February 2018

QUARTERLY CONSUMER CREDIT TRENDS

# Public Records

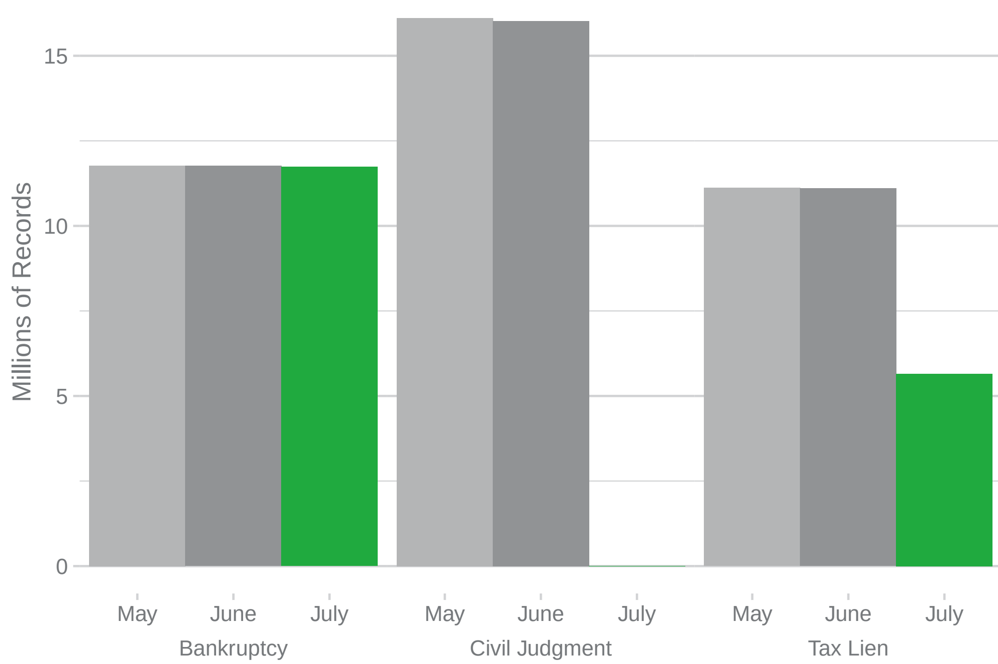
Consumer Financial Protection Bureau

- Jasper Clarkberg
- Michelle Kambara

This is part of a series of quarterly reports on consumer credit trends produced by the Consumer Financial Protection Bureau using a longitudinal, nationally-representative sample of approximately five million de-identified credit records from one of the three nationwide credit reporting companies.

In March 2015, the three nationwide credit reporting companies (NCRCs) – Equifax, Experian, and TransUnion – launched the National Consumer Assistance Plan (NCAP), an initiative aimed at enhancing the accuracy of credit reports and making it easier for consumers to correct errors on their credit reports. The NCAP was the result of settlement agreements between the NCRCs and over 30 State Attorneys General. One of the plan's provisions instituted minimum personally identifying information (PII) standards and data collection frequency requirements for civil public records that appear on consumer credit reports. Starting July 1, 2017, public record data furnished to the NCRCs for inclusion on credit reports had to contain name, address, and Social Security Number and/or date of birth, and had to be refreshed at least every 90 days. In this, the second *Quarterly Consumer Credit Trends* report, we explore the impact of these changes on credit scores and examine the credit profiles of consumers who were affected. However, we cannot analyze the NCAP's effect on the predictiveness of commercial credit scoring models because we do not have 24 months of data[1] following the implementation of the new standards.

**FIGURE 1:** DISTRIBUTION OF CIVIL PUBLIC RECORDS BY TYPE, MAY - JULY 2017




[1] This is the standard length of time used to evaluate credit scoring models. Board of Governors of the Federal Reserve System. 2007. *Report to the Congress on Credit Scoring and Its Effects of the Availability and Affordability of Credit*. (Washington, DC: Federal Reserve Board).

Civil public records fall into three broad categories: bankruptcies, civil judgments, and tax liens. Figure 1 shows the number of public records of each of these types that appeared on credit records as of the end of each month from May to July 2017.[2] The most significant changes were observed for civil judgments. They had been the most common public record prior to July 2017, but after the NCAP they disappeared entirely. The number of tax liens included on credit records also declined significantly, falling by 49 percent. In contrast, bankruptcies remained virtually unchanged, indicating that they were being reported to the NCRCs with sufficient PII prior to the NCAP. For the remainder of this report we focus on consumers for whom civil judgments or tax liens are no longer reported.

