

August 2018

QUARTERLY CONSUMER CREDIT TRENDS

Collection of Telecommunication Debt



This is part of a series of quarterly reports on consumer credit trends produced by the Bureau of Consumer Financial Protection using a longitudinal, nationally representative sample of approximately five million de-identified credit records from one of the three nationwide credit reporting companies.*

* Report prepared by Brian Bucks, Susan Singer, and Nicholas Tremper.

Telecommunications services—such as landline or cell phone, cable, and internet—are an integral part of many consumers’ lives.¹ Debts for telecommunications services are also among the most common debts that creditors or debt collectors seek from consumers. The Bureau of Consumer Financial Protection’s (“Bureau”) Survey of Consumer Views on Debt found that 37 percent of consumers who reported having been contacted about a debt in collection in the prior year were contacted about a telecommunications debt.² Only credit card and medical debts were more commonly cited in the survey. As noted in the BCFP 2018 Fair Debt Collection Practice Act Report to Congress, telecommunications debt was not only one of the most common types of tradelines in consumer’s credit files, but it also accounted for more than one fifth of all debt collection revenue.³ Given the prevalence of telecommunications subscriptions and the size of telecommunications debt, it is important to understand more about these tradelines and potential effects on consumers.

This *Quarterly Consumer Credit Trends* report explores reporting of telecommunications-debt collections (“telecom collections”)⁴ to nationwide consumer reporting agencies. It documents the prevalence and dollar value of telecom collections and, in doing so, illustrates industry practices in collection and reporting of telecommunications debts. The report analyzes telecom collections in the last five years, a period that included shifts in telecommunications technology and the telecommunications marketplace that may have affected collection and reporting of telecom debts. It also examines changes in credit scores after a telecom collection appears on a credit report and compares the prevalence of telecom collections and size of score changes across ranges of credit scores.

¹ By the end of 2017, there were approximately: (1) 400 million mobile wireless connections (including prepaid, postpaid, and connected devices); (2) 95 million fixed broadband subscribers; and (3) 94 million multichannel video programming subscribers. CTIA, “Wireless Subscribership” available at www.ctia.org/the-wireless-industry/infographics-library; Statista, “Number of fixed broadband subscribers in the United States from 2010 to 2018” available at www.statista.com/statistics/217938/number-of-us-broadband-internet-subscribers/; Mike Farrell, “Kagan: Pay TV Subs Drop 3.7% in 2017”, *Multichannel News*, Mar. 14, 2018. For the 4Q 2016 approximately 60 percent of mobile wireless connections were post-paid service. Federal Communications Commission, Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Annual Report and Analysis of Competitive Market Conditions with Respect to Mobile Wireless, Including Commercial Mobile Services, *20th Wireless Competition Report* Chart II.B.2, available at www.fcc.gov/document/fcc-releases-20th-wireless-competition-report-0.

² *Consumer Experiences with Debt Collection*, January 2017 at 21, available at files.consumerfinance.gov/f/documents/201701_cfpb_Debt-Collection-Survey-Report.pdf.

³ *Fair Debt Collection Practices Act CFPB Annual Report 2018* available at www.consumerfinance.gov/data-research/research-reports/fair-debt-collection-practices-act-annual-report-2018/

⁴ Telecommunications collection tradelines include debt on land-line telephone services (switched access lines and Voice Over Internet Protocol or VoIP), mobile wireless services, internet services, and video programming services (for example, cable, direct broadcast satellite, and telephone companies).

About 22 percent of credit records (roughly 47.7 million records) included at least one telecom-related item at some point between mid-2013 and early 2018.⁵ These items on the credit record are disproportionately for collections (“collection tradelines”). Although many telecom services are billed monthly, payments for telecommunications services that are on time or delinquent but not in collections are rarely reported to the nationwide consumer reporting agencies.⁶ Of the telecommunications tradelines that are reported, 94.7 percent are reported by collection agencies or debt buyers.⁷ Tradelines reported by telecommunication service providers account for the remaining roughly five percent. There are 202 distinct furnishers of telecommunications tradelines in the data over the period analyzed in this report. The top three furnishers of telecom collections account for 48 percent of all telecom collection tradelines in the sample; the top five furnishers account for 60 percent.

