CBA Position Statement on Protecting—and Building—Consumer Credit Profiles During and After Disasters

Protecting consumer credit scores—and offering solutions that help people build credit history as feasible—is vital during and in the aftermath of disasters. A good credit history remains crucial in today's uncertain economy, and with credit markets already tightening, will be even more important as we emerge from the pandemic. Without a prime credit score, individuals pay higher interest and fees on financial products and spend more on essential services like car insurance and cell phone plans. This creates what we call *sustained expense inequality* and compounds financial hardship, making it even more difficult for lower-income households and small businesses to get and stay ahead. This is particularly problematic for people and communities of color and contributes to the growing wealth divide.

CBA recognizes the urgency of helping consumers protect their credit in the midst of the havoc being wreaked by the Coronavirus. However, we believe there is no easy policy solution. In addition to the use of industry disaster-related reporting codes that data furnishers can already use to denote that someone has been affected by a disaster, the CARES Act provides guidance to creditors who agree to modify payment arrangements with consumers on the reporting of current versus delinquent data. However, with so many people struggling financially during this time, consumer advocates and others are rightfully concerned, and CBA agrees, that these protections are insufficient to accommodate this particular disaster. In large part, the onus is on individual consumers to contact their creditors to make arrangements, and on those individual creditors to offer and implement solutions that themselves may or may not always confer protection.¹ Some legislation, including the HEROES Act, has proposed more widespread suppression of negative reporting, but that has been challenged by concerns, which CBA also shares, about the feasibility of implementation as well as potential unintended consequences.

Currently, no clear-cut policy solution has yet emerged that satisfies both consumer protection concerns—such as the ability to protect consumers from harm in the short and long-term—as well as industry realities—such as the logistical challenges of implementation and concerns about preserving the integrity of risk assessment tools like credit scores, of which there are many that use and weigh assorted variables differently. While we do not have the answer, CBA recognizes that this is a complicated problem that requires a multi-faceted approach. To effect effective policy solutions, considerations should:

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¹ For example, “special comment codes are often described by industry stakeholders as a way to work with consumers in distress, there are no specific industry or regulatory standards addressing how they should be treated by users of consumer reports. In connection with the pandemic, there are reports that some lenders are rejecting consumers for mortgage refinance applications because they have CP or AW codes on one or more accounts, even if they are in fact making full payments.” Disaster-Related Credit Reporting Options: Research Brief. May 2020. FinRegLab. [https://finreglab.org/wp-content/uploads/2020/05/FinRegLab-Disaster-Related-Credit-Reporting.pdf](https://finreglab.org/wp-content/uploads/2020/05/FinRegLab-Disaster-Related-Credit-Reporting.pdf)
• Better balance the burden of initiating payment arrangement modifications between the consumer and the creditor. With some exceptions, the onus rests squarely on consumers, who may not have the time, capacity, or ability to get through to a creditor. Creditors must also be pressured to proactively offer borrowers flexibility and solutions that take into consideration:
  o A realistic assessment of consumers’ current and longer-term financial struggles as a result of COVID-19 and
  o Tools already within the system that mitigate credit damage due to COVID-19 (including in some cases, full or partial loan forgiveness options)

• Acknowledge and address the logistical and functional implementation challenges that limit the current credit reporting, scoring, and underwriting systems, making it difficult for stakeholders to recalibrate and adapt quickly to dramatically changed macro-economic realities. Over the last several years, consumer credit reporting agencies (CRA) have become more visible to individual consumers and have created better systems for communicating with them and each other through tools like Annualcreditreport.com. Structural opportunities that leverage such tools are worth exploring.

• Encourage the CRAs to play an integral role in helping to protect consumers credit scores. Since their repositories contain the consumers’ payment histories, any mechanisms that are enacted need their support. Similarly, the credit scoring companies such as VantageScore and FICO should also be intimately involved. Their scoring models are derived from the data that the CRAs store. With the vital proactive participation of these two industries, workable solutions are possible.

• Anticipate unintended consequences of disrupting the integrity of the data flowing through the system as a result of broad suppression of delinquencies. Such consequences could include the risk that underwriting becomes more challenging for lenders, restricting access to credit unnecessarily or leading to over-indebtedness for consumers.

COVID-19 has created a challenging reality for households across the country. As local economies remain closed for undetermined amounts of time and furloughed and laid off workers grapple to make ends meet, access to financial support is needed more than ever. During the recession of 2008, nonprofits, including hundreds of community lenders (many, but not all, certified Community Development Financial Institutions) in particular, played key role in supporting vulnerable consumers. With established trust in their community and a model of relationship-based lending, these lenders can be flexible and supportive of their low- to moderate-income (LMI) borrowers, fostering resilience in times of need, including proactively entering into workouts and responsively and responsibly reporting accurate borrower data with integrity.

CBA has the network and infrastructure to support nonprofits that are helping consumers and small businesses leverage safe, affordable credit to survive the crisis, protect good credit through the crisis, and recover and build their credit as seamlessly and quickly as possible as the crisis abates. However, as responsive as they may be, these mission-driven entities are also subject to bottom line financial constraints and economic worries. If they go under, what will happen to their staff and where then will their clients turn? Short of a better policy solution, we advocate for directing critical, additional federal, state, and local funding to those groups on-the ground and in the trenches serving their communities in maintaining resilience in the face of such uncertainty.