CONSUMER FINANCIAL PROTECTION BUREAU | DECEMBER 2019

QUARTERLY CONSUMER CREDIT TRENDS

Public records, credit scores, and credit performance

Consumer Financial Protection Bureau

This is part of a series of quarterly reports of 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 consumer reporting agencies.[*]

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INTRODUCTION

Credit scores are widely used as an indicator of consumers' relative creditworthiness. The ability of scores to accurately distinguish individuals' creditworthiness depends in large part on the accuracy and completeness of the information underlying the scores. Inaccurate credit reports can prevent consumers from getting credit that they need and can lead to consumers getting credit for which they have a relatively high likelihood of default. Inaccurate credit reports can also create costs for lenders, who benefit from accurate assessments of risk when conducting underwriting and pricing.[1]

This issue of accuracy of information in credit reports led over 30 State Attorneys General in 2015 to enter into a multi-state settlement agreement with the three nationwide consumer reporting agencies[2] (NCRAs) aimed at improving credit reporting accuracy. The settlement was originated to remedy alleged Fair Credit Reporting Act (FCRA) violations by the three NCRAs. Following the settlement, the NCRAs introduced the National Consumer Assistance Plan (NCAP) to enhance accuracy in credit reporting. The NCAP outlined several procedural changes, including a 180-day waiting period for medical debt reporting and significant restrictions on public record reporting. Further, civil public records—tax liens, civil judgments, and bankruptcies—could only be included on a credit report if they were refreshed by the NCRA at least every 90 days and contained enough personally identifying information to match the right consumer's credit record.

Understanding how the NCAP public records provision potentially affected the relationship between credit scores and consumers' credit performance informs the Bureau about the importance of credit report accuracy more broadly. As noted above, accurate and relevant information in credit scores contributes to efficiency and transparency in credit markets, which is a primary aim of the Bureau. Furthermore, given that the NCAP was implemented in response to alleged FCRA violations, examining the effects of the NCAP may shed light on the effects of steps to enforce Federal consumer financial law.

The Bureau's February 2018 *Quarterly Consumer Credit Trends* report showed that the NCAP public records provision resulted in the removal of all civil judgments and almost half of tax liens from credit reports by the end of July 2017. The report investigated the credit profiles of affected consumers and how the removal of public records changed those consumers' scores. The report identified credit score changes following the implementation of the provision, but not

1 On this topic, the Bureau and the Federal Trade Commission are hosting a workshop on credit reporting accuracy this December. For more information see: https://www.consumerfinance.gov/about-us/newsroom/cfpb-and-ftc-host-december-workshop-accuracy-consumer-reporting

2 They are Equifax, Experian, and TransUnion.

enough time had elapsed to determine how it may have affected the relationship between scores and performance.

Removing public records could have several, potentially offsetting effects on the relationship between scores and performance. If public records information had predictive power beyond that of other information in the credit scoring model, for example, removing this information could blunt the model's ability to distinguish individuals' relative creditworthiness. At the same time, this provision of the NCAP arose from concerns about accurate matching of public records to credit reports. If a public record were erroneously matched to a consumer with a relatively high score, for example, the consumer's score prior to the NCAP implementation might underpredict their performance, and the consumer's score might increase and better align with their performance once public records were removed.

This *Quarterly Consumer Credit Trends* report uses the Bureau's Consumer Credit Panel (CCP)[3] to look at the NCAP public records provision's effects on the relationship between credit scores and consumers' credit performance. This report first illustrates the changes in public record reporting since the February 2018 *Quarterly Consumer Credit Trends* report and then examines differences in scores for consumers who had a lien or judgment and those who did not. It then considers the differences in average delinquency rates between consumers who had a lien or judgment and those who did not by credit score category and whether this relationship changed after the implementation of the NCAP public record provision.