Debt collection agencies often contract to collect a telecom debt for a few (typically six) months. At the end of the contract, the agency generally deletes the collections tradeline. Most of the deleted tradelines are unpaid accounts, but they also include, for example, disputed, paid, or settled accounts. The creditor (most often the telecommunications service provider) often re-assigns outstanding debt to the same or a different collection agency or sells it to a debt buyer.

These practices are apparent in credit-record data. Sixty-five percent of consumers with a telecom collection tradeline between mid-2013 and early 2018 have at least one other telecom collection tradeline at some point over this period. In the data, when the debt is re-assigned or sold, a new distinct tradeline appears on the credit record. As a result, a telecom collection may be associated with multiple tradelines in a credit record over time, but the tradelines generally are not on the credit report simultaneously. In line with recall and reassignment of telecom collections, the later tradelines often enter the credit record six or twelve months after the first. A histogram of months between the first and second telecom collections tradelines’ appearances in the credit record reveals spikes at six months (15 percent) and one year (six percent) after the first telecom collection as well as in neighboring months.

⁵ The analysis is based on a longitudinal, nationally representative 1-in-48 sample of de-identified credit records from one of the three nationwide consumer reporting agencies. All counts in this report are 48 times the corresponding number in the sample. Bureau research indicates that nearly 90 percent of adults aged 18 or older have a credit record.

⁶ Telecommunication providers, as members of the National Consumer Telecom & Utilities Exchange (NCTUE), may report information on consumer payment and account history, including unpaid closed accounts and consumer applications. Other telecom or utility providers use information from NCTUE to assist in the decision to extend services including whether a deposit is required.

⁷ Of the 94.7 percent of telecommunications-related tradelines that are collections, 93.1 percent were reported by an entity coded as a “debt collection agency,” and 1.6 percent by a “debt buyer.” This split is likely illustrative, but the classification is imperfect since some collection agencies also buy debts and some debt buyers collect on debts they have not bought.

The information in the credit record data does not allow the Bureau to definitively determine whether two telecom collection tradelines are for different debts or the same debt. To understand consumers' experiences with telecom collections, however, it makes sense to examine distinct telecommunications debts in collection rather than telecom collection tradelines, which would likely include some duplicate collection items corresponding to the same debt. The Bureau approximated distinct telecom collections by eliminating tradelines that: i) opened within 18 months of a preexisting telecom collection; and ii) had a balance within 10 percent of that prior telecom collection tradeline.⁸

