Consumer Finance Monitor (Season 3, Episode 36): A Look at COVID-19’s Impact on Credit Reporting, Credit Scoring, and Underwriting

Speakers: Chris Willis and Kelly Cochran

Chris Willis:

Welcome to the Consumer Finance Monitor podcast, where we explore important new developments in the world of consumer financial services and what they mean for your business, your customers, and the industry. I'm your host, Chris Willis, and I'm the deputy practice leader of Ballard Spahr's consumer financial services group, and I'll be moderating today's program.

Chris Willis:

For those of you who want even more information, don't forget about our blog, consumerfinancemonitor.com. We've hosted the blog since 2011, so there's a lot of relevant industry content there. We also regularly host webinars on subjects of interest to those of us in the industry. So to subscribe to our blog or get on the list for our webinars, just visit us at ballardspahr.com. And if you like our podcast, let us know. Leave us a review on Apple Podcasts, Google Play, or wherever you get your podcasts. Today, I'm joined by a very special guest, Kelly Cochran, who's the deputy director of FinRegLab, and previously was the director of the office of regulations at the CFPB. And we're going to be discussing credit reporting scoring and underwriting issues that arise from the COVID-19 pandemic. So Kelly, welcome to the podcast and thanks very much for joining us today.

Kelly Cochran:

Thank you for having me. I'm really looking forward to the discussion.

Chris Willis:

Now, our audience is definitely familiar with the Consumer Financial Protection Bureau, that is your former job, but what is FinRegLab? Because some of our audience may not be aware of that organization and what it does.

Kelly Cochran:

Sure. So FinRegLab is a non-profit research center. It was established about three years ago. I joined about 18 months ago, and it's focused on the use of data and technology and financial services. The ways that these changes are transforming the industry, but with a particular focus on how data and technology can potentially boost service to underserved populations. Whether it's consumers, or small businesses, or particular geographic communities, but really thinking about ways that it can increase scale and access to a range of services, not just credit, but savings and payments and various different financial services to help these underserved customers improve their lives.

Chris Willis:

Yeah, that sounds like a very interesting mission. And one that probably puts you on the cutting edge of a lot of issues. And I think the issues we're going to talk about today are definitely cutting edge, because as I mentioned before, we're going to talk about credit reporting and scoring and underwriting as it relates to the current COVID prices that we're going through. And so by way of background, how has the credit reporting system in this country historically dealt with disasters, albeit probably more localized disasters? And how did the CARES Act affect credit reporting?

Kelly Cochran:

Sure. Well we started looking at this issue because we've been doing some research on potential new sources of data for credit underwriting, things like bank transaction account data. But in the course of that had learned a great deal about the traditional credit reporting system. And as COVID-19 hit, we kept hearing concerns about how the impact of the pandemic and the economic downturn was going to affect consumer reports, consumer's credit scores and the overall credit system as people deal with all of these changes. And it's important not just for consumers, but for small businesses as well, because business owners' personal scores are often looked at in the credit underwriting process, so it really overlaps.

Kelly Cochran:

Traditionally the credit reporting system has dealt with disasters, usually natural disasters like hurricanes, but in a couple of different ways, it really depends on the circumstances, but under the metro to data standard, one of the most common ways is to use special comments codes to flag that a consumer has been affected by a disaster. And in particular, there are a couple of codes that tend to get used here. One is AW, which is for just a general disaster effect. And the other is CP, for a forbearance situation where the consumer is potentially not making full payments for a while because of the disaster impacts.

Kelly Cochran:

There are a couple of other ways that deferments can also be reflected in other cases, but the special comment codes are probably the most common usage. But they are considered voluntary codes. And so although the usage has increased over time and it's become more common in connection with recent disasters, there's still a lot of variation as to how much furnishers use them when they place them on consumers accounts, how credit scoring models account for them, and then how individual credit report users do or do not factor them into their underwriting decisions.

