

Economic Impacts of a Moratorium on Consumer Credit Reporting

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Executive Summary

- Two bills introduced in Congress, H.R. 6370 and S. 3508, “Disaster Protection for Workers’ Credit Act of 2020” would impose a moratorium on credit reporting of “adverse information” for the duration of the coronavirus crisis.
- Credit scores are an integral part of the consumer credit underwriting process as their power to predict the likelihood of borrower default is well-established empirically. Consequently, lenders have come to heavily rely on the integrity and information content of credit scores as a critical measure of a borrower’s creditworthiness.
- Economic theory suggests that in the absence of viable mechanisms to effectively distinguish between high and low risk borrowers, lenders will ration credit.
- Under a credit reporting moratorium, the reliability of credit scores to distinguish between borrower risks would come into question.
 - Lenders would respond to the proposed credit reporting moratorium by raising minimum credit score requirements and/or raising borrowing rates as a credit uncertainty premium to offset the risk they face from the moratorium.
 - During the 2008 financial crisis, lenders raised credit score minimums on FHA loans, for example, beyond those set by the agency as a response to uncertainty over indemnification provisions that posed significant costs to lenders. And today, during the coronavirus, a number of Ginnie Mae originators have raised credit scores to blunt some of the risk they face due to requirements to pass-through mortgage payments to investors, including those in default or subject to forbearance.
- A credit reporting moratorium would severely restrict credit to millions of consumers, with potentially disproportionate impacts on lower-income, minority, and first-time homebuyer borrowers while significantly delaying the timing, speed and trajectory of economic recovery.
- Policy recommendations are as follows:
 - The CFPB should ensure that financial institutions or mortgage servicers reporting credit information to credit reporting agencies on federally-backed mortgages in forbearance are correctly reporting this information pursuant to CARES Act provisions on this issue.
 - Consumers would be better off by having access to credit counseling and financial education programs during the crisis funded either by the next coronavirus stimulus package or out of the CFPB Civil Penalty Fund with appropriate oversight.

Economic Impacts of a Moratorium on Consumer Credit Reporting²

Policy Issue and Background

Ensuring consumers have access to credit at a fair price has been a long-standing objective of policymakers. Credit availability is affected by the business cycle which in turn is influenced by a host of factors such as the demand and supply for credit and external drivers including macroeconomic shocks or external events such as the coronavirus pandemic. Periods of economic contraction, as witnessed during the 2008 financial crisis typically result in a reduction in the supply of credit as lenders adapt to deteriorating market conditions reflected by higher losses on loan products and a reduction in consumer demand for loans. The COVID-19 pandemic has sparked a financial crisis that so far appears to be worse than 2008 and threatens the long-term financial well-being of millions of consumers across the United States.

As government mandated closures of the economy began in March 2020, it shut down businesses, taking with it millions of jobs and thrusting the US into the most financial uncertainty experienced in a generation or more. Despite unprecedented fiscal and monetary policy stimulus and a commercial banking sector that is far stronger than it was at the outset of the 2008 financial crisis, this COVID-19 crisis poses significant financial challenges for consumers including their ability to pay debt obligations in a timely manner. Furthermore, the largest obligation of many households is their mortgage and during this crisis the CARES Act allows borrowers with federally-backed mortgages (including Fannie Mae and Freddie Mac) to seek forbearance on their mortgages.

Seeking to further alleviate financial hardships on consumers, two bills; H.R. 6370 and S.3508, “Disaster Protection for Workers’ Credit Act of 2020” have been introduced in Congress that amend the Fair Credit Reporting Act by placing a moratorium on reporting any “adverse information” regarding a consumer’s credit history during the COVID-19 crisis. While well-intended, these legislative proposals if enacted would severely reduce the availability of credit to consumers in general. A credit reporting moratorium would disproportionately harm low-income and minority consumers with marginal credit already struggling to maintain access to credit due to market responses to this legislation. Such legislation could also set a credit constraining precedent for every other federally declared emergency in the future. Already this

² Study conducted by Clifford Rossi, PhD, Chesapeake Risk Advisors, LLC. The author wishes to thank the Fair Isaac Corporation for supporting this work.

spring, the US has witnessed flood and tornado disasters and a busier hurricane season than normal is predicted this year. The possibility exists that the proposed legislation could set up an ongoing practice of forcing a moratorium on consumer credit reporting in the wake of a major disaster. Instead of helping affected people recover from these events it would have just the opposite effect by restricting their access to credit when they most need it.

Most consumer loan products heavily rely on credit scores in the underwriting process for credit granting decisions. Credit scores have been proven to be one of the most statistically significant risk factors in determining the likelihood of borrower default over the years for most consumer loan products, as well as being an objective and consistent mechanism to screen borrowers for credit quality when compared to manual underwriting which requires greater subjectivity to assess and compare borrower creditworthiness. In the absence of reliable information on borrower credit history, economic theory suggests that credit rationing is an expected outcome. A moratorium on credit reporting would reduce the information content of credit scores and thus artificially dilute the relationship of credit history and default. Lenders would respond to such actions by adding an uncertainty premium in the form of requiring higher minimum credit scores for loan products which would have the effect of lowering the supply of credit below that observed prior to the credit moratorium. Those consumers with marginal credit profiles would likely be pushed out of credit markets as a result, contrary to the very objective of the legislation. At a macro level, a likely credit contraction following a credit reporting moratorium would further retard any presumed accelerated recovery of the economy at-large. A credit reporting moratorium thus is not an appropriate policy response to addressing consumer credit availability. With forbearance policies in place for mortgages to alleviate a major financial stress point for many borrowers, consumers would be better served if funds could be provided either from the next coronavirus relief package or from the CFPB's \$1.2 billion civil monetary penalty fund, with appropriate oversight and guardrails, to provide additional support to consumers in need of financial education and improve their understanding and management of personal credit.

