

Flag Tag: Credit File Disaster Flags As Social Insurance Tags

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Abstract

This paper finds 59.2 million people had a ‘disaster flag’ on their US credit file (2010 - 2020) with broad geographical use during the COVID-19 pandemic. Disaster flags mask adverse credit file data with the aim of protecting credit access following disasters such as hurricanes & wildfires. Flags are voluntarily applied by lenders to borrowers’ credit files. I describe the selection of lenders and borrowers into applying these flags over twenty years and estimate the effects of flags on credit access using a difference-in-difference design. There is adverse selection into flag use: people using flags are ex-ante riskier and defaults masked by flags are riskier than non-flagged defaults. I find small average effects of flags on credit scores (1.5-2pp) driven by larger (10-15pp), temporary effects for those with pre-disaster defaults or subprime credit scores. Finally, the paper considers a counterfactual social insurance regime automatically masking all new defaults during natural disasters and finds doing so would have limited predictive loss.

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