PUBLIC RECORD INFORMATION ON REPORTS AND CREDIT SCORES

Since the February 2018 report, the NCRAs have taken further steps to remove public records. Almost half of tax liens survived the July 2017 removals, but by April 2018, none remained. Bankruptcies are now the only type of public record on credit reports.[4] It is possible that tax liens and civil judgments could be reported in the future if that reporting complies with the terms of the NCRA settlement, however there have been no signs of a return so far.[5]

Figure 1 shows the estimated national counts of public records reported on credit reports by type. The reduction in records that occurred in both July 2017 (for all civil judgments and

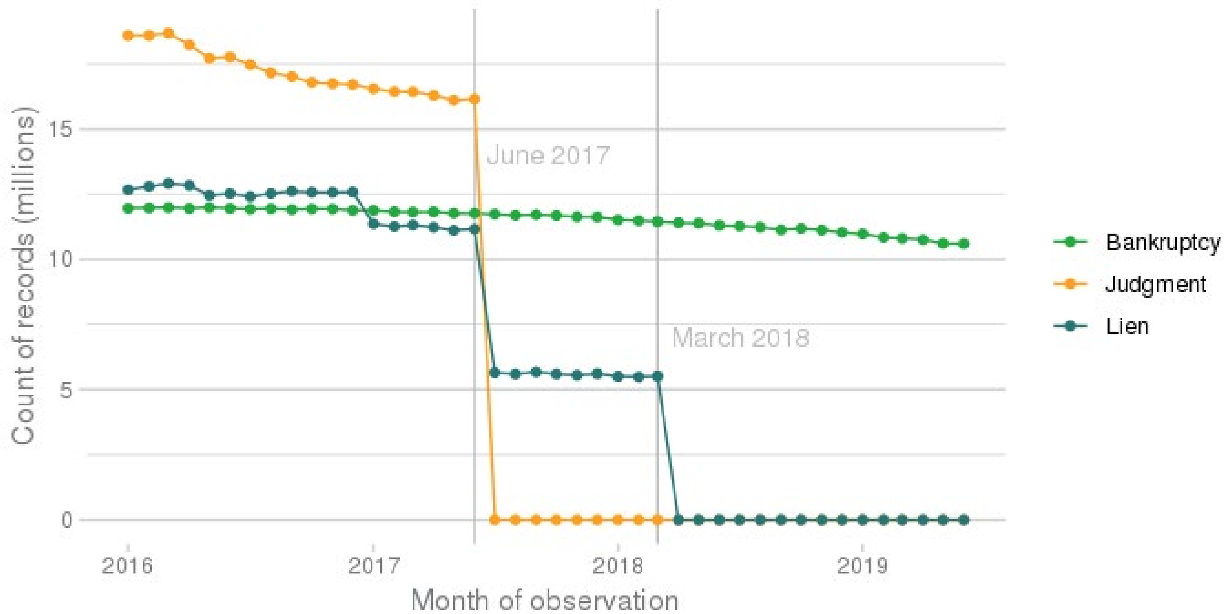
[3] The CCP is a 1-in-48 sample of de-identified credit records from one of the three nationwide consumer reporting agencies.

[4] See "Quarterly Consumer Credit Trends: Consumer Bankruptcy, BAPCPA, and the Great Recession" from the CFPB for more discussion on bankruptcies.

[5] While other consumer credit reporting agencies continue to offer lenders access to civil judgment and tax liens, this report only discusses the effect of the NCAP public records provision on the NCRAs.

almost half of tax liens) and April 2018 (for all the remaining tax liens) is clearly visible. Yet bankruptcies changed little after the implementation of the NCAP.

FIGURE 1: COUNTS OF CIVIL PUBLIC RECORDS BY TYPE



To measure the effect of public record removals, the report examines consumers in the CCP who had a credit report in June 2017, before the NCAP provision took effect. Throughout, the report refers to the group of consumers that had a civil judgment or tax lien on their consumer credit report in June 2017 as the "PR group" (for "Public Records group") and those that did not have a civil judgment or tax lien on their report as the "No PR group." Consumers with a bankruptcy on their report in June 2017 could fall into either group. About 6 percent of consumers who had a credit report in June 2017 had a judgment or lien on their report.

Figure 2 shows the distribution of score categories as of June 2017 for consumers in the sample, separated by public record status.[6] As in the 2018 report on public records, consumers with civil judgments or tax liens are concentrated in the Deep Subprime and Subprime score categories: half of consumers in the PR group have Deep Subprime scores, whereas half of consumers in the No PR group have Superprime scores.