Legislative Proposals Relating to a Credit Reporting Moratorium

Both bills, H.R. 6370 and S.3508, titled, "Disaster Protection for Workers' Credit Act of 2020" would amend the Fair Credit Reporting Act by imposing a moratorium on reporting of "adverse information" associated with any consumer credit account starting March 13, 2020 when the Federal Emergency Management Agency (FEMA) declared a national emergency and ending the

later of 120 days after the enactment of the legislation or following the termination of the emergency declaration (disaster period). Other than a felony criminal conviction, credit reporting agencies would be prohibited from including any adverse information such as late payments, personal bankruptcies, and foreclosures, among others in a consumer's credit report. Consumers would have the right to review and request removal of any "adverse information" to their credit report over the disaster period and have free access to their credit report during this time. Credit bureaus would be required to set up a website allowing consumers to report any economic hardship associated with the COVID-19 crisis without supporting documentation. Under this reporting process, credit report protection to consumers would be extended for 270 days after the end of the disaster period.

While both bills are closely aligned in their substance, H.R. 6370 deviates somewhat from S.3508 with regard to a provision relating to the use of credit scoring models. H.R. 6370 prohibits a developer of a credit scoring model from assigning a negative value to any consumer credit scoring model due to an omission of credit report information during the credit reporting moratorium. Furthermore, H.R.6370 precludes the use of any new credit scoring model if it were to be shown that a larger share of consumers would be deemed less creditworthy. The provisions described in these bills would adversely distort consumer credit markets in a manner that would contradict the intended objective of the proposed legislation by reducing the availability of credit for consumers and slowing economic recovery in general. This adverse effect on credit markets is better understood in the next section regarding the importance of credit data for credit underwriting decisions.

Importance of Credit Data in Consumer Lending

Underwriting is a lender's process for evaluating the borrower's willingness-to-pay and ability-to-pay their loan back over time. For secured loan products requiring some form of collateral against the loan such as a residential property for a mortgage loan, knowing how much of an equity stake the borrower has in the property serves as an additional piece of information in the underwriting decision. For secured assets, such as residential mortgages, a major tenet of consumer lending is the 3C's of underwriting. The first C, for capacity reflects the borrower's ability-to repay the obligation and can be measured by income or relative measures such as debt-to-income (DTI) ratios. The second C, represents collateral and in the case of a mortgage loan can be assessed using the borrower's loan-to-value (LTV) ratio. The third C, for credit worthiness is typically assessed using information from the borrower's credit history.

Borrower credit data is collected from creditors and other sources by credit reporting agencies such as Equifax, Trans Union and Experian that in turn organize, manage and provide reports and information to lenders. Many pieces of a borrower's credit activity are captured that describe each consumer's credit patterns. Such information as the amount of outstanding credit balances relative to credit lines or limits, number of active trade lines, number of inquiries made for credit, as well as late payments and other credit attributes provide a comprehensive picture of a consumer's creditworthiness. In 1989, the Fair Isaac Corporation created a statistically-based credit score, known as FICO® Score that weights many consumer credit attributes based on their contribution to predicting delinquency of an account. FICO Scores typically range between 300 and 850, with higher scores signifying better credit quality. Over the last 25 years or so, credit scores have come to transform the consumer underwriting process. For decades, mortgage underwriting was manually performed, relying on trained underwriting staff to make assessments and tradeoffs of credit risk attributes such as the components of a borrower's credit report or a credit score in determining whether to grant credit or not.

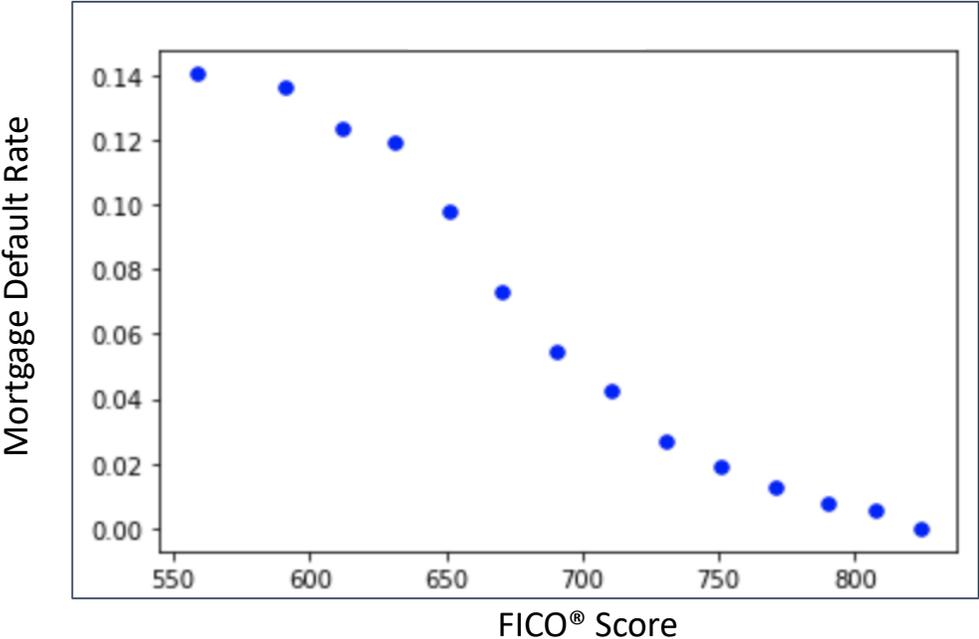
In 1996, the inclusion of credit scores in an automated underwriting system (AUS) by Freddie Mac and then by Fannie Mae revolutionized the way mortgage credit decisions were made. They would now be able to accelerate credit decisions while effectively managing credit risk better than in a manual underwriting environment. An AUS consists of a statistical scorecard, credit policy cutoff scores and overrides and/or a rules engine to augment the scorecard. Credit risk can be raised or lowered in an AUS by adjusting policy cutoffs and/or overrides. The GSEs demonstrated that using credit scores in a statistically-based AUS would ensure consistent and objective rank ordering of credit risk across borrowers taking into account all other factors important to explaining a borrower's likelihood of mortgage default. Underscoring the importance of this new technology to the mortgage industry was the quick adoption of credit scores and AUS in 1996 by FHA once the power of the tools was demonstrated to work effectively on FHA borrowers. Up to that point FHA had expressed skepticism over the effectiveness of credit scores for FHA lending. Today, the agency's TOTAL scorecard is centrally featured in the underwriting of FHA loans.³

