>
<thead>
<tr>
<th>Section</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Account Status:</strong></td>
<td>- Current month’s account status</td>
</tr>
<tr>
<td><strong>Balance:</strong></td>
<td>- Outstanding account balance</td>
</tr>
<tr>
<td></td>
<td>- Past Due: Outstanding amount 30 days or more past due</td>
</tr>
<tr>
<td><strong>Scheduled Monthly Payment:</strong></td>
<td>- Interest-only payment (Make sure to set back to principal + interest at end of this period!)</td>
</tr>
<tr>
<td><strong>Special Comment Code:</strong></td>
<td>- BT: Interest-only payments</td>
</tr>
</tbody>
</table>
# Forbearance versus Deferment

<table>
<thead>
<tr>
<th></th>
<th>Forbearance</th>
<th>Deferment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide temporary suspension of payments</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Interest continues to accrue</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Is a viable long-term option</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Might not be feasible options for lenders</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>
Consequences of Forbearance and Deferment

At the end of forbearance or deferment, customers may expect to see the following:

- Increased monthly payments
- Balloon payment due immediately upon first payment
- Balloon payment at end of note
Reporting Forbearance and Deferment: Initial Considerations

1. What is the account status when this arrangement begins?
2. Is the borrower required to make payments during this period?
3. Are you setting this account to forbearance or deferment?
4. How long will this arrangement last?
5. What possible software limitations will impact your reporting?
Special Comment Code
CP: Forbearance

**Uses**
- Short-term or long-term
- Unexpected change
- Natural disaster survivor
- Abuse survivor

**Short-term**
- Borrower allowed to make reduced interest-only, or no payments
- Status generally current

**Long-term**
- Payments eventually back to principal + interest
- May include balloon payment and/or accrued interest
Reporting Forbearance: Important Fields

Are payments due?

If yes:
Update to show new arrangement. Would expect to see balance update each month as payments come in. Use SCC: CP.

If no:
Update to show no payment due. Status set to current for duration of forbearance. Use SCC: CP.

If no payment is due:
If software allows, include K4 segment with date payments will restart.

For more information:
Check out FAQ 45 in the CRRG
Reporting Deferment: Important Fields

- There is no special comment code to indicate deferment.
- Update to show no payment due. Status set to current for duration of forbearance.
- If software allows, include K4 segment with date payments will restart.
- If account were delinquent going into deferment: Set status to current but may be reset after deferment ends. Original Date of First Delinquency applies.

For more information: Check out FAQ 44 in the CRRG.
Meet Shawna

Shawna has been running consistently behind on her home repair loan. She makes payments as often as she can, usually each month, but has not brought her account current in the last four months.

What options may be available to assist Shawna?
AS: Refinance

**Uses**
- Closing old account
- Avoiding charge-off
- Rolling balance over to new account

**Short-term**
- Original loan is marked as paid
- New loan is current as long as terms are met

**Long-term**
- New opportunity for positive tradeline
- But: Potential for a second derogatory account

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### Reporting Refinances

#### Account Status of Original Account:
- 13: Paid or closed account/zero balance

#### Payment Rating:
- Represents status of the account at the time it was closed*

#### Balance and Past Due:
- $0

#### Special Comment Code:
- AS or AT

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*Date of first delinquency is required if account has a payment rating other than on-time.*
Special Comment Code CO: Loan modified (not a government plan)

**Uses**
Update account status, duration, scheduled payment amount
Avoiding charge-off or other default

**Short-term**
Options to report during a trial period
Report current as long as new terms are met

**Long-term**
Opportunity to return to a positive tradeline
But: Potential to revert to a derogatory account status
# Reporting Modified Loans

<table>
<thead>
<tr>
<th>Account Status*:</th>
<th>11: Current (or as applies)</th>
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<tbody>
<tr>
<td>Terms Duration:</td>
<td>Often longer than originally reported if stretching out repayment period (From Date Opened to new maturity date)</td>
</tr>
<tr>
<td>Scheduled payment amount:</td>
<td>New regular payment amount going forward</td>
</tr>
<tr>
<td>Special Comment Code:</td>
<td>CO (or CN if part of federal program)</td>
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</table>

*Date of first delinquency is required if account has a status other than Current.*
Meet Pernell

Pernell runs a small catering company. His community was just hit head on by a hurricane. While Pernell’s house and family came out mostly unscathed, he’s not sure how the next few months will look for his business as the community begins to recover.

What options may be available to assist Pernell?
Options for Natural Disasters

Special Comment Code: AW

- Option 1: Attach special comment code and continue reporting account
- Option 2: Attach special comment code and report as deferred

Other Options

- Can work with impacted clients on other workouts or possible restructures
- It is up to each lender if and how they work with impacted clients
Special Comment Code AW: Option 1

Report the account status that applies to the account and add the special comment code: AW – affected by natural or declared disaster

Previously: Could report delinquent accounts as current if impacted by a natural disaster

Now: Select account status that most accurately applies to the account. May possibly be current, even if delinquent.

Recommendation: Discuss this option with legal resources if considering setting delinquent accounts on-time.
Special Comment Code AW: Option 2

Report the account as in deferred, but add the special comment code: AW – affected by natural or declared disaster

**Considerations:** How long will this period last?

**Impact:** Borrower is considered on-time for the duration of this deferral but can slip back to a delinquent status as soon as this period ends

**Recommendation:** Discuss this option with legal resources about how this option might be applied and options for helping impacted borrowers after this period ends
Q: What impact do these types of circumstances have on credit scores?

A: It depends!

- What else is on the credit report?
- Some Special Comment Codes indicate more derogatory behavior than others
- Some Special Comment Codes are more neutral or keep an account from being included in score
- Clients’ ability to pay and meet new schedule or terms
Additional Resources
Additional Guidance

- Credit Reporting Resource Guide
- CBA Training Institute
- Policies and Procedures
- CBA Bureau Services Team
The CRRG

The Credit Report Resource Guide (CRRG) effectively serves as your credit reporting dictionary

- Published annually by the Consumer Data Industry Association (CDIA)
- Defining document for Metro 2®, the credit reporting language
- Formatting guidelines
- Available codes and meaning
- Contact Bureau Services Team for instructions to access a free downloadable copy
2019 CRRG Pages to Bookmark

Field Definitions for Consumer and Account Identifying Information
- Beginning on 4-19

Special Comment Codes
- Beginning on 5-26

Frequently Asked Questions
- Deferment: 6-44
- Forbearance: 6-45
- Restructure/Refinance: 6-41 (restructure) and 6-68 to 6-69 (modifications)
- Natural Disasters: 6-59 and 6-60
Additional Training Resources

Check out [www.cbatraininginstitute.org](http://www.cbatraininginstitute.org)

Free access for CBA members!
E-Learning Catalog

CBA Reporter 101: Covers policies and procedures and best practices for reporting

CBA Reporter 102: Covers communication with borrowers and more technical aspects of reporting

More to come in late 2019!
Creating an Account on the Training Institute

1. Visit www.cbatraininginstitute.org
2. Click “Register” from the top right of main page
3. Fill out the requested information, including EIN
4. Select “CBA Member User” from Registration Type
5. Submit! Allow 24-48 business hours for your account to be created

Important Reminder: This is a separate site and a separate user account than your Secure Site credentials.
Q&A

Type your questions into the Q&A box!
Thank You!

help@creditbuildersalliance.org