Market Pulse: Impact of Current Environment on Credit Scores and Reporting

Webinar | April 8, 2020
Agenda

• Economic & Consumer Credit Update
• CDIA Changes for Data Furnishers
• Potential Impact on Credit Scores and Reporting
• Q&A

https://www.linkedin.com/company/equifax/
twitter.com/EquifaxInsights
Presenters

Jennifer Cox
Risk Solutions and Consulting Leader
Equifax

Thomas Aliff
SVP, Analytics Solution Consultant
Equifax

Drew Rosedale
Data Contributor Services Leader
Equifax

Erich Wust
VP, B&L, Commercial, and Core Scores D&A
Equifax

Amy Crews Cutts
President and Chief Economist
AC Cutts & Associates LLC

Ethan Dornhelm
VP, Scores and Predictive Analytics
FICO

Emre Sahingur
SVP, Predictive Analytics, Research and Product Management
VantageScore
Job Losses Are Occurring at a Previously Unimaginable Rate

Initial Claims for Unemployment Benefits
Seasonally Adjusted, in Millions, date reported is for week ending 7 days earlier

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 28, 2020</td>
<td>6,648,000</td>
</tr>
<tr>
<td>March 21, 2020</td>
<td>3,307,000</td>
</tr>
</tbody>
</table>

Previous High reported:
October 2, 1982
695,000

Source: AC Cutts & Associates; Bureau of Labor Statistics; Data as of March 28 for week ending March 21, 2020
Economists Are Forecasting Into the Unknown and Revise Forecasts Downward Daily

Some Sectors Are Impacted Now, Some Will Show Up in April Employment Report or Later

Job Losses Are Geographically Concentrated – Social Distancing Is Having a Large Impact

March 15-28 Initial Claims for Unemployment Insurance as % of Civilian Labor Force

10 million initial claims for unemployment insurance were filed the weeks of March 21 and 28, 2020.

This equates to 5.2% of the civilian labor force.

At worst point in Great Recession, 10 million payroll jobs were lost over 25 months.

What Do We Know About Performance After Forbearance? Mortgage Loans

**Cutts & Green (2005):** Regarding mortgage performance after entering repayment plan for previously delinquent loans

“We now turn to our featured variable: Whether the borrower is in a repayment plan. Our results are robust—for all four model specifications, the probability of failure drops sharply when borrowers get into a repayment plan...At sample means, being in a repayment plan lowers the probability of failure by 68% for low- and moderate-income borrowers...[for other borrowers the] failure probability is lowered by almost 80%.

What Do We Know About Performance After Forbearance? Credit Cards

Agarwal, Chomsisengphet, and Mielnicki (2008): Regarding credit card accounts that had gone through a delinquency & reinstatement

“In this paper, we examine how reinstated (i.e., re-aged) credit card accounts are likely to default again. Our sample data reveal that about 22% of the re-aged accounts default again, mostly in the first 24 months after reinstatement. We also find that a FICO score (public information) is a better predictor of a second default, while a payment behavioral score (private information) is a better predictor of a first default. Furthermore, the average FICO score of the 78% of the re-aged borrowers who did not default again rises about 20 points, an improvement in their relative risk profile overall. These findings suggest that the re-aging program provides a second chance for liquidity-constrained borrowers who would have otherwise defaulted on their debt.

Equifax Research on Consumer Credit Account Performance Following Natural Disasters

- Following Hurricanes Sandy and Harvey and the many wildfires in California, Equifax economists did analysis on the credit performance of auto loans and other tradelines and presented the findings in webinars.
- Primary findings are that consumers did not have sustained performance issues after 3 months post-disaster. Likely this was due to the arrival of insurance payments for the losses sustained.
- Payoffs increased and originations recovered quickly.
- Major difference between these events and now is that there was physical damage that was partially insured and the recovery began immediately.
- Great Recession was led by speculation in real estate that then began to rapidly lose value – neither situation applies here.
Home Equity Lines of Credit Balances Abruptly Changed Course at the End of February

HELOC Delinquency Rates Were Leveling Out at the End of 2019 and Remain Low Now

Severe Delinquency Rate, (90+ days past due or in foreclosure or bankruptcy
Percent of Accounts and Balances; NSA; Excludes Severe Derogatory

Auto Loans Have Cyclical Default Pattern That Has Abruptly Changed – Note Flattening of Decline

Severe Delinquency Rate, 60+ Days Past Due
Percent of Accounts and Balances; NSA; Excludes Severe Derogatory and Bankruptcy
Like Auto Loans, Bankcards Have Cyclical Default Pattern That Has Abruptly Changed – Note Increase

Severe Delinquency Rate, 60+ Days Past Due
Percent of Accounts and Balances; NSA; Excludes Severe Derogatory and Bankruptcy
Credit Scores for Auto Loan and Consumer Finance Originations Show Drop-off in Subprime