To gain a better understanding of the predictive quality of credit score (FICO Score in the following analysis) on mortgage default, consider Figure 1. In Figure 1, FICO Score is shown to have a negative relationship with the likelihood of a mortgage becoming 90 days past due or worse in its life (90DPD+). This relationship was developed using a multivariate logistic

³ The author developed the first TOTAL scorecard in 1996 when employed with Freddie Mac.

regression model holding other important factors such as borrower LTV, DTI, loan purpose, relative loan size and other attributes constant.⁴ From Figure 1, it is clear that holding all other attributes constant, a borrower with a credit score of 550 would have a 14% likelihood of becoming 90DPD+ while a borrower with an 800 FICO Score has about a 1% chance of serious delinquency. To gain a sense of the contribution of FICO Score in explaining mortgage default, consider Figure 2. Figure 2 shows that FICO Scores are the primary factor in explaining mortgage delinquency.⁵ These results clearly demonstrate the significance of credit scores in the credit underwriting process.

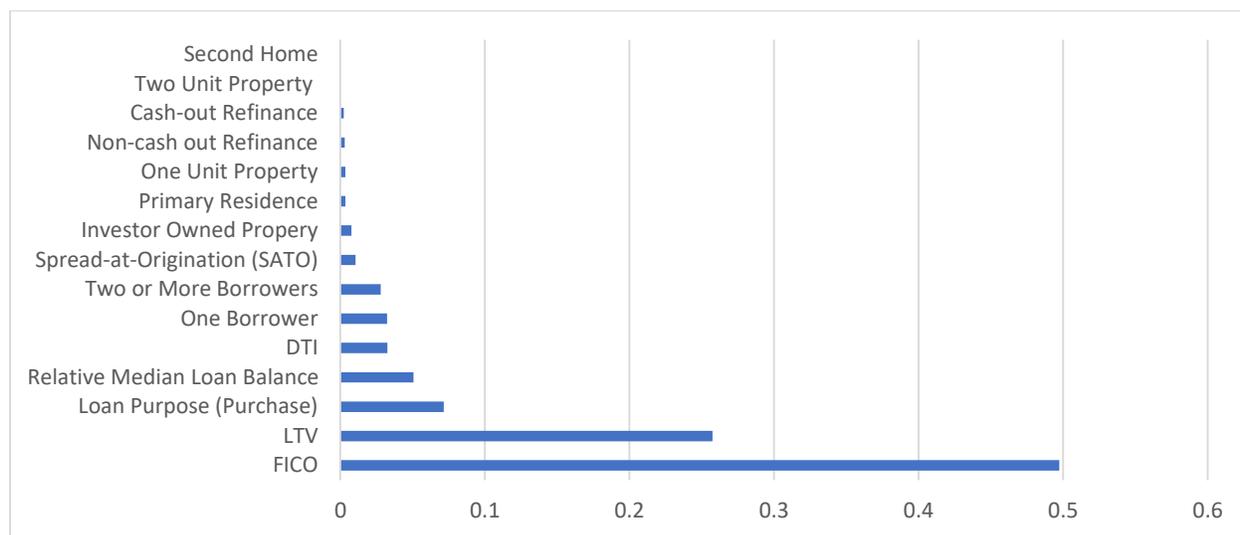
Figure 1: Credit Scores Are Highly Predictive of Mortgage Delinquency Rate (90DPD+)



⁴ This analysis was based on approximately 170,000 Fannie Mae loans originated between 2000-2013 with performance through 2019. Results were validated on a separate data set of approximately the same size not used to develop the model.

⁵ A machine learning model, extreme gradient boosting (XGBoost) was used to develop a mortgage underwriting scorecard using the same factors used in the logistic regression model on the same Fannie Mae loan level data. Shapely values are reported in Figure 2.

Figure 2: FICO Score is the Primary Risk Factor Explaining Mortgage Delinquency Rate