Whereas the new NCAP standards removed civil judgments entirely, the story for tax liens is more complex. The tax liens observed on consumer credit records reflect both federal and state liens. In our sample, both types of liens fell significantly, though the decline in state tax liens (52 percent) was somewhat larger than the decline observed for federal tax liens (44 percent). As shown in Figure 2, the decline in state tax liens appears to have been much more substantial in some states than in others. Relative to their respective June 2017 levels, Maine lost the most liens and Oklahoma lost the least. In contrast, the decline in the share of federal tax liens was more consistent though there were some notable outliers including the eight states in which federal tax liens fell by over 50 percent.

Although the decline in civil judgments and tax liens was substantial, only 6 percent of the consumers in our sample had a judgment or tax lien on their credit reports in June 2017. Around 83 percent of those consumers lost one or more judgment or lien in July 2017, compared to only 3 percent of consumers who had judgments or liens in May and lost one or more in June. Furthermore, only 1.4 percent of the sample had judgments or liens in July. This means that almost 5 percent of consumers had judgments or liens in June and lost all of them in July. Figure 3 compares the June credit scores for consumers who had civil judgments or tax liens with those who did not.[3] As shown, consumers with judgments or liens tended to have notably lower credit scores. The average credit score for consumers with judgments or liens was

[2] Our estimates of the number of public records are based on a 1-in-48 sample of de-identified credit records from one NCRC. Aggregate totals are estimated by taking the count of observations in our sample and multiplying by 48 to account for the sampling rate.

[3] We use a commercially-available scoring algorithm.

**FIGURE 2:** PERCENTAGE DECLINE IN TAX LIENS BY STATE, JUNE - JULY 2017

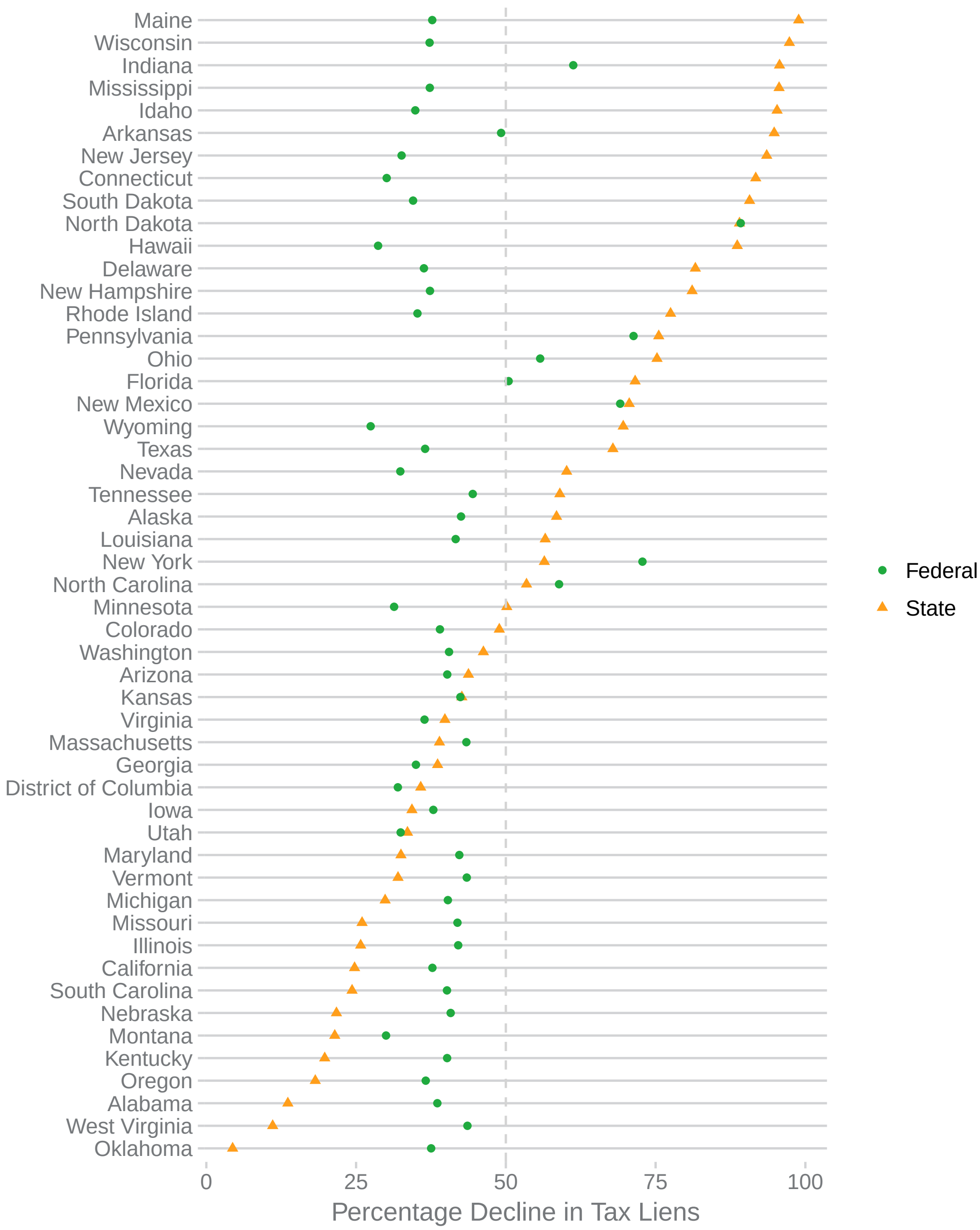
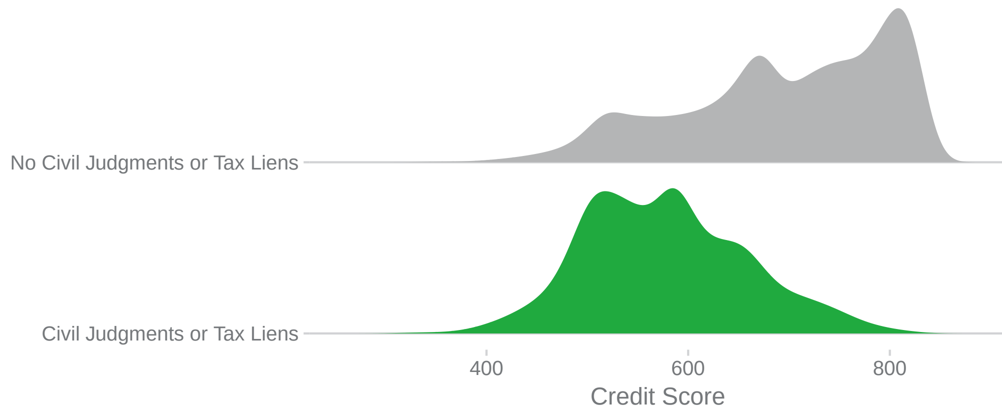