New Credit Card Account VantageScore® 3.0 Distributions

Auto Loan

Consumer Finance

Source: Equifax Credit Trends. Origination data subject to revision due to reporting lags
In Most Recent Week, Bankcards and HELOC Are Indicating Loosening Credit Through Credit Score Distributions

New Credit Card Account VantageScore® 3.0 Distributions

Bankcard

HELOC

Source: Equifax Credit Trends. Origination data subject to revision due to reporting lags
CDIA Changes for Data Furnishers

Drew Rosedale
CARES Act Sec. 4021. Credit Protection During COVID-19

SEC. 4021. CREDIT PROTECTION DURING COVID-19.
Section 623(a)(1) of the Fair Credit Reporting Act (15 U.S.C. 1681e-2(a)(1)) is amended by adding at the end the following:

“(F) REPORTING INFORMATION DURING COVID-19 PANDEMIC.—

“(i) DEFINITIONS.—In this subsection:

“(I) ACCOMMODATION.—The term ‘accommodation’ includes an agreement to defer 1 or more payments, make a partial payment, forbear any delinquent amounts, modify a loan or contract, or any other assistance or relief granted to a consumer who is affected by the coronavirus disease 2019 (COVID-19) pandemic during the covered period.

“(II) COVERED PERIOD.—The term ‘covered period’ means the period beginning on January 31, 2020 and ending on the later of—

“(aa) 120 days after the date of enactment of this subparagraph; or

“(bb) 120 days after the date on which the national emergency concerning the novel coronavirus disease (COVID-19) outbreak declared by the President on March 13, 2020 under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates.

“(ii) REPORTING.—Except as provided in clause (iii), if a furnisher makes an accommodation with respect to 1 or more payments on a credit obligation or account of a consumer, and the consumer makes the payments or is not required to make 1 or more payments pursuant to the accommodation, the furnisher shall—

“(I) report the credit obligation or account as current; or

“(II) if the credit obligation or account was delinquent before the accommodation—

“(aa) maintain the delinquent status during the period in which the accommodation is in effect; and

“(bb) if the consumer brings the credit obligation or account current during the period described in item (aa), report the credit obligation or account as current.

“(iii) EXCEPTION.—Clause (ii) shall not apply with respect to a credit obligation or account of a consumer that has been charged-off.”
**CARES Act Guidance**

<table>
<thead>
<tr>
<th>Field</th>
<th>Current or Prior Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest Credit or Original Loan Amount</td>
<td>Total amount borrowed</td>
</tr>
<tr>
<td>Credit Limit</td>
<td>Assigned Credit Limit for the account</td>
</tr>
<tr>
<td>Scheduled Monthly Payment Amount</td>
<td>Zero</td>
</tr>
<tr>
<td>Account Status Code</td>
<td>11 (Current account)</td>
</tr>
<tr>
<td>Payment History Profile (report All prior history)</td>
<td>Report value 0 for the months during the Accommodation period. As an option, increment the Payment History Profile with value D during the Accommodation period.</td>
</tr>
<tr>
<td>Current Balance</td>
<td>Outstanding balance amount</td>
</tr>
<tr>
<td>Amount Past Due</td>
<td>Zero</td>
</tr>
</tbody>
</table>

For all other Metro 2® fields, the standard guidelines described within the Field Definitions module of the CRRG should be followed. If furnishers elect to utilize the Metro 2® FAQ 44 (Deferred), FAQ 45 (Forbearance) or FAQ 58 (Natural Disaster), they should do so in accordance with the CARES Act amendment to the FCRA as outlined above.

Source: CDIA’s Metro2 Consumer Reporting Resource Guide
## Deferred/Forbearance/Deferred+AW Guidance