[6] Score category definitions are based on the ranges used in the Bureau's online Consumer Credit Trends tool: Deep Subprime (below 580), Subprime (580 to 619), Near Prime (620 to 659), Prime (660 to 719), and Superprime (720 or above).

FIGURE 2: DISTRIBUTION OF CREDIT SCORES, JUNE 2017

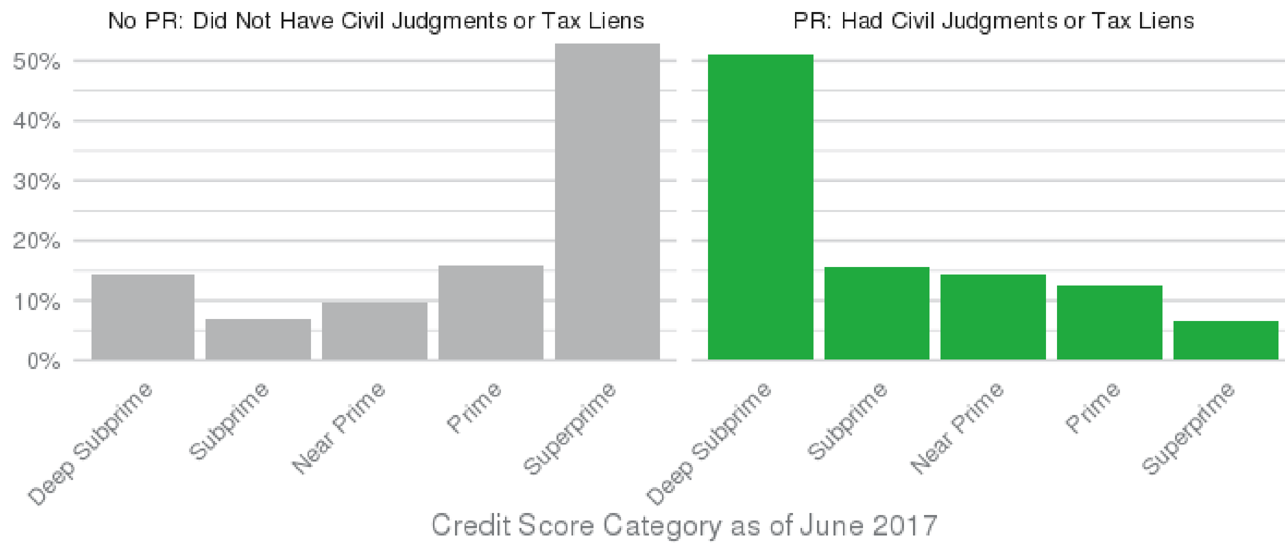


Figure 3 describes transitions between credit score categories from June 2017 to June 2018 for consumers by their public record status. Overall, consumers in the No PR group were slightly more likely to increase to a higher score category than consumers in the PR group, conditional on initial score category.[7] For consumers scored as Deep Subprime in June 2017, those in the No PR group were slightly more likely to increase to a higher score group by June 2018 than those in the PR group but consumers in both groups were most likely to stay Deep Subprime. For both the PR group and No PR group, consumers scored Subprime in June 2017 were almost equally likely to either stay Subprime, move to Deep Subprime, or move to Near Prime in June 2018. Consumers in both groups scoring Near Prime or Prime in June 2017 were most likely to remain in the same credit score category and more likely to move up a score category by June 2018 than move down. Consumers in both groups scoring Superprime in June 2017 were more likely to remain Superprime than move down a category by June 2018.

CREDIT SCORES AND CONSUMERS' CREDIT PERFORMANCE

To assess the effect of the NCAP public records provision on the relationship between credit scores and consumers' credit performance, this report compares delinquency rates over three separate nine-month periods for consumers who had a civil judgment or tax lien removed from their record and those who did not. Consumers are assigned to the PR group or No PR group based on whether they had a judgment or lien on their credit report in June 2017. In comparing

[7] This report looks at transitions over one year, whereas the previous report used a time span of three months. This analysis only controls for initial credit score category and PR group.

delinquency rates within credit score categories, consumers are classified into score categories based on their score at the start of each period, which may change over time.