Kelly Cochran:

So there's a lot of variation in the system. And when this particular disaster struck, we saw a lot of people talking about the codes. But then the CARES Act in March added another element. It wasn't focused on the codes at all. What it was focused on was whether consumers accounts are reported as current or delinquent when they are receiving some sort of help from the lender because of the COVID-19 disaster. And so what the CARES Act did basically was say where there's some sort of accommodation being granted, and this could be deferment of payments, making partial payments, long-term loan modifications, any other kind of relief. It's a pretty broad definition. The CARES Act says that if the consumer was current before the crisis, then they should continue to be reported as current as long as they're in compliance with the accommodation terms. And if the consumer was already delinquent before, then the level of delinquency should remain flat, it should not deteriorate as long as the consumer is in compliance with the terms of the accommodation.

Kelly Cochran:

So that's really important because payment history and delinquency status plays a huge role in credit scores, as much as 35% under some scoring models. At the same time, it doesn't address every aspect of credit scoring models. There's a lot of things going on right now that could be affecting scores in different directions. And it doesn't address the question of how credit report users, lenders, or other users treat that information. So it was designed to reduce the chances that consumer scores would deteriorate during the crisis, but it is a limited, fairly narrow focus.

Kelly Cochran:

And one of the issues that we've seen as this has played out is that I think there was some initial confusion about the scope of the statute. And as people have worked to implement it, there have been various issues that have arisen as servicers and lenders have worked to both implement the new CARES Act requirements and continue ... And think about their practices under the existing codes and other information.

Chris Willis:

Yeah. And I think it's a good point that you made that the CARES Act really only reaches fairly narrowly, and it doesn't really speak to the point you just made. Which is, what does a score provider do to change its algorithm or at scoring method? Or what does a creditor who has an internal custom score do in order to adapt to this new time? Surely it's a responsible thing to do because you can't rely on pre coronavirus experience to necessarily predict repayment performance after the shock to the economy that we've had. And so you would expect you'd see a lot of movement on alteration to scoring models, and who knows what role delinquency or some of these special comment codes like AW and CP may play. And the act, as I see it, doesn't really address those

Kelly Cochran:

Well I think one of the things that's so complicated, that we've now published two reports on some of these disaster related reporting issues. So one of the things that is difficult is that the credit reporting system is so big and so diverse. So on the one side, you have thousands of companies who are furnishing information into the system. In the middle you have a relatively limited number of players, both consumer reporting agencies and the companies that develop third party's credit scoring models. And then on the far side, you have thousands of users of both credit reports and credit scores. And in that last group, it's not just creditors or their investors that are using this information, but also employers, landlords, various other types of businesses that also rely on the information to make other types of business decisions. So it's a really big system with a lot of moving parts, and they can all affect how something gets implemented when there's a policy intervention.

Kelly Cochran:

So it's really complicated. A lot of times, I think when people focus on policy interventions, they tend to focus in the middle segment because it's relatively compact, but you really have to consider implementation issues on the furnishing side, and how lenders and other users may react on the tail end. If one of the things that makes this so challenging is that if people start to distrust the data or distrust the scores, what do they replace it with? And so part of our long-term interest is really looking at what other data sources may be useful here, and be able to give additional insight, but it is really challenging to craft policy interventions in this space that work the way that they're intended, because there are so many moving pieces in thee process, and that does make it more complicated.

Chris Willis:

Yeah. And the industry data I've seen shows that we have a very, very large number of accounts in short term forbearance type of accommodations, to use the term in the CARES Act. And so you've got a much larger proportion of creditors' portfolios sitting in a status like that than I think we've ever seen historically. What kind of issues has that posed for credit reporting and scoring and underwriting?

Kelly Cochran:

Yeah, there's a number of things that we've seen develop since the CARES Act. The first is that there has been a concern about over use of the codes. So even if furnishers are doing the right thing and are reporting the account status in terms of current or delinquent correctly, there's some concern that some servicers have been placing, for instance, forbearance codes on consumers' accounts when there was actually no agreement for a forbearance. Consumers may have called in to get information, but not actually needed a forbearance or not intended to enter one. And if those codes are on their accounts, then that transfers through the system and individual lenders at the tail end may treat that information in different ways. So one of the concerns has been that the codes may be overused.

