



Protecting Credit Reports During the COVID-19 Crisis

April 2020

The COVID-19 pandemic has devastated our economy, leaving over 26 million consumers unemployed (as of late April 2020) and forcing countless small businesses to close. This economic catastrophe will also lead to damaged credit reports and plunging credit scores for tens of millions of consumers. Lower credit scores will not only impede consumers' ability to get affordable credit, but can also impact jobs, housing, and the ability to recover when this crisis is over.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act of March 2020 addresses the credit reporting consequences of the COVID-19 crisis, but does little to nothing to actually protect impacted consumers. Section 4021 of the CARES Act only protects consumers who are approved by their creditor for a forbearance, workout, or similar "accommodation." For these consumers, Section 4021 provides:

- If the consumer was able to obtain the accommodation while they were still current (*i.e.*, less than 30 days late), their accounts still will be reported as current.
- If the consumer was already delinquent when they received the accommodation, they will continue to be reported with the same delinquency status. Thus, consumers who are unable to get approved for an accommodation before they fell behind, perhaps because of the reasons described in the next section, will still end up with damage to their credit reports.
- If a delinquent consumer manages to catch up during the accommodation period – hardly likely for consumers facing economic disaster – they can then be reported as current.

15 U.S.C. § 1681s-2(a)(1)(F), as amended by Section 4021 of the CARES Act.

Why the CARES Act Is Not Enough

The CARES Act fails to protect American consumers from undue harm to their credit reports and scores. It is inadequate for a number of reasons:

1. Just managing to reach a creditor to ask for an accommodation can be an insurmountable obstacle.

Millions of consumers are currently attempting to reach creditors to request accommodations. Creditors' systems are not designed for this volume of calls and online contacts; they do not have adequate customer service staff to deal with millions of requests. Many consumers are waiting hours to speak to a representative, or worse, are repeatedly disconnected and cannot get through. If a consumer cannot reach a creditor before becoming late, their credit reports will suffer despite their best efforts.

2. Failing to receive an accommodation from even one creditor can ruin a consumer's credit standing, yet only some creditors are required to provide relief.

A single late payment from any one of a consumer's creditors can lower a credit score by up to 100 points, whether it be a mortgage, car loan, student loan, or credit card. Thus, a consumer who cannot pay their bills due to COVID-19 economic hardship must obtain approval for an accommodation from each and every one of their creditors. While the CARES Act requires forbearances for most mortgages and suspends payments for some types of federal student loans, not all mortgages and student loans are covered by these protections. In addition, the decision to grant accommodations for credit cards and car loans depend on the discretion of lenders – not all lenders may be granting them or there may be disparities in which consumers are getting approvals.

3. Vulnerable populations will face obstacles in obtaining accommodations and thus are less likely to get relief.

Borrowers need to know about the existence of accommodations, and how to ask for them. This will likely be a barrier for vulnerable consumers, including those with limited English skills, older consumers, people with disabilities, those who lack internet access, or those too overwhelmed by job losses or dealing with COVID-19 illness or death to be able to obtain relief.

4. The CARES Act fails to deal with debt collection and eviction records.

Section 4021 of the CARES Act is designed to apply to active credit accounts. Many of the negative items on credit reports are for debt collection accounts, especially for medical debt and late cell phone or internet bills. Debt collection accounts are never reported as "current" and the mere existence of these items on a credit report harms credit standing. Over 99% of medical debts on credit reports are from debt collectors, so this means Congress failed to provide ANY protection from the harm of medical debt in the midst of a healthcare pandemic.

Section 4021 also fails to deal with court records resulting from evictions, which are reported by specialized reporting companies called tenant screening agencies. Landlords often automatically reject applicants with eviction records, even when the case was dismissed, dropped, or filed years ago. Millions of consumers at risk of eviction may end up unable to find new homes during the healthcare pandemic due to eviction records.

5. The CARES Act doesn't even require compliance with current industry standards to help consumers affected by a disaster.

The Consumer Data Industry Association, which is the trade association for the credit reporting agencies, recommends the use of the code AW for consumers affected by a declared disaster. Section 4021 does not require creditors to report the AW code for consumers who need an accommodation due to COVID-19 related economic hardship. The AW code prevents negative information from being considered by one of the credit scoring models, VantageScore, and ideally should be required to protect consumers with respect to all credit scoring models.

What Is Needed from Congress

Consumers need a strong federal law that will protect their credit reports and scores automatically, without the need for approval from a creditor. This law should prevent the harm that arises from the reporting of debt collection accounts, eviction records, and other adverse information arising out of the crisis to credit reporting and tenant screening agencies.

What Consumers Should Do Now

If you are having trouble paying your bills, reach out to every single one of your creditors and ask for an accommodation. Do not limit yourself to creditors that are covered by the CARES Act, but note these protections that are covered by the Act:

- If you have a federally backed mortgage and have experienced hardship due to COVID-19, you are entitled to a forbearance of six months, with a six-month extension for a total of one year. [This article](#) includes advice on how to determine if your mortgage is federally backed and information on additional federal and state mortgage protections.
- If your Direct Loan, Perkins Loan, or Federal Family Education Loan is owned by the U.S. Department of Education, your loans are automatically subject to a payment suspension until September 30, 2020 and should be reported as current during the suspension. In all other cases, you need to contact your lender to seek relief.

Be persistent!!

If you cannot obtain an accommodation from all of your creditors, you'll need to figure out which bills you need to pay and which are lower priority. NCLC's consumer guide [Surviving Debt](#) provides advice on prioritizing your bills when you have trouble paying all of them. NCLC is making the [online version of Surviving Debt](#) free during the COVID-19 crisis.