FIGURE 3: TRANSITIONS BETWEEN SCORE CATEGORIES BETWEEN JUNE 2017 AND JUNE 2018

	Deep Subprime (June 2017) No PR	Deep Subprime (June 2017) PR	Subprime (June 2017) No PR	Subprime (June 2017) PR	Near Prime (June 2017) No PR	Near Prime (June 2017) PR
Superprime (June 2018)	0.4%	0.2%	2.8%	1.9%	9.6%	7.1%
Prime (June 2018)	3.3%	2.4%	14.3%	13%	30.2%	30%
Near Prime (June 2018)	8.4%	7.3%	26.4%	26.1%	35%	33.3%
Subprime (June 2018)	16%	16.6%	28.5%	28.6%	13.3%	15.6%
Deep Subprime (June 2018)	71.9%	73.4%	27.9%	30.4%	11.9%	14%

	Prime (June 2017) No PR	Prime (June 2017) PR	Superprime (June 2017) No PR	Superprime (June 2017) PR
Superprime (June 2018)	31.2%	26.3%	91.1%	75.6%
Prime (June 2018)	46.8%	45.7%	6.7%	17.6%
Near Prime (June 2018)	13.7%	16.2%	1.5%	4.3%
Subprime (June 2018)	4.6%	6.5%	0.4%	1.4%
Deep Subprime (June 2018)	3.7%	5.3%	0.3%	1.1%

No PR
PR

This report measures consumers' performance over a shorter time window than most commercially available credit scoring models, which typically consider delinquency over a 24-month period.[8] It does so to have three distinct periods with different degrees of public record reporting. To account for seasonality, the three periods cover the same months: July 1st in 2016, 2017, and 2018 through March 31st of the following year. The period starting in 2016 is before public records were removed, the period starting in 2017 is after all judgments but only some tax liens were removed, and the period starting in 2018 is after all tax liens and judgments left the credit reports.

Considering only loans that are in good standing at the start of the nine-month period, this report examines the percent of consumers that had a loan that became at least 90 days past due within the period.[9] If the consumer had at least one loan that went from current to delinquent,

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[8] Board of Governors of the Federal Reserve System. *Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit*. 2007.

[9] Charge-off, bankruptcy, repossession, etc. are all treated as a delinquency.

the consumer is counted as delinquent. The delinquency rate for a group is the percent of consumers in the group counted as delinquent. Consumers who had no open loans in good standing at the start of the period are excluded from the analysis for that period.[10]

Between July 2018 and March 2019, consumers in the PR group have an overall delinquency rate of 10.6 percent. In the same period, consumers in the No PR group have an overall delinquency rate of 3.7 percent. Consumers in the PR group generally appeared in lower credit score categories than those in the No PR group, and this difference largely explains why the PR group had much higher delinquency rates than the No PR group, as the differences in delinquency rates across the groups within score ranges are much smaller.