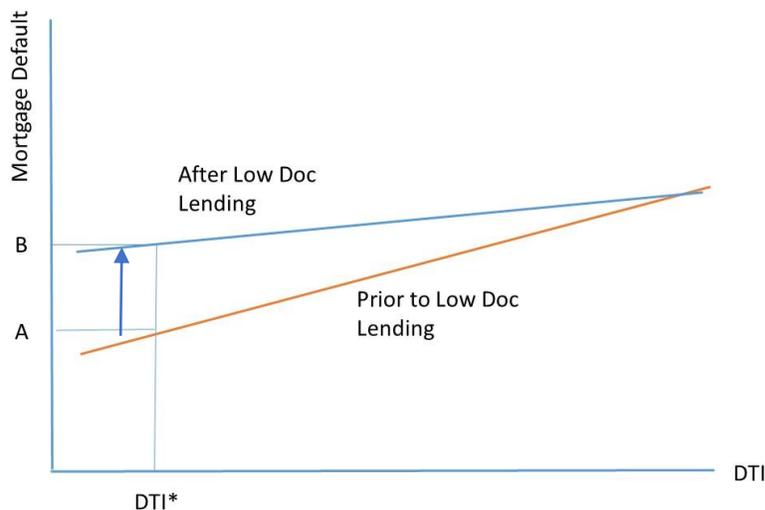


With the previous analyses confirming the importance of credit scores to the consumer credit underwriting process, it is instructive to describe what happens when policies erode the linkage between a risk factor and a credit outcome such as serious delinquency. During the mortgage boom that preceded the financial crisis of 2008, many lenders relaxed their credit underwriting guidelines along several key risk factors including loan documentation. For years, mortgage originators had fully documented a borrower’s income through examining W2 statements for salaried borrowers or tax documents for others such as self-employed borrowers. A variety of low-documentation programs appeared during this period, originally touted as way of streamlining the underwriting process for borrowers for whom the originator had some mortgage history. Mortgage history can reduce the need for formal documentation of income for those borrowers that demonstrate good payment habits on their mortgage. Over time, other loan programs emerged not just for streamlined refinances but for purchase money mortgages where the borrower could simply state their income (stated-income) or in some cases was not asked for it at all (no-income). These programs over time eroded the importance of factors used to underwrite borrowers, including DTI which was a commonly featured variable of most mortgage underwriting scorecards. Unfortunately, these changes in credit policy dramatically eroded the statistical power of variables such as DTI in estimating borrower default. Conceptually, the problem is represented in Figure 3.

Prior to the implementation of low documentation mortgage programs, the relationship between DTI and mortgage default was positive and statistically significant as depicted by the

steeper relationship in Figure 3. Over time, as low documentation programs expanded, that relationship flattened as shown in Figure 3. The DTI-default relationship was no longer as strong statistically as it had been, in large measure due to data integrity issues associated with the reporting of borrower income. Lenders found over time from post-origination quality control reviews that significant overstatement of income was present in these programs and as a result, DTI calculations, a typical mortgage underwriting factor, was negatively affected. Lower DTIs prior to the appearance of low doc programs exhibited statistically lower default rates than higher DTIs which were consistent with years of credit performance results. However, during the low doc era, a significant share of lower DTI loans were loans with income overstatement which showed up in the data and models as higher default rates. This can be seen in Figure 3 where for the same debt-to-income ratio (DTI*), default rates rose from a level at A to B. This flattening of the DTI curve, controlling for all other risk factors underscores the importance of data quality reflective of the underlying risk of a consumer. During this period, lenders began to understand the effects that low-doc credit programs had on reducing the integrity of income in credit underwriting and responded in part by raising fees for borrowers in low doc programs.

Figure 3: DTI-Mortgage Default Relationship Before and After Implementation of Low Documentation Loan Programs



The importance of ensuring integrity in the credit scoring model process in mortgage lending is highlighted also by the Federal Housing Finance Agency's (FHFA) guidance to Fannie Mae and

Freddie Mac (GSEs) on this topic, Validation and Approval of Credit Score Models. In this guidance, the FHFA outlines the requirements to ensure the “integrity, reliability and accuracy” of the GSEs’ credit scoring models. Part of those requirements include making sure Fannie Mae and Freddie Mac, when using outside credit scores such as FICO Score in their own AUS models, ensure those credit scores are validated according to strict model assessment practices. In the event that a consumer credit reporting moratorium were imposed during the COVID-19 crisis, this would impair the effectiveness of the credit score to determine delinquency performance, and in turn diminish the effectiveness of an AUS utilizing such credit scores in the model.

How a Credit Reporting Moratorium Harms Consumers

The relationship between the amount and price of credit in lending markets and information uncertainty has been extensively researched in the academic community for decades most notably highlighted in two seminal articles on the topic; one by Akerlof and the other by Stiglitz and Weiss.⁶ Akerlof’s work acknowledged the problem that adverse selection and information asymmetry could bring to credit markets. The idea that in situations where lenders could not distinguish between low and high credit risks due to information limitations,⁷ credit lending might not be possible or at least restricted.

Stiglitz and Weiss theorized that interest rate acts as a screening mechanism by lenders where higher risk borrowers signal their willingness to assume credit at an interest rate higher than a lower risk borrower. They showed that as interest rates on credit products rises, the share of riskier borrowers in the pool increases and that could reduce profitability for the lender as higher default rates reduce the lender’s profits. High quality borrowers will tend to drop out of the market as rates rise. At some point profit-maximizing lenders set an interest rate that beyond which lenders would be less profitable and hence ration credit to borrowers.

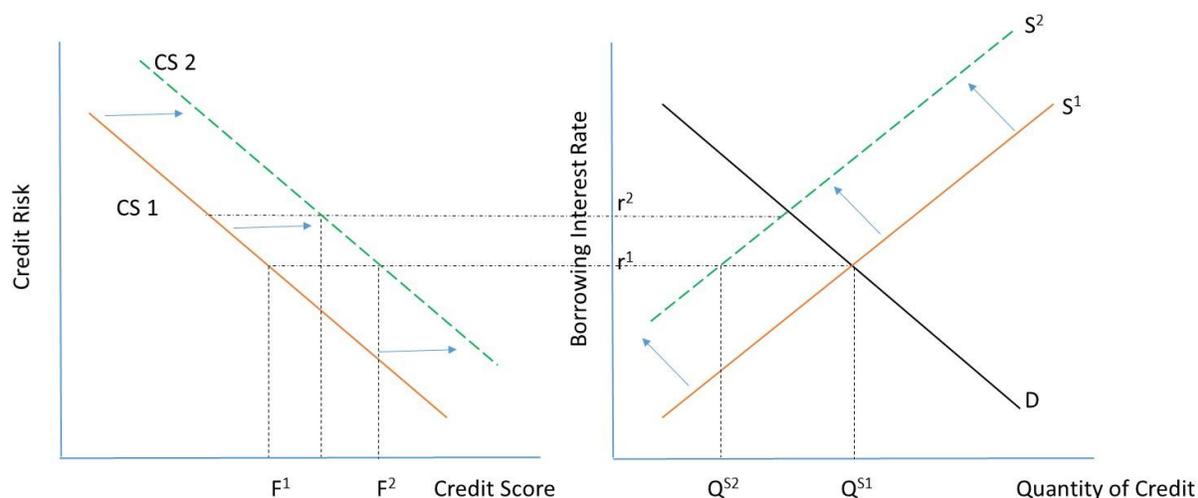
This theory explaining credit rationing is easily adapted to modern credit underwriting processes that leverage the use of credit scores in making loan decisions. Figure 4 presents a graphical representation of how a credit reporting moratorium could adversely affect credit

⁶ George A. Akerlof, “The Market for ‘Lemons’: Quality Uncertainty and the Market Mechanism”, *Quarterly Journal of Economics*, 84, pp.488-500, 1970 and Joseph E. Stiglitz and Andrew Weiss, *Credit Rationing in Markets with Imperfect Information*, *American Economic Review*, 71, pp.393-410, 1981.