Kelly Cochran:

And that could be a combination of factors. One is that people probably thought that coats helped people. So they may have been erring on the side of overuse. And in the initial downturn when things were contracting really quickly, there was a huge portion of calls coming in. And so some of it may have been administrative error, but there've been a number of issues there. And one of the things that the CFPB has emphasized in some of its recent issuance is that you should not have a forbearance code on an account where there is no forbearance. That that is a problem and it needs to be corrected. A second set of issues

really does concern how the individual lenders and other consumer report users are treating information relating to forbearance. And there's a couple of issues going on there.

Kelly Cochran:

One, the scores may not be changing, but if the flag is on the account lenders can use that different ways. And particularly for instance in the mortgage market, there's a huge amount of concern, not so much about the scores and what's happening with the scores, but rather the securitization side of the market, as to when loans would be eligible for sale to the GSEs and other parties. There've been a number of issues in that space. A lot of concern in particular about new loans, for instance, reifies, that might go directly into forbearance before they can be passed on, and how those will be treated. That situation has been continuing to evolve. Different federal regulators and parties have issued different guidance at different times, but it's continuing to change some of the short-term things that the agencies have done to try to ensure that mortgage credit is available or are now starting to expire.

Kelly Cochran:

So there's a lot of concern that lenders, regardless of what's happening to the consumer's score, maybe treating information as a warning sign that the consumer may not be able to pay, or has a concern that it's going to affect their origination pipeline. So they may be tightening their criteria, and a lot of debate about what's appropriate in that space and what's not appropriate in that space, and how federal agency policy may be further exacerbating that the general tendency to tighten criteria in a time of great uncertainty. So a lot of concerns there about what's happening.

Kelly Cochran:

And then the next set of concerns is really focusing on what happens after the short-term forbearance and where do we go from there? How do long-term repayment plans get structured and reported, and how do those in turn potentially affect scores and downstream decisions by different consumer reporting users?

Chris Willis:

Yeah. And I want to talk to you about that in just a second but let me go back to the point you were just making, which is is the fact of being in say a forbearance or deferment something that is appropriately considered by accreditor in extending new credit to a customer? And for example, you could get it by getting it off of credit bureau. Someone's tradeline could say, "I'm in a deferment or forbearance for a disaster." Or you could even, for a large bank, get it internally.

Chris Willis:

So for example, if I'm a multiline bank and I have credit cards and personal loans and mortgages, I may know that my mortgage portfolio, this person has applied for and is in a forbearance, and now they're applying for a credit card, or now they're applying for installment loan. Can I use that as a factor in my underwriting? On one hand you might say, "Well, it's kind of inconsistent with the spirit of the CARES Act, because the CARES Act is supposed to freeze someone's credit score and credit reporting and not have it be negatively affected by being in a deferment or forbearance." But on the other hand, we have federal laws that require ability to repay analysis under mortgage and credit card. And then we have had state enforcement activity saying that the failure to do an ability to repay analysis is a UDA violation. 34 States just entered into a consent order with an auto finance company making that exact argument.

Chris Willis:

So I'd really love to hear your views on the appropriateness of considering that as a negative and underwriting to say, "Hey, maybe this person doesn't have the ability to repay and we shouldn't extend further credit to them."

Kelly Cochran:

Yep. There are a number of issues in the space that make it really complicated. One is the fact that a number of consumers with forbearances on their reports are in fact continuing to make payments. And that could be happening for a couple of reasons. One is, like I said, the fact that some of those codes might've been placed in error in the first instance, but it also appears in a number of cases, consumers may have requested forbearances early on because they were uncertain about what was going to happen, but they have continued to prioritize their loan payments and they have been actually making them. So we know, for instance, in I think about April, 45% of mortgage borrowers were in fact making full payments, even when they have forbearances on their accounts. That number in recent months has gone down to about 25%, but it's still pretty significant.