FIGURE 4: DELINQUENCY RATES OF CONSUMERS ON ALL LOANS, HOLDING PR GROUP CONSTANT AS OF JUNE 2017

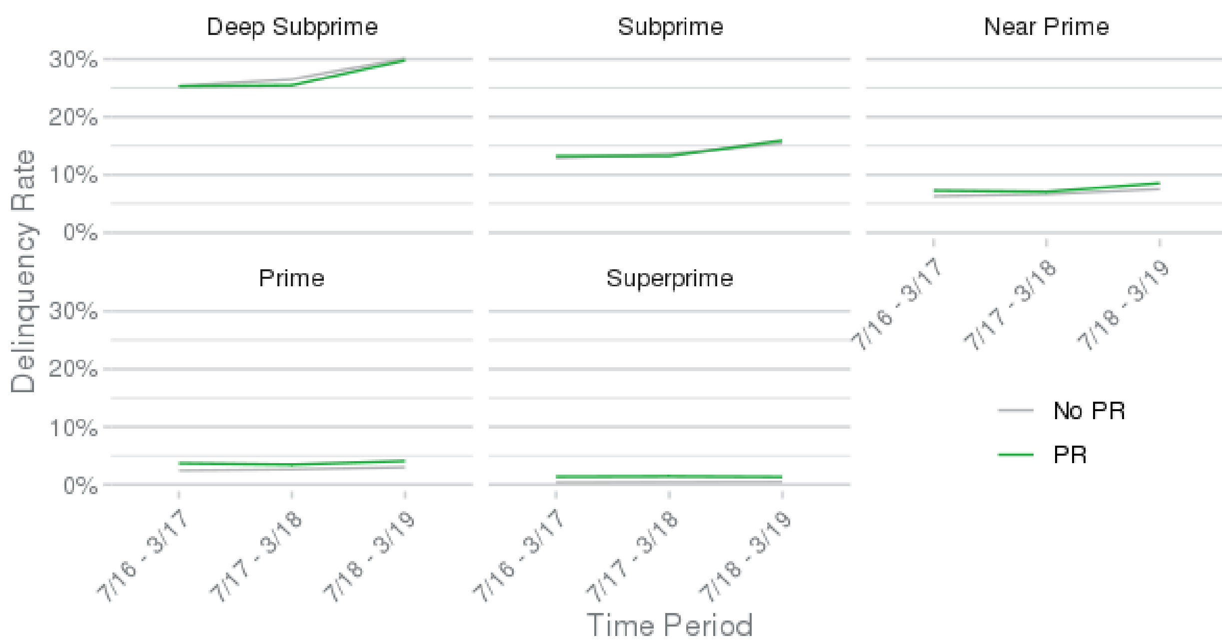


Figure 4 shows delinquency rates across all loans for consumers in the PR and No PR groups by time period and credit score category as of the beginning of the period. Looking within each credit score category, the difference in the delinquency rates between the PR and No PR groups remains fairly constant across time. For higher credit score categories, consumers in the PR group had higher delinquency rates in each time period than consumers in the No PR group.

[10] On average, consumers in the PR group have a similar number of accounts in good standing as those in the No PR group in the same credit score category.

Conversely, for Deep Subprime consumers, delinquency rates for those in the PR group were the same or slightly lower than those for consumers in the No PR group.[11]

In Figure 4, the data seem to suggest that the difference in delinquency rates on existing loans between the PR and No PR groups within each credit score category did not substantially change after all civil judgments and tax liens were removed from the credit reports.[12]

Figure 5 shows delinquency rates on *new* loans for consumers in the PR and No PR groups by time period and credit score category as of the beginning of the period. Examining new loans is potentially interesting because these loans and terms would reflect any changes in consumers' scores over time, including after the NCAP. In this analysis, a consumer must have opened a new loan in the first three months of the period to be included; delinquency is measured as becoming 90 days past due on that new loan by the end of the nine-month period. The results should be interpreted with caution and may not generalize to analysis that considered a period longer than three months for a new origination and a performance period longer than nine months.[13]

As in figure 4, looking across credit score categories, the differences in delinquency rates between the PR group and the No PR group are fairly constant over time. Delinquency rates for consumers on new accounts are consistently higher for consumers in the PR group relative to those in the No PR group for all credit score categories and across time periods.