⁷ Information asymmetry in the Akerlof framework prevents lenders from distinguishing high and low credit quality borrowers.

availability under the credit rationing framework with credit score used as a screening mechanism for credit.

Figure 4: Impact of a Credit Reporting Moratorium on Credit Availability with Credit Score Screening



Credit scores are widely used in consumer loan underwriting as a statistically reliable screening mechanism for credit quality. The negative relationship between credit score and default empirically established in Figure 1 is depicted on the left side of Figure 4. In the absence of a credit reporting moratorium, lenders would establish a minimum credit score for eligible borrowers that would maximize firm expected return. That minimum credit score would reflect the expected overall credit risk of borrowers approved by lenders and is designated as F^1 in Figure 4. This credit score threshold aligns to a market clearing interest rate r^1 shown on the right side of Figure 4 where demand for credit D equals supply of credit by lenders S^1 .

Now assume that Congress passes a consumer credit reporting moratorium. With lenders unable to determine the reliability of credit score as an effective screening mechanism for credit quality, they impose a credit uncertainty premium in the form of a higher minimum credit score. This credit uncertainty premium can be thought of as an amount of credit score points that would approximate the incremental credit risk to lenders due to the credit reporting

moratorium reducing lenders' ability to screen for credit quality effectively. Lender response to the moratorium would be to push the credit score-credit risk curve to the right from CS 1 to CS 2. In order for lenders to hold interest rates at their current levels, the supply of credit would shift to the left in the form of S^2 . To preserve an interest rate at the same level as before the moratorium, the level of credit supplied would fall by the amount; $Q^{S2} - Q^{S1}$. At this level of credit, the minimum credit score for eligible borrowers would now be set at F^2 . A credit reporting moratorium would therefore restrict the amount of credit supplied to markets. Market equilibrium, however, would be restored at a higher interest rate r^2 where S^2 and consumer demand D meet by an amount that compensates lenders for the credit uncertainty premium. This higher market clearing rate would result in a minimum credit score between F^1 and F^2 . Although the supply of credit would be greater than under the first scenario, the interest rate would be higher with the potential to price some borrowers out of the market and raise the cost of credit for all who remain. In either case, the impact of a credit reporting moratorium harms consumers.

Economic Impacts from a Consumer Credit Reporting Moratorium

The previous section laid out the economic theory of how a credit reporting moratorium would leave consumers worse off than without it. These results suggest policymaking should follow the same doctrine that guides healthcare professionals; i.e., *primum non nocere*; first, do no harm. Is there evidence from credit markets to support the theory just presented? In fact, there are many market examples to draw from, but two in particular are worth highlighting. Following the 2008 financial crisis in the wake of heavy mortgage losses, the GSEs, private mortgage insurance companies and FHA (collectively referred to as the agencies below) sought buy backs from originators who the agencies had determined violated one of more provisions of the terms of their underwriting agreements. The basis for these buy back actions were recourse and indemnification provisions in their contracts with originators that permitted them to force lenders to effectively buy back defective (for credit and/or collateral issues) loans. Lenders felt that the recourse and indemnification provisions were unclear and allowed the agencies too much latitude in determining what loans should be repurchased. In the case of FHA, a number of the agency's largest originators, including Wells Fargo and JPMorgan Chase, raised their minimum FICO Scores to 640 even though the FHA's own underwriting guidelines imposed a

minimum FICO Score of 580.⁸ These lenders' rationale for imposing the higher minimum FICO Scores was to reduce their indemnification risk from potential FHA putbacks. In other words, the uncertainty around the indemnification process meant lenders would set higher credit requirements to offset that potential exposure.

During the current coronavirus pandemic, a number of originators have raised credit standards, particularly nonbank lenders originating federally-insured loans.⁹ Ginnie Mae servicers are required to pass-through borrower payments to investors in a timely manner, including payments on delinquent mortgages. And for loans in forbearance, Ginnie Mae requires servicers to continue to pass through payments to investors. For nonbank servicers, that happen to be servicing the majority of Ginnie Mae loans in securities issued, passing through payments in this higher delinquency/forbearance environment places significant financial stress on these firms. First, nonbank lenders and servicers are far less liquid compared to depositories and their capital levels are likewise very low relative to federally regulated banks, thrifts and credit unions.¹⁰ In light of uncertainties and costs associated with passing through mortgage payments during the coronavirus crisis, lenders have raised credit requirements in an effort to mitigate their risk from rising defaults and forbearance.

The economic impact on consumer credit markets and the recovery of the overall economy from a credit reporting moratorium would be severe and debilitating. First consider the fact that consumer debt totals \$14.3 trillion in the US (Figure 5). For each of these consumer loan types, credit scores are used in the underwriting process. Moreover, the dollar magnitude and share of mortgages included in household debt underscores the importance of this market to consumers and the economy. To gain a better understanding of the potential impact on nonmortgage and mortgage consumer lending from a credit reporting moratorium, consider Figures 6 and 7 which show the distributions of FICO Scores for consumers overall (Figure 6) and for FHA (Figure 7).