Kelly Cochran:

So one question that I think lenders are facing is, what does that forbearance code even really tell you? And there may be a number of different groups of consumers. There's one group of consumers that we know didn't actually request forbearance. We know that Fannie Mae just did a survey this month and found that 56% of the people they surveyed didn't know that there was relief available. So you have one set of consumers who may not know to ask, you have another set of consumers who may in fact not have actually wanted the forbearance, or did want it, but have been making full payments. You have another group of consumers who really need the forbearance. They've been proactive in managing an account, and they've gotten it. And then you may have some consumers who maybe didn't need the forbearance so much, but have gotten it anyway.

Kelly Cochran:

So I think one of the challenges is really sorting out what's happening with or without a forbearance code, because it could mean a lot of different things. And I've heard some people suggest that a fobearance code is actually potentially a positive sign, because it shows the consumer is managing their finances and is aware and is reaching out. One of the criticisms of the CARES Act is that it is one account at a time, and it depends on the consumer reaching out and reaching an agreement with the lender. That can make it difficult to actually get in the first place. But the fact that the consumer has followed through and done that could be a positive signal, as well as a negative signal.

Kelly Cochran:

The second set of things, as you say, is what is the consumer's actual situation? And if they are in financial hardship, when does it make sense to extend additional credit, or not, thinking about all sorts of considerations? So there's a number of really complicated questions there, I think about just what does the information tell you in the first instance, how do you treat that information? What's consistent with the spirit of the CARES Act and general desire by lenders to work with existing customers and help them through this crisis? And then where do we go from there in terms of new credit originations? Particularly at a time when interest rates are so low, revise and ... There's ways in which that can be extremely helpful to consumers, and there's been a lot of concern that it is causing it to be harder for consumers to get revise when that actually might be a really good solution for everyone to reduce their costs and so on.

Kelly Cochran:

So it's a really complicated scenario. Our sense is that lenders are really all over the map as to how they're dealing with it. In the long run, we know anytime there's an economic downturn there tends to be an adjustment process where people adjust their underwriting models, adjust their credit scoring models, kind of recalibrate, but that process takes time. Oftentimes it doesn't really start until the economic crisis is done, and then you gather new data and adjust your algorithms, and that can take years in some cases.

Kelly Cochran:

So the question of how people treat this information, what credit overlays they're imposing on top of their normal standards during this period of uncertainty, is enormously complex. And there's a lot of factors that different lenders are taking into consideration as they try and work through all of these questions about data quality and what's right for the borrower, and what's right for the lender in managing their risk.

Chris Willis:

Now, a moment ago you started to talk about the point that some of these short-term forbearance type programs, including those that are in the CARES Act, may expire soon. And there's going to be a need for the industry to move into a longer term posture. And in this regard, we've seen some pretty scary news over the past several weeks of a lot of large consumer lenders taking huge reserves because of the worry about what repayment performance effects there will be when these short-term accommodations end, if the economy doesn't sort of just bounce right back, and there's some suggestion that it won't bounce right back. So what are your thoughts about what the issues are that will emerge as we approach, some people have called this cliff of the short term forbearances ending and moving into whatever the industry does and whatever the government does for the longterm?

Kelly Cochran:

Yeah. There are a number of issues here. First of all, there's kind of two sets of things that are starting to expire. So the first piece is direct aid to consumers and businesses in connection with a pandemic. And whether it's one-time stimulus payments or supplemental federal unemployment insurance benefits or some of the programs to help small businesses keep their employees on board, many of those programs have either run their course or are about to expire. And so that's going to potentially create a new round of hardship in situations where employment has not picked up, and people are not back to normal yet.

Kelly Cochran:

That affects everyone because it consumers. And what we've actually seen in the short run while that was in place was that in the overall numbers on income and credit scores in some places were actually going up in the short run, but that's not expected to last much longer because a number of those things have already expired or about to expire. There's big question about what's going to be renewed or not. And so huge questions in that space.