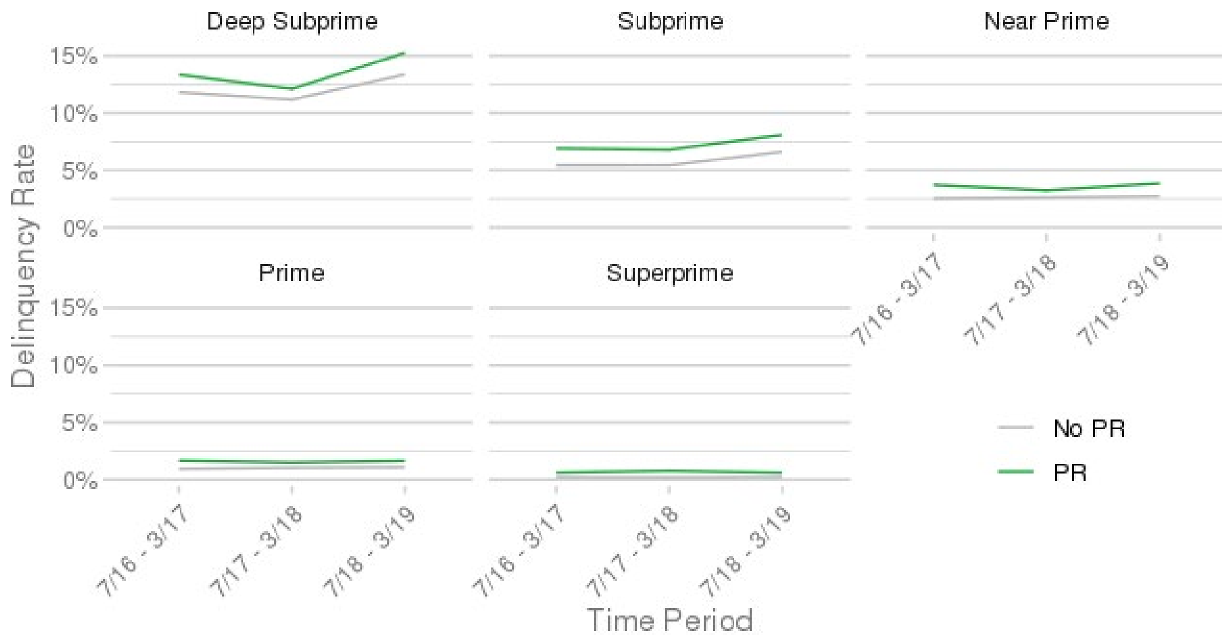
This result could suggest that new loans taken out by consumers in the PR group may be somewhat riskier over the first couple months than the consumers' credit score category predicts. However, the differences in delinquency rates on new loans between the PR group and No PR group did not seem to change after the NCAP provision was implemented.

[11] An additional delinquency analysis (not shown) was conducted that relaxed the assumption that a consumer loan had to start the period in good standing to be included. This analysis allowed a loan to start the period 30 days delinquent and be tagged as delinquent only if it became 90 days delinquent. This analysis yielded qualitatively similar results as those in the text.

[12] In an analysis in which credit score categories are fixed in June 2017 (not shown), the effect of the NCAP public records provision on the differences between delinquency rates is qualitatively similar.

[13] More specifically, consumers only had between six and nine months to become 90 days past due on a new loan, and patterns for such early delinquencies may differ from those delinquencies over a longer time horizon. A similar analysis (not shown) using a 60-day definition of delinquency reveals qualitatively similar differences in delinquency rates between the PR and No PR groups.

FIGURE 5: DELINQUENCY RATES OF CONSUMERS ON NEW LOANS, HOLDING PR GROUP CONSTANT AS OF JUNE 2017



SUMMARY AND CONCLUSION

There are several caveats to consider when interpreting the results from figures 4 and 5. First, as discussed above, this report evaluates delinquencies over a shorter time period than most credit scoring models; the observed differences in delinquency rates within score groups may not persist over longer analysis periods. Second, the score categories are coarse and there may be differences between the PR and No PR groups in the distributions of scores within the score categories that partially contribute to the observed differences in deliquency rates. Finally, there may be other differences in characteristics between consumers in the PR group and those in the No PR group that explain the results of this report. For example, consumers in the different groups may have held a different mix of loan products.[14]

Nonetheless, these findings could be consistent with those of other studies that show that there was only a slight increase in credit scores following the NCAP. The Bureau's February 2018 qCCT, as well as studies published by FICO® and VantageScore, found that scores increased

[14] A similar analysis was conducted for only credit cards or auto loans, with qualitatively similar outcomes. However, more research is necessary to understand exactly how heterogeneity in loan maturity and product mix affect these results.

slightly for at least some consumers with a civil judgment or tax lien on their credit report in June 2017 after the NCAP.[15]

More broadly, the evidence suggests that the public records provision of the NCAP did not seem to have a large effect on the relationship between credit scores and consumers' credit performance for consumers whose credit report included a lien or judgment compared with consumers whose credit report did not. Within credit score categories, the differences in delinquency rates across these groups of consumers did not change dramatically over time on all loans or new loans.

[15] VantageScore. "Impact to VantageScore 3.0 Credit Score Model from Revisions to Public Record Reporting." 2016. http://bit.ly/2zO0iDF.; Fair Isaac Corporation. "FICO Research Brief: Impact of the CRAs' Enhanced Public Records Standards on FICO® Scores." 2017. http://bit.ly/2zSu5J0.