⁸ Kate Berry, American Banker, FHA Working On Plan to Increase Lending, Reduce Banks' Risk, April 3, 2013.

⁹ Diana Olick, CNBC, Here's why it's suddenly much harder to get a mortgage, or even refinance, April 13, 2020.

¹⁰ United States Government Accounting Office, Nonbank Mortgage Servicers, Existing Regulatory Oversight Could Be Strengthened, March 20016, and You Suk Kim, Steven M. Laufer, Karen Pence, Richard Stanton, and Nancy Wallace, Brookings Papers on Economic Activity, *Liquidity Crises in the Mortgage Market*, Spring 2018, pp. 347-428.

Figure 5: Total Debt Balance and its Composition¹¹

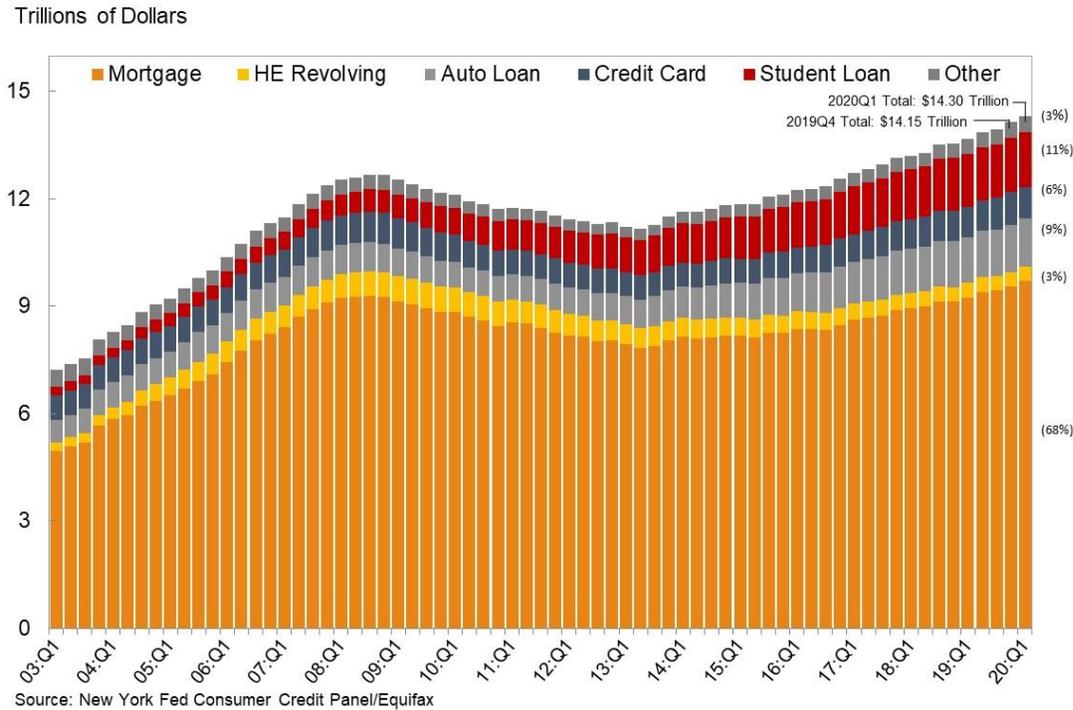
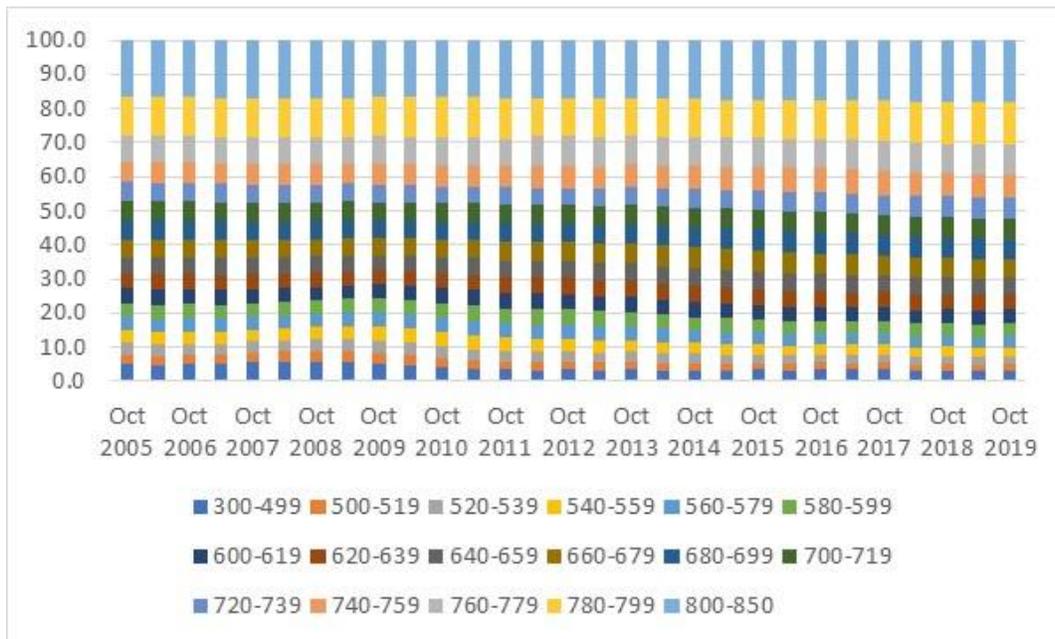