Kelly Cochran:

So the second piece of it has to do with forbearance programs on the credit side. And there are a couple of things happening there. One is that the CARES Act, in addition to addressing credit reporting issues, dictated the terms for loan forbearance for certain categories of loans. And this affects most federal student loans, and all federally related mortgages. So for those programs, some of the forbearance is still running, and in particular, federally related mortgages, consumers can get up to a year's worth of forbearance. So that is not expired yet, but when it comes to forbearance on other types of loans, many of those programs are starting to run out. They're at the lenders discretion, and so lenders are making individual decisions about how much assistance they can provide to consumers.

Kelly Cochran:

So while there's a statutory right to continue, there's a lot of engagement going on right now between servicers and borrowers about where are they, do they need an extension, do they not? And mortgage fobearance numbers have been dropping sporadically over the summer at different levels, but it's been declining for some time. We've also seen some numbers from TransUnion saying that auto bank cards and personal loans, the number of accounts that have some sort of hardship lag, which could involve the disaster codes, or a couple of other ways of measuring that, are also starting to decline. But we don't really know how long that's going to continue because now the direct date is starting to expire and that might reverse the trend. Obviously we've seen a lot happen in the last several weeks.

Kelly Cochran:

So real questions about what happens as forbearance ends, both in terms of if there's no further relief, what happens? At that point, the consumer has been making payments for several months, that's built up and they're in a delinquency status, so how does that work? And also in cases where they're transitioning into a longer term repayment plan, how does that get reported? And does that potentially have impacts on credit scores?

Kelly Cochran:

Now as I said in the beginning, accommodation under the CARES Act is quite broad. It definitely covers more than short-term forbearance. So it's potentially still in play here with regard to current or delinquent where there is a transition into another plan, but there's lots of other things going on. And again, special comment codes can be an issue in this space. So in the long-term modification context, that was a huge question in the last crisis. Mortgage practices evolved a lot. People originally tended to use code called AC, which means paying under a partial agreement. It's most commonly thought of being used in situations where the consumer's not expecting to pay back the full amount they owe, but it's often used in a short-term sense before someone transitions into a long-term modification. It does have negative effects under some credit scores. It's been associated with greater credit risk, and so some models do count it as a negative factor, some models don't. But the concern has been, are people going to know about that? Especially outside of mortgage, where this got a lot of attention in the last crisis. And so a lot of concerns in that space.

Kelly Cochran:

The industry association that oversees the metric to standard issued some guidance in July to start to answer some of these questions, and people have been, I think, reacting positively. But there are still some questions around comment codes, and we're just waiting to see how that evolves over time.

Kelly Cochran:

There's a number of other issues that are coming up. One concerns the right to forbearance under the CARES Act in the mortgage space. While it does say you can have up to a year, it doesn't really express Lee address a situation where a consumer might go into forbearance, come out of forbearance, and then have a second impact because of a new closure or something, and need forbearance again. So there are questions about, does that statutory timeline continue, or are you not eligible at that point for the CARES Act version of a forbearance, and what happens in those cases? So lots of questions in that space.

Kelly Cochran:

And then the third area that we've really been hearing a lot about is rental. Renters rarely have their full payment history reported to traditional credit bureaus. Most often they only get a mark on their credit report if they're severely delinquent. But as we know, the federal eviction moratoriums are starting to expire. There were state and local protections, but a lot of those are starting to expire. And so there's a lot of concern that renters' credit reports could start to deteriorate more rapidly than homeowners who are ... 70% of the mortgage market is subject to those CARES Act provisions on forbearance. And so homeowners can have a substantial amount of relief that isn't really available to renters. So there's concern that their reports could start to deteriorate and that that could affect not just their credit scores and ability to access credit, but also their ability to get new housing, particularly after an eviction. Because there's an entire universe of more specialized consumer reporting that concerns the landlord/tenant market. And how do those get used?

Kelly Cochran:

We've been definitely hearing some concerns that in that market people often will ... Individual landlords will take any sign of an eviction as a negative factor, even if the eviction didn't actually happen. Or so there's a lot ... It's some specialized concerns in that space that you could have a renter and a homeowner that are actually in fairly similar financial situations as to their ability to make payments today, but they might look really different on their credit reports within a couple of months, just because of the differences and the underlying aid that's available and kind of how that gets factored into the reporting and scoring systems.

