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CFPB Releases Report on COVID's Impact on Consumer Credit, with Some Surprising Results

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Crazy times, right? Chances are you've heard this refrain numerous times over the last seven months, most notably on Zoom calls during the crushing silence of someone on the call forgetting to unmute his or her microphone. Amidst these crazy times, a common question that touches everything we've done as compliance attorneys since March is how has the pandemic impacted consumer credit.

On August 31, the Consumer Financial Protection Bureau released a report examining the early effects of the COVID-19 pandemic on consumer credit outcomes, including delinquencies, payment assistance, credit access, and account balances. While COVID-19 has obviously impacted our daily lives in a major way, the Bureau found some interesting results about the impact it has had on consumer credit, including auto finance.

The CFPB's report focused on mortgage, student, and auto lending, as well as credit card accounts, from March to June 2020. For its sample, the Bureau used the Consumer Credit Panel, a nationally representative sample of approximately five million de-identified credit records maintained by one of the three nationwide consumer reporting agencies. While the CFPB notes that certain outcomes of the study may reflect payment assistance provided through the Coronavirus Aid, Relief, and Economic Security Act, the CARES Act did not provide any specific assistance programs for auto financing. As a result, any auto credit assistance programs that may have affected the study were provided by financial institutions at their own discretion.

The report's primary finding was somewhat surprising. Despite the economic turmoil of the first few months of the pandemic, the results show that consumers did not experience many of the negative credit consequences that might be expected during periods of rising unemployment and significant loss of income.

The reported rate of new delinquencies on all covered products fell between March and June. For auto credit, transitions from current to delinquent fell by roughly 0.1% during the period. Further, the increase in severity of delinquency on auto credit - essentially, the amount that delinquent vehicle-secured contracts became even more delinquent - also fell.

Now, we realize that a 0.1% drop may not sound significant. However, considering record weekly unemployment figures and other financial shocks, any drop is quite surprising. That is, until you look at the data on financial assistance.

In the study, the CFPB found overall that there was a sharp increase in accounts reported with zero payment due despite a positive balance. This, according to the Bureau, indicates the use of some type of payment assistance.

Prior to March, the total amount of auto credit in payment assistance — like most of the other credit products surveyed aside from student loans — was near zero percent. In April, 1.4% of auto credit transactions had transitioned into payment assistance. Though some products reported higher rates (mortgages had a 6% payment assistance rate), this is a substantial rise. While payment assistance in auto credit continued to rise by roughly 0.75% in both May and June, it's worth noting that almost 1.6% of auto accounts transitioned out of payment assistance over that same period.

So, what does this mean going forward? Well, as we are all well aware, COVID-19 does not appear to be going away any time in the immediate future. However, even if it disappears tomorrow, the economic ramifications of the pandemic will be felt for a long time. As long as unemployment numbers continue to stay at high levels, many consumers are going to struggle to pay their bills.

Despite this grim reality, the CFPB's survey offers hope. It tells us that payment assistance — and working with consumers to find alternate paths to repayment, generally — can help consumers and creditors avoid delinquencies (and therefore repossessions) that both parties would prefer not to occur.

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