**FIGURE 3:** DISTRIBUTION OF CREDIT SCORES, JUNE 2017




577, which is 119 points below the average for consumers without those public records. About 71 percent of consumers with a civil judgment or tax lien had scores that were below 620, a common threshold used to define subprime credit scores.

Consistent with their lower credit scores, consumers with civil judgments and tax liens in June had more credit delinquencies and derogatory events in their credit history. About 89 percent of consumers with judgments or liens had a delinquency of 90 days or longer on their credit record, compared to 34 percent of consumers without these public records. Similarly, consumers with judgments or liens had 3.3 collections tradelines on average, compared to an average of 0.8 for consumers who did not. These other delinquencies are important to consider when evaluating the effects of the NCAP initiative because their presence may reduce the extent to which consumers' credit scores are affected by the removal of these public records.

Figure 4 plots the distribution of credit score changes for the last four quarters, comparing the change from June 2017 to September 2017 with previous changes.[4] The top panel shows the score changes for consumers who had one or more civil judgments on their record at the beginning of the quarter and the bottom panel shows the same for tax liens.[5] The distributions for the June 2017 to September 2017 quarter for consumers who had civil judgments and consumers who had tax liens are

[4] We compare quarterly changes in credit scores, because our dataset only contains credit scores on a quarterly basis.

[5] To isolate the effect of each public record type, we look at consumers with only civil judgments in the top panel of Figure 4 and only tax liens in the bottom panel. We also ran the analysis without this restriction, and we observed similar distributions.