Chris Willis:

So Kelly, you've done a really excellent job of presenting these issues as very nuanced in terms of the scope of the problem, the lack of uniformity on both the furnishing and the use side, with respect to all of this information. Let's talk for a second about a potential brute force approach to this. You've heard some people advocate for the idea of let's just require suppression

by credit reporting agencies of any negative data. They just can't put it on someone's credit report, and/or we're going to enact a prohibition that says a user of a consumer report cannot use negative information defined in some way in making a credit or insurance or rental or employment decision, or whatever they're going to make. So what do you see as the arguments for and against a brute force approach like that?

Kelly Cochran:

Well, I think that there are a number of concerns that have developed about the CARES Act implementation, and there has been federal legislation introduced and passed in the house, and some state legislation that is taking a more categorical approach in terms of some of these suppression options. People like that approach because it's centralized. It doesn't depend on the individual consumer calling each individual lender that they're dealing with in getting an accommodation. And we talked about outside of the CARES Act, federal mortgage student space, the terms of the combination is totally up to the lender. So there can be huge variation there. It may not help for very long. And so to the extent that the CARES Act was designed to try and soften the blow on credit scores, it may not help very much longer outside of the places where there's a really systematic, structured way of dealing with fobearance. And so it's simpler in some ways to implement because it's more centralized.

Kelly Cochran:

And in the sense, I think, that advocates feel that potentially if it's that widespread, lenders and other users are less likely to hold it against people, rather than trying to separate the signal from the noise and kind of treat it that way. The challenge is that ... There can be implementation challenges, first of all, in terms of how the mechanics of it work, what is considered negative or not a negative. Different information may be treated differently in different circumstances, for instance. So how do you treat something that could be treated both ways? But there's also lot of concern that that'll create, particularly for long periods of time, the longer that kind of approach would go on, the less information people would have about what's really happening in the credit reporting system. And then it would potentially slow the process of recovery and coming out of the rebuilding of models at the tail end of this process, because there would be such serious information gaps. And so we're hearing both practical concerns about how would you implement this and how would you write it and unintended consequences that way, but also this broader meta question about what does it do to the course of overall recovery?

Kelly Cochran:

And more generally, just as I said in the beginning, if lenders and other users grow to distrust the data, because they either don't think it's actually giving them useful information, or because it's just not there at all, what do they use as a substitute? If they just transfer to really simple, very conservative, cut and dried rules, that potentially could have negative impacts on access to credit, access to housing, all of these other categories, regardless of what the formal reporting and scoring system is doing. And so that's why, as I said in the beginning, it's so complicated to craft policy interventions in this space that hit the target that they're intended to hit, because there can often be unexpected fallout in other parts of the system.

Chris Willis:

Yeah. And it's interesting that you mention that, because the CFPB has published several reports on the subject of credit invisibles. People who are not scoreable because they have thin files or no hits on their credit bureau files with the large credit reporting agencies. And what I think you've pointed out in your answer just now is if we handle this situation the wrong way, we may increase the number of credit invisibles. And I don't think that's a desirable thing, because then that just makes it difficult for them to access credit insurance, employment, housing, things like that.

Kelly Cochran:

Yeah. It's particularly complicated. Some of the options that people have considered would potentially block information, even potentially ... One of the questions that gets hard is how closely tied is the consumer's distress to COVID-19? And the more you drill down on that question and require a really detailed proof, the more implementation problems you have, and yet the less you drill down on that, the more risk you have that it's just really noisy, that you're actually masking information that

doesn't have anything to do with COVID-19 at all. And so that really gets ... The risk management side of this aspect becomes a particular concern in that space. So like I said, while it in some aspects is more centralized and it looks appealing from that perspective, even there, there can be really challenging questions about how do you implement it in a way that minimizes those kinds of concerns, if you are going to block some information for some time.