<table>
<thead>
<tr>
<th>Terms Duration</th>
<th>Deferred (FAQ.44)</th>
<th>Forbearance (FAQ.45)</th>
<th>Deferred - Natural Disaster (FAQ.58)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Blank</td>
<td>Terms of the loan (If no payments are due during the forbearance period, blank fill)</td>
<td>Blank</td>
</tr>
<tr>
<td>Terms Frequency</td>
<td>D</td>
<td>Frequency for payments due (If no payments are due during the forbearance period, report code D for deferred)</td>
<td>D</td>
</tr>
<tr>
<td>Highest Credit or Original Loan Amount</td>
<td>Total Amount Borrowed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scheduled Monthly Payment Amount</td>
<td>Zero</td>
<td>New Payment Due (If no payments are due during the forbearance period, zero fill)</td>
<td>Zero</td>
</tr>
<tr>
<td>Account Status Code</td>
<td>11 (Current Account)</td>
<td>Delinquency Status 71 – 84 as reported prior to the Accommodation period (example 30-day delinquency prior to the period remains a 30-day delinquency throughout the Accommodation period)</td>
<td>11 (Current Account)</td>
</tr>
<tr>
<td>Payment History Profile (report All prior history)</td>
<td>Use Character B to indicate accounts which have never been in repayment. Increment the Payment History Profile with value D during the Accommodation period</td>
<td>Appropriate code that specifies the previous month’s Account Status for each month the account is in forbearance, plus prior history. Use Character D to indicate accounts that were previously in repayment but are now deferred.</td>
<td>Use Character B to indicate accounts which have never been in repayment. Use Character D to indicate accounts that were previously in repayment but are now deferred.</td>
</tr>
<tr>
<td>Current Balance</td>
<td>Outstanding Balance Amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount Past Due</td>
<td>Zero</td>
<td>APD as reported prior to the accommodation period</td>
<td>Zero</td>
</tr>
<tr>
<td>Special Comment Code</td>
<td>Blank</td>
<td>CP (Account in Forbearance)</td>
<td>AW (Affected by Natural or Declared Disaster)</td>
</tr>
</tbody>
</table>

Source: CDIA’s Metro2 Consumer Reporting Resource Guide
Impact of Data Reporting Options on Credit Scores

Erich Wust | Ethan Dornhelm | Emre Sahingur
Reporting Impact on Equifax Scores

What Our Furnishers Submit

- Our clients submit trade information of their borrowers on a monthly basis.
- A trade is a single exposure, or obligation, of a borrower (e.g. an auto loan, a 1st lien mortgage, etc.). A borrower can have multiple trades with one or multiple lending institutions.
- With each trade, our clients submit fields like utilization, total loan amount, and days past due.

What We Build Using This Information

- Using this information for each borrower, Equifax aggregates trade fields across all trades.
- Using this aggregated information, we build attributes for each borrower like:
  - Number of trades 60 days past due
  - Total balance for open bank revolving trades
  - Age of oldest trade
- These attributes power our custom and generic credit scoring models
Equifax does not change or delete any trade or trade field supplied by our clients.

All qualified trades and trade fields are included in attribute construction and, therefore, included in custom and generic credit scoring models.

The presence of “deferral” or “in forbearance” account status or the special comment code “natural disaster” (AW) have no bearing on Equifax models. However, the fields (e.g. amount past due, credit limit, etc.) associated with these trades are included in attribute construction and scores.

The following table is an example of how scores could be impacted dependent on how a client reports:

<table>
<thead>
<tr>
<th>Trade Field</th>
<th>Reporting Account Status</th>
<th>Reported Prior to Accommodation Period</th>
<th>Reported During Accommodation Period</th>
<th>Credit Score Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days Past Due</td>
<td>Deferral, In Forbearance, Natural Disaster (AW)</td>
<td>20</td>
<td>20</td>
<td>Neutral</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30</td>
<td>0</td>
<td>Positive</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0</td>
<td>0</td>
<td>Neutral</td>
</tr>
</tbody>
</table>
Impact of Data Reporting Options on the FICO® Score
FICO® Score Key Principals
In the use of Credit Bureau data

• Ensure that any treatment is empirically supported
• Accept data furnished at face value
• Yield stable, intuitive score dynamics over time
COVID-19 Reporting Options
Key (dynamic) Metro 2 fields considered by the FICO® Score

- Account Status
- Payment History Profile
- Current Balance
- Credit Limit
- High Credit or Original Loan Amount
- Amount Past Due
COVID-19 Reporting Options
Metro 2 field values that do not affect the FICO® Score calculation

• Special comment codes
  • CP (forbearance)
  • AW (affected by natural or declared disaster)

• Terms Frequency
  • ‘D’ (deferred)

• Scheduled Monthly Payment Amount
  • any value
A Word on Special Comment Codes (SCCs)

SCCs are temporary
- When furnisher ceases reporting SCC on an account, it is no longer accessible to the score
- At that point, it’s no longer possible to identify that some information reported on that account occurred while consumer was impacted

Unable to determine when SCCs were added to credit file
- Implication: any treatment based on SCC must be applied to all history on the account, including the history prior to when the SCC was first reported (e.g., prior to when the consumer was impacted)
In Summary

- Key fields such as account status, amount past due, and current balance will continue to be factored into the FICO® Score calculation

- To **permanently** ensure that a borrower’s FICO® Score will not be impacted by late payments related to the effects of COVID-19, report account as:
  - Current/no amount past due or
  - If the account was delinquent prior to impact of COVID-19, maintain that delinquency status throughout or
  - Update account status to current if delinquent account cures
How deferments and disaster coding impacts VantageScore credit scores