**FIGURE 4:** DISTRIBUTION OF CREDIT SCORE CHANGES

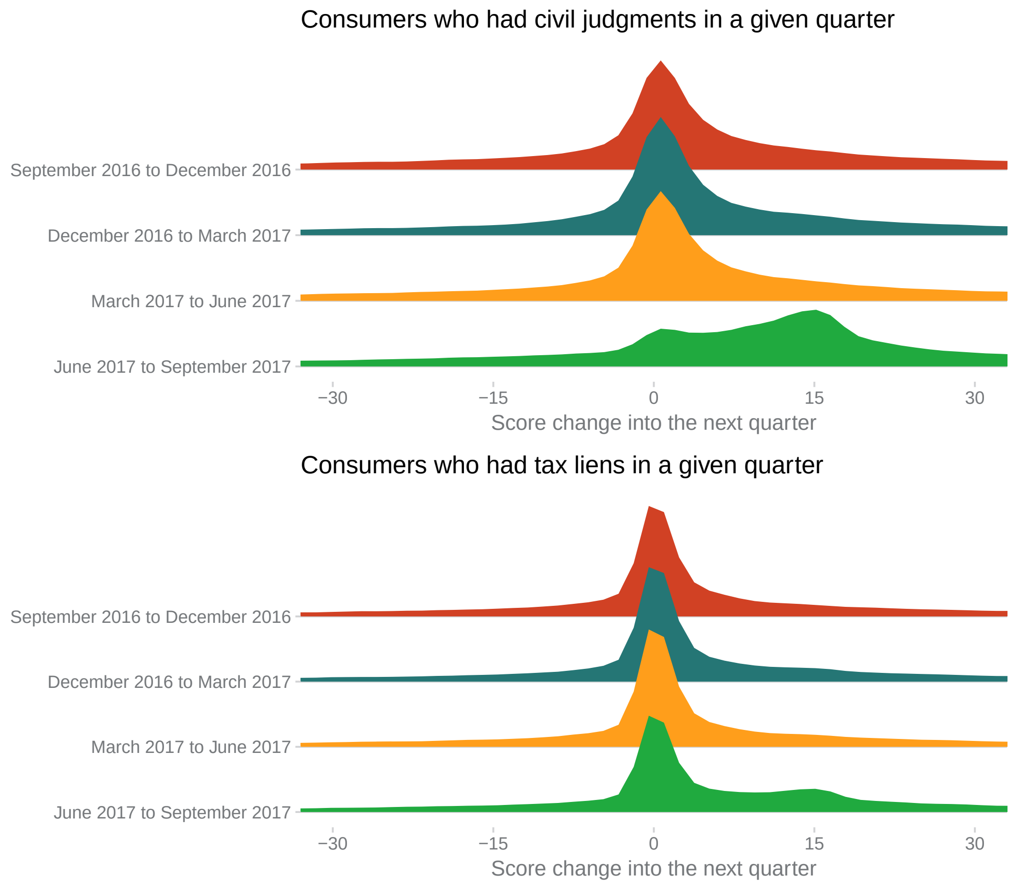
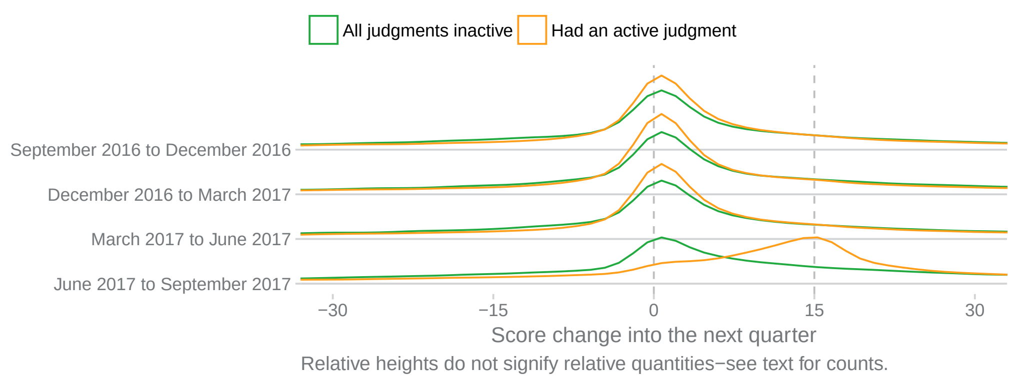