Figure 6: FICO Score 5 Distribution Over Time¹²

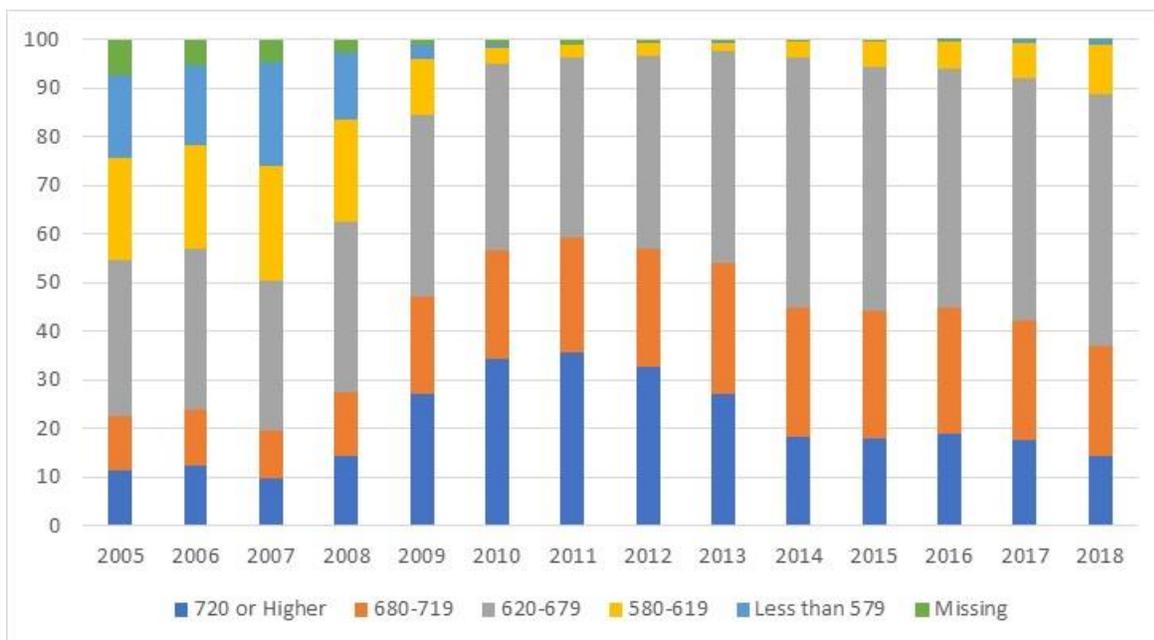


¹¹ HE Revolving refers to Home Equity loans.

¹² Source: Fair Isaac Corporation

In Figure 6, 21 percent of consumers overall had FICO Scores below 620 in 2019, and for FHA mortgage borrowers in that credit score range in 2018 the percentage was 11.4 percent (Figure 7). This group of consumers would be more vulnerable to a credit reporting moratorium due to their marginal credit since the lack of reporting of “adverse information” on their accounts would have a relatively greater impact on the reliability of their scores due to the riskier profile of these consumers. A credit reporting moratorium would not only undermine the ability of marginal credit borrowers but potentially affect a large number of borrowers in adjacent credit score categories as well. For instance, in 2018, nearly 52% of all FHA borrowers had credit scores between 620 and 679. In the case of FHA borrowers, impacts on minorities and first-time homebuyers could be severe.¹³

Figure 7: FHA Credit Score Distribution¹⁴



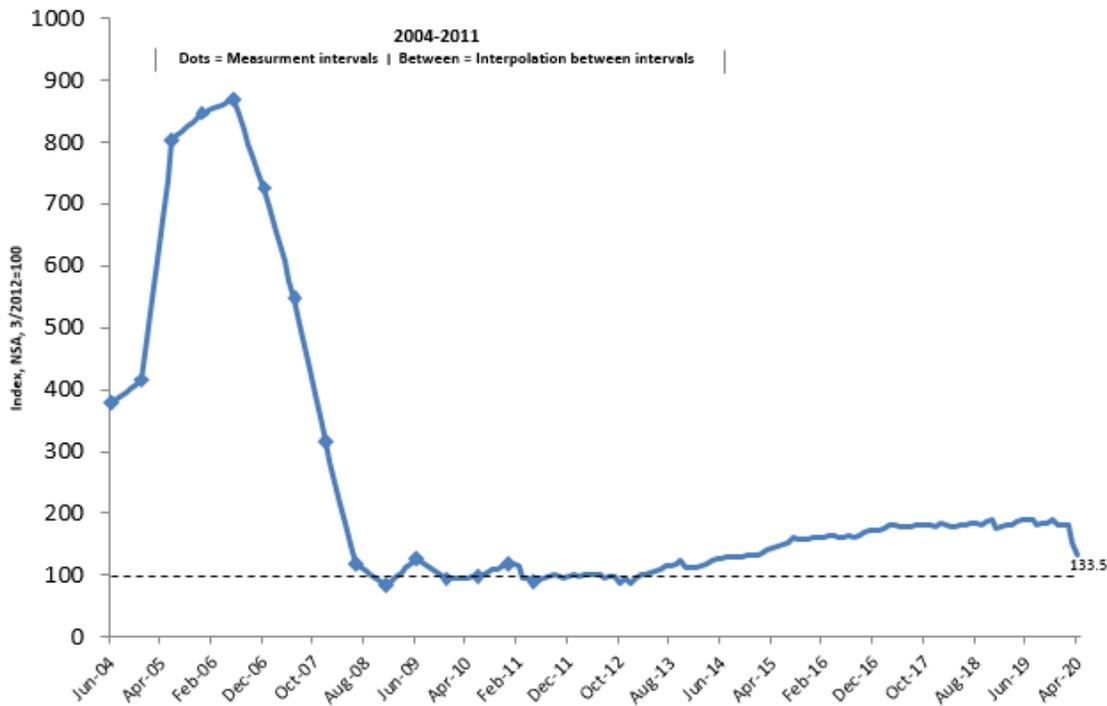
A larger threat from a credit reporting moratorium looms over the US economy at-large. Enormous uncertainty swirls among economists over the speed and trajectory of the recovery of the US economy from the coronavirus crisis as supported by the latest forecasts that paint a devastating picture for the US economy. Federal Reserve Chair Jerome Powell, for instance,

¹³ In 2018, 83% of purchase mortgages were for first-time homebuyers and nearly 45% of all endorsed FHA mortgages were for minority borrowers. Source: U.S. Department of Housing and Urban Development, Annual Report to Congress Regarding the Financial Status of the Mutual Mortgage Insurance Fund, Fiscal Year 2018, pp. 97-98.