Emre Sahingur, SVP Predictive Analytics, Research & Product Management
<table>
<thead>
<tr>
<th>Models</th>
<th>Forbearance/Deferment</th>
<th>Disaster code “AW”</th>
</tr>
</thead>
</table>
| **VantageScore 1.0/2.0** | If data furnisher reports the account with no scheduled payment due, the consumer’s credit score will not be negatively impacted as a result of not making payments under this situation. | The account is completely excluded from the calculation of the score while the “AW” flag is on.  
When the flag is subsequently removed, the account is considered in the score calculation as usual. All payment history, including during the disaster period, will be considered as reported. |
| **VantageScore 3.0/4.0** | If data furnisher reports the account with no scheduled payment due, the consumer’s credit score will not be negatively impacted as a result of not making payments under this situation.  
The account is not included in attributes that take into consideration active accounts, their balances and utilization (There may be instances where the score is negatively impacted due to exclusion of the account) | Any missed payment history prior to, as well as during, the disaster period are specifically excluded from the score calculation ensuring that any missed payments do not adversely impact the consumer’s credit score.  
Other credit file information related to the account will continue to be included in the score calculation.  
When the flag is subsequently removed, the account is considered in the score calculation as usual. All payment history, including during the disaster period, will be considered as reported. |
Closing Thoughts

Thomas Aliff
How much will score Migration Patterns and Predictions Deviate from Historic Norms?

- How do scores distribute across the population?
- Is the population risk level changing over time?
- How is the score to odds relationship comparing to what is expected?
- How does your portfolio distribution compare to the general population? To the population with a similar product? Geography?
- How much do score shifts lead or lag economic indicators?
- What are the most common consumer behavior changes behind an increasing score? Decreasing score?

**Credit score bands had between 1.5-3.5x higher risk at the peak of the great recession in 2009 compared to 2018**
Population Distributions & Migration in a baseline environment from 2017-2018

- The population distribution may look similar but individual consumers move up and down the score ranges.
- Of the population scoring 680-719, 38% remained in the 680-719 range 12 months later.
- More moved up than down, 36% versus 26%.
- How will your population migrate? How will odds change by score band?

Most consumers, 55%, only move 20 points or less in either direction in a year.
- The high scorers do not have as much score movement as the low scorers.
- How does score movement impact portfolio management? Performance?
We’re Here to Help

Response packages to help you optimize business performance
Response FREE
Complimentary access to economic and credit trends + tools for optimizing business performance

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Solution</th>
<th>Use Cases</th>
<th>Offer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staying current with economic, consumer and commercial trends. Having access to a community for learning and questions.</td>
<td>“Market Pulse” Webinars Weekly series that addresses immediate trends and impacts on the economy from C-19.</td>
<td>Obtain unique thought leadership provided by Equifax SMEs in the areas of economic, consumer and small business trends. Submit input and requests to drive agenda topics.</td>
<td>FREE</td>
</tr>
<tr>
<td>Access to frequently updated data driven trends, for comparison to their own internal trends.</td>
<td>Credit Trends Report Weekly reports sent every Friday that review origination and portfolio performance across multiple sectors (Auto, Mortgage, Consumer Finance, Commercial).</td>
<td>Benchmark prior week, prior month, &amp; prior year trends of accounts and balances; Track VantageScore distributions by product across time. Track accounts, balances, delinquency, write-offs, utilization, credit limit shifts for revolving. <strong>Leverage insights to drive strategy modification</strong> based on industry trends.</td>
<td>FREE Through 12/31/20</td>
</tr>
<tr>
<td>Understanding available tools and best practices to address key objectives.</td>
<td>Consulting Varying levels of consulting in a few different formats depending on your business and needs.</td>
<td>Consulting around Economy, Benchmarking, Incremental Data Insights, Using FICO Resilience Index (FRI) w/ FICO Score, Stress Testing, Line Management, Forecasting.</td>
<td>FREE Through 12/31/20</td>
</tr>
</tbody>
</table>

*Processing costs may apply based on how customer is receiving data from Equifax.*
Questions?

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Additional Resources
Market Pulse
Weekly Webinar Series

- April 1, 2020 | 2:00 PM ET
- April 8, 2020 | 2:00 PM ET
- April 15, 2020 | 2:00 PM ET
- April 22, 2020 | 2:00 PM ET
- April 29, 2020 | 2:00 PM ET
**Additional Resources**

- **Recession Planning & Preparedness** [webpage](#)
- **Equifax Insights Blog:**
  - [2020 Outlook: Plan for the Best. Prepare for the Worst.](#)
  - [How Equifax is Helping Consumers Maintain Credit Standing During COVID-19](#)

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Thank You

Market Pulse: Navigating Uncertain Economic and Credit Conditions

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