INSIGHT

The Financial Industry and Consumers Struggling to Pay Bills during the COVID-19 (Coronavirus) Outbreak

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A growing number of cases of Coronavirus Disease 2019 (COVID-19) have been identified in the United States, significantly impacting many communities. For background on the coronavirus, see CRS In Focus IF11421, *COVID-19: Global Implications and Responses*, by Sara M. Tharakan et al.

This outbreak may continue to cause disruptions as federal, state, and local governments limit public gatherings, close schools, and encourage workers to telework to contain the coronavirus's spread. While this situation is evolving rapidly, the economic impact may be large due to illnesses, quarantines, and other business disruptions.

Consequently, many Americans may lose income and face financial hardship due to the coronavirus outbreak. Some workers may need to take time off work if they or their families fall ill. In addition, layoffs or reduced hours may impact workers in particular industries affected by the outbreak, such as the travel, restaurant, and entertainment industries. To address these concerns, on Saturday, March 14, the House passed H.R. 6201, which, among other things, expands sick leave access, unemployment insurance, and food assistance benefits. Even if this bill is enacted, some families may continue to feel the economic impact. This Insight focuses on possible policy options relating to the financial services industry for consumers who may have trouble paying their bills due to the outbreak.

Payment Relief for Consumer Loans

On Monday, March 9, federal and state financial regulators coordinated a statement to the financial industry, encouraging it to help meet the needs of consumers impacted by the coronavirus outbreak. They stated that "financial institutions should work constructively with borrowers and other consumers in affected communities," and that "prudent efforts that are consistent with safe and sound lending practices" would not be criticized by regulators. This statement was similar to past statements by financial regulators during events such as natural disasters and government shutdowns. On Friday, March 13, the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) expanded on this statement with more detailed guidance for the institutions they regulate.

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In addition, on Wednesday, March 11, the chairwoman and other members of the House Financial Services Committee sent a letter to financial services organizations "[urging them] to proactively help [their] customers who may be experiencing temporary financial hardship in making payments on their existing credit obligations as a result of this crisis."

During past responses to natural disasters, government shutdowns, or other similar events, the financial industry has provided financial assistance to some impacted consumers. For example, they sometimes help consumers having trouble paying their mortgages, credit cards, or other loans due to temporary financial problems through forbearance plans, which are agreements that allow extended time for consumers to become current on their payments. Financial institutions also may agree to limit late or other fees and extend credit to ease consumer financial struggles amid the outbreak. However, some of these efforts may be more difficult for some institutions if they require changes in credit contracts.

Financial regulatory agencies might also consider employing other policy tools to encourage banks to provide this type of financial assistance. For example, bank regulators may award Community Reinvestment Act (CRA) credits after major disasters in adversely affected communities, even those where the bank does not primarily collect deposits. Regulator guidance under the CRA encourages banks during major disasters to meet customer cash and financial needs by waiving fees and penalties, deferring or skipping loan payments, or other related activities. In order to qualify, the federal government, through the Federal Emergency Management Agency (FEMA), must declare a "designated disaster area" (Category A or B). FEMA's national emergency declaration on Friday, March 13, does not trigger this statute.

Although the coronavirus outbreak may be similar to these other events, making it consistent for the financial industry to provide assistance, it is also possible that this current outbreak may be more widespread than past events. Therefore, it might be more challenging for institutions to provide support alone. Some banks have recently announced measures they are taking to help assist impacted consumers. However, it remains unclear whether these efforts will be sufficient, particularly depending on how large the financial consequences of the outbreak become in the United States. For example, in Italy, which is currently one of the hardest hit countries in the world, mortgage payments generally have been suspended to help people during the crisis. However, this type of action may require direct government support to the financial industry, and other types of government policies outside of the financial industry might better target impacted Americans and be more appropriate given the economic situation.

Other Potential Responses to Help Consumers

Other policy options may be available to help consumers having trouble paying their bills during the coronavirus outbreak. For example, consumers can harm their credit scores when they miss consumer loan payments, which can impact their access to credit in the future. In this way, the credit reporting industry may be in a position to help affected consumers. During natural disasters, lenders have the ability to flag affected borrowers by using special comment codes when reporting to credit bureaus. A similar approach might be appropriate during the coronavirus outbreak. Encouraging lenders to furnish this information to credit bureaus could allow the credit reporting industry to limit the impact on affected consumers' credit scores and their future access to credit. Moreover, legislation could be considered to help prevent declining credit scores. However, it may be difficult to target this type of policy to the most impacted people, and, if the policy is too widespread, it may potentially harm the predictiveness of credit scores in the future.

Communication and financial education may also play an important role. Many consumers having trouble paying their bills may not realize that their financial institutions can provide loan forbearance, access to credit, or other assistance under extenuating circumstances. Financial institutions and government

agencies such as the Bureau of Consumer Financial Protection (CFPB) may be able to conduct outreach to consumers to let them know about their possible options.

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