Chris Willis:

Well, we've talked about the limited treatment of the CARES Act on consumer reporting, and we've talked about the brute force approach that we just finished talking about a moment ago. Are there other ways that we should be considering to address concerns about the COVID-19 impact on our credit information system?

Kelly Cochran:

Yeah. A couple of things stand out. First is, as we talked about, direct aid and the provisions of forbearance and relief that are granted to consumers make a huge difference here. Credit reporting is a downstream reflection of some of those questions. So if those questions get answered and structured and thought about in a way that is helpful to consumers going forward, as we're now several months in and looking at what's ahead, that potentially reduces the pressure on trying to use the credit reporting system to manage these concerns, because it gives consumers relief, time to get back on their feet, and so on.

Kelly Cochran:

And so one question in particularly in our second report that we point out is that that was the place that people going into kind of hill activity this summer were really focused more than credit reporting. And that remains a central question that has not been in fact answered. So that's one set of questions.

Kelly Cochran:

There are other sorts of ways that you could think about structuring relief. For instance, if consumers do need support and help, you could potentially structure it so that they could call the consumer reporting agencies to have a flag placed on their report generally, as opposed to going one account at a time, which does involve a lot of burden both on the consumer, and then raises concerns where if servicers and furnishers aren't being consistent in the way that they're then implementing and reflecting things.

Kelly Cochran:

And then the third thing is really thinking about what data is available, and beyond kind of the traditional approach, what other information is available, and how do lenders and other users use that data. And a couple things there. One is, as we've talked, we continue to hear a lot of interest in bank transaction account data because as our prior research had focused on, it gives you a more holistic picture of the consumer's finances than just the traditional consumer report. Traditional consumer report is mostly focused on how they've paid past credit, but it doesn't cover all of their monthly expenses. And it doesn't tell you anything very directly about what their income flows are. A bank account can tell you, give you a better picture of both sides of that equation. And so lot of people have been really interested in that aspect and thinking about it.

Kelly Cochran:

We're also seeing some of the traditional credit reporting and scoring incumbents come up with new products and services that are designed to distill information, even from traditional consumer reports, but using different formulas and trying to drill down in a way that is potentially more useful in times of high economic distress and what is happening with people who do have some sort of forbearance flag on their account. What else can you tell about them?

Kelly Cochran:

So interest there, and just a lot of concern that, as we said, lenders and other users can react to this information in a lot of ways. If they do it with really rigid overlays and really rigid, simple decision rules, they may potentially be really missing out on

some important differences in their application base. And so really trying to think through how to do that in an intelligent way. And like I said, potentially distinguish between consumers who actually may be very similarly situated, even if their reports and scores don't look the same, or conversely, their reports and scores may look similarly, and they're not actually similarly situated. So it's a time of really having to think hard about those questions. It's easy to get very conservative and there's obviously a lot of concern both for lenders and borrowers about what's ahead through the end of the year and what happens as we go into the winter, but it is a complicated situation and really simple, rigid rules have potential real downsides for everyone involved. And so people are really thinking through some of those questions.

Chris Willis:

Kelly, this has been a terrific conversation, and I know that you've dramatically improved my understanding of this issue, and I'm sure the same is true of our audience. So I want to thank you again for being on our podcast today, and it was really a treat to talk to you.

Kelly Cochran:

Oh, thank you. I enjoyed it too. And I know that a lot of this is really complicated, but if people are interested, our reports try to break it down in writing in a way that's a little more detailed and it can be helpful to look at those for more information.

Chris Willis:

Yeah, actually those reports are available on FinRegLab's website, right?

Kelly Cochran:

They are, yes.

Chris Willis:

So that's a cue to our listeners to go and visit that website and see those reports. And also to our listeners, be sure to visit our website ballardspahr.com, where you can subscribe to our show on Apple Podcasts, Google Play, Spotify, or any of your favorite podcast platforms, and be sure to check out our blog, consumerfinancemonitor.com for daily insights about the consumer financial services industry. And if you have any questions for us or suggestions for our show, just email us at podcast@Ballardspahr.com, and stay tuned every Thursday for a great new episode. Thank you all for listening.