¹⁴ Source: U.S. Department of Housing and Urban Development, Annual Report to Congress Regarding the Financial Status of the Mutual Mortgage Insurance Fund, Fiscal Year 2018, pp. 102.

stated that the US unemployment rate could reach as high as 25% during the peak of the crisis and forecasting models recently project a decline in second quarter GDP between 38-42%.¹⁵ The Federal Reserve also released the results of a survey showing that nearly 40% of lower-income households reported losing their job.¹⁶ With consumer spending accounting for approximately 70% of GDP, the recovery will much depend on credit availability as well as consumer sentiment. In other significant economic downturns; most notably the S&L crisis of the 1980s and the 2008 financial crisis, the downturn was followed by a sharp credit contraction (2008 financial crisis impact shown in Figure 8).

Figure 8: Mortgage Bankers Association Mortgage Credit Availability Index



Choking off credit to a major engine of economic growth with a credit report moratorium would significantly delay a recovery once the coronavirus has subsided.

¹⁵ Jerome Powell interview on CBS 60 Minutes television program, May 17, 2020, Federal Reserve Bank of Atlanta Q2 2020 GDPNow forecasting model results (-41.9%), May 19, 2020 and Congressional Budget Office GDP projections (-38%), May 19, 2020.

¹⁶ Board of Governors of the Federal Reserve System, Report on the Economic Well-Being of U.S. Households, Featuring Supplemental Data from April 2020, released May 14, 2020.

Alternative Action to a Credit Reporting Moratorium

The previous analysis has shown that a credit reporting moratorium for the duration of the coronavirus crisis would be damaging to consumers and the economy. The federal government has injected an unprecedented amount of fiscal and monetary stimulus into the hands of consumers and businesses with more likely to come as well. As a result of these actions and the impacts brought on by the coronavirus, consumers face a bewildering set of issues, problems and potential solutions to current financial obligations and uncertainties as they face life-changing health, employment and financial hardships.

One action that should be taken immediately is for the CFPB to ensure that financial institutions or mortgage servicers reporting credit information to credit reporting agencies on federally-backed mortgages in forbearance are correctly reporting this information pursuant to CARES Act provisions on this issue.¹⁷ The CARES Act amends the Fair Credit Reporting Act to require institutions report a borrower's account as current when in forbearance. Given the increased number of mortgages in forbearance and the speed at which these programs have been put into place, the potential for reporting errors on borrower credit reports exists which would impose obstacles for homeowners under financial stress to find access to credit.

Imposing legislation that would limit rather than expand credit availability will not improve the lives of consumers or help the shattered economy recover quickly. Many low-income borrowers are acutely challenged in having access to sound financial counseling and education services. Two alternatives and far more beneficial policy responses to consumer credit issues during the coronavirus crisis would fund credit counseling and financial education programs for consumers.

A proposal offered by Senators Merkley and Daines would provide \$700 million in the next coronavirus stimulus package to support non-profit credit counseling services.¹⁸ An alternative approach to that proposal would be to leverage the CFPB Civil Penalty Fund to make credit counseling and financial education services more widely available for those consumers most in need. The Fund was created through the Dodd-Frank Act of 2010 to compensate consumers who had been harmed by violations in consumer protection laws. Currently, the Fund has

¹⁷ Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Section 4021: Credit Protection During COVID-19, April 2020.

¹⁸ Press Release, U.S. Senator Jeff Merkley of Oregon, Merkley, Daines Lead Bipartisan Push to Boost Credit Counseling Services for American Consumers, May 6, 2020.

approximately \$542 that has not been allocated.¹⁹ These funds are currently available and programmatically can be used to support a variety of consumer financial counseling and education programs through non-profit providers of these services.²⁰

With either proposal to fund credit counseling and financial education, it would be essential that there be an effective oversight mechanism in place to ensure the funds for the program are being allocated and managed in a responsible manner. A number of pilots could be established initially on a portion of money allocated as a way of quickly setting up and testing a viable program before expanding it. Such initiatives could significantly help debt-burdened consumers by developing strategies and actions to improve their credit, consolidate debt where appropriate, and identify cost-effective measures to manage delinquent debt including how to navigate lender forbearance policies, among other critically important financial counseling measures.

Summary Observations

The coronavirus crisis precipitated a major economic crisis which has far-ranging ramifications on the financial health of millions of US consumers. As the economy struggles to recover, access to credit for consumers will be a critical determinant of the speed, timing and trajectory of the economy's return to health. Two bills introduced recently into Congress, H.R.6370 and S.3508 seek to impose a credit reporting moratorium to help consumers weather the financial storm ahead. The proposed legislation overlooks the importance of credit scores to consumer credit markets and likely responses by lenders faced with uncertainty over the validity of such scores during a moratorium. As a result, the proposed legislation would severely restrict credit availability to a significant number of consumers, disproportionately affect lower income and minority borrower access to credit and doubly harm consumers by effectively delaying the recovery of the US economy. Alternatively, funding effective credit counseling and financial education programs with appropriate oversight and controls either in the next coronavirus stimulus package or via the CFPB Penalty Fund would provide consumers with vital information and counseling needed to effectively manage their credit through this crisis.

¹⁹ U.S. Bureau of Consumer Financial Protection, Financial report of the Bureau of Consumer Financial Protection, November 2019, p. 18.

²⁰ Proceeds from the Fund may be used for consumer literacy and financial education programs. <https://www.consumerfinance.gov/about-us/payments-harmed-consumers/civil-penalty-fund/>