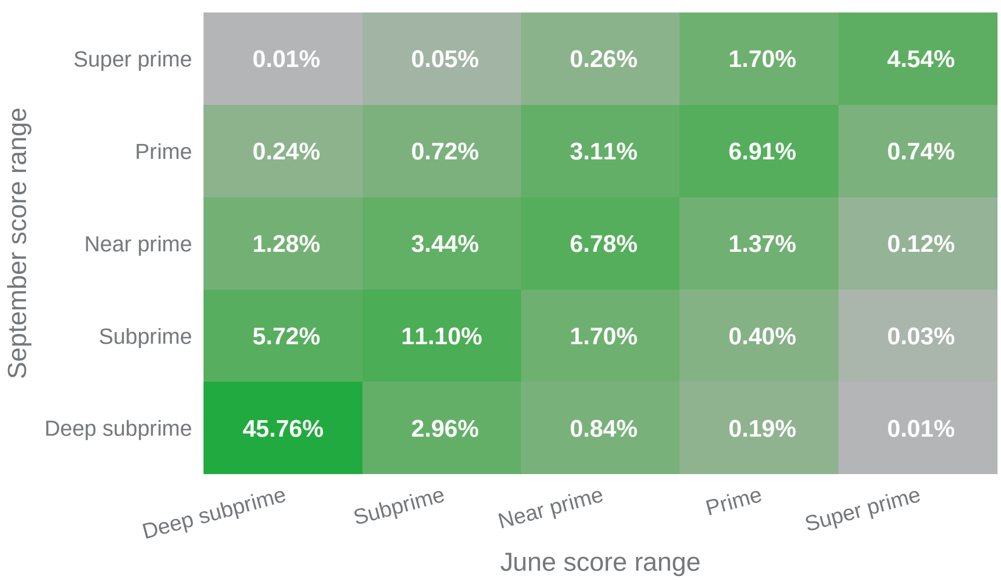

**FIGURE 5:** DISTRIBUTION OF CREDIT SCORE CHANGES BY CIVIL JUDGMENT STATUS



bimodal, with one peak at zero and one peak at 15. We expected to see two peaks for consumers with tax liens because some consumers lost tax liens from their credit records while others did not. On the other hand, the two peaks for consumers who had civil judgments were unanticipated since all judgments were dropped from credit records.

The bimodal distribution for civil judgments can be explained by decomposing the score changes according to whether the consumer had active (unpaid) judgments or whether all of their judgments were inactive (paid). Figure 5 shows the distribution of credit score changes by civil judgment status for the past four quarters. Up until June, consumers who held active judgments did not observe much score change quarter-to-quarter. However when all judgments were eliminated from records in July, the credit scores of consumers with active civil judgments increased. For those with an active judgment (about 8 million consumers), 65 percent experienced an increase in credit score greater than 5 points. For those with only inactive judgments (about 2 million consumers), 46 percent experienced such an increase in credit score.

**FIGURE 6:** PERCENTAGES OF CONSUMERS ACROSS JUNE AND SEPTEMBER SCORE RANGES




Percentages are of consumers that had liens or judgments in June

The score changes for both civil judgments and tax liens show that consumers with these public records generally experienced score changes that were either around zero or 15 points. Whether these changes are significant enough to affect access to or the cost of credit for these consumers will depend in large part on whether the score change is sufficient to change the consumer's credit profile. To evaluate this, we categorize each consumer's credit score in June and September 2017 into the five score levels used in our Consumer Credit Trends reports: deep subprime, subprime, near prime, prime and super prime. Figure 6 shows movement between score ranges from June to September for consumers who had judgments or liens in June. Most consumers (75 percent) remained in the same score band after the public records were removed as they had been before. Among those consumers who did see an improvement in their credit profile, of particular interest is movement out of the two subprime ranges into higher scores. About 6 percent of consumers who had judgments or liens had deep subprime or subprime credit scores in June before the standards took effect and rose to near prime or above in September, compared to 66 percent who started subprime or deep subprime and remained there.

To estimate the impact of the NCAP on consumers with liens or judgments, we calculate the share of consumers who experienced an improvement in their credit profile, comparing the percentage increase in September 2017 with the average increase over the three previous quarters. Around 17 percent of consumers who had liens or judgments in June moved from a lower score band into a higher score band.[6] This was 4 percentage points higher than the average over the prior three quarters. This difference is a way to approximate the number of consumers whose scores increased due to the NCAP.

At this point, our data are insufficient to evaluate the extent to which the removal of public records as a result of the NCAP affected the predictiveness of commercial credit scoring models. Both FICO and VantageScore have published studies that indicate that the NCAP will have a minimal effect on predictive performance.[7] While we are unable to verify these results, the small number of consumers who had civil judgments or tax liens and experienced a score change large enough to improve their credit profile suggests that any effects on overall model predictiveness (either positive or negative) are likely minimal.

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[6] These numbers include the movement from deep subprime to subprime.

[7] VantageScore (2016). Impact to VantageScore 3.0 Credit Score Model from Revisions to Public Record Reporting. Research brief. Available online at `http://bit.ly/2zOOiDF`.

Fair Isaac Corporation (2017). Impact of the CRAs' Enhanced Public Record Standards on FICO® Scores. Research brief. Available online at `http://bit.ly/2zSu5Jo`.