FIGURE 1: MONTHS BETWEEN FIRST AND SECOND TELECOM COLLECTIONS FOR CONSUMERS WITH MULTIPLE TELECOM COLLECTIONS

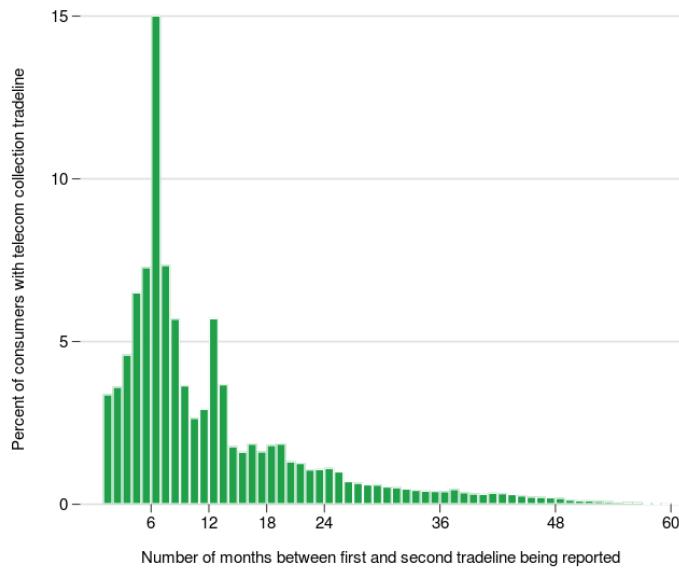
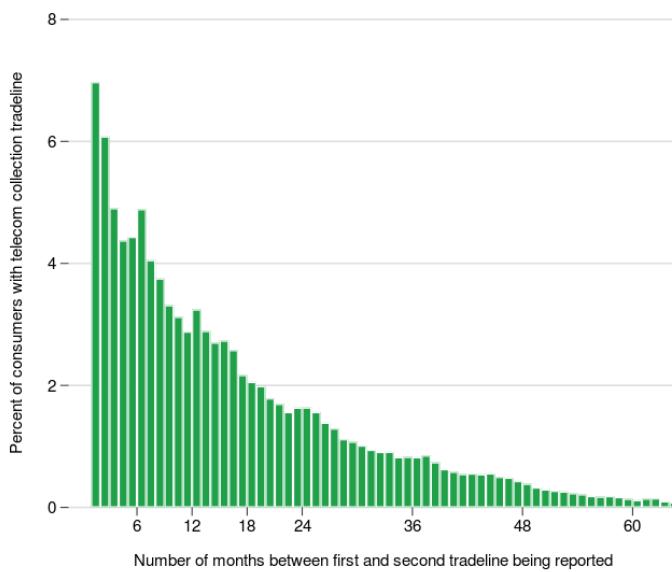


Figure 2 shows the number of months between a consumer's first and second telecom collection after restricting the set of telecom collections according to these criteria. Approximating and eliminating potential duplicate tradelines this way substantially reduces the spikes around six and 12 months. It is still the case, however, that many second telecom collections appear within several months of the first collection: 32 percent appear within six months and 45 percent within 10 months.

⁸ Using a cutoff of plus or minus five percent, dropping telecom collections tradelines with the same account open date as a prior telecom collection tradeline, or dropping tradelines for which the balance did not change, yield similar results.

FIGURE 2: MONTHS BETWEEN FIRST AND SECOND TELECOM COLLECTIONS FOR CONSUMERS WITH MULTIPLE TELECOM COLLECTIONS AFTER DROPPING POTENTIAL DUPLICATE DEBTS



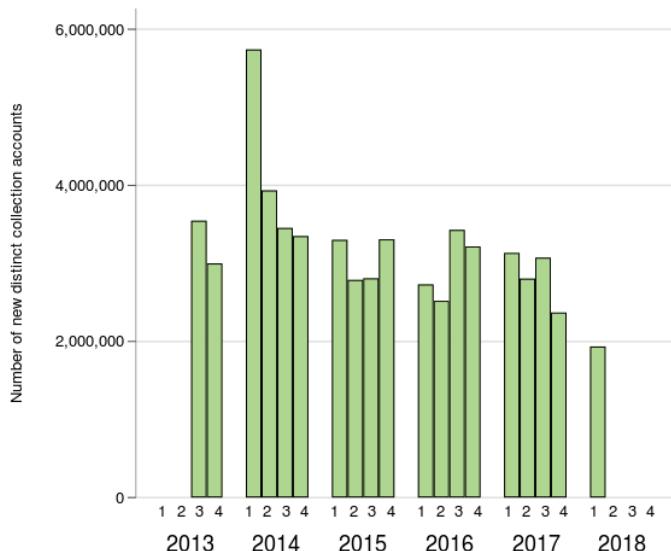
Telecommunications technology and the market for telecommunications services have continued to evolve in recent years. This evolution includes mergers between wireless, cable, and internet service providers; legal settlements over cell-phone billing practices; and continued growth in mobile wireless and fixed internet adoption, including consumers shifting from traditional cable and phone service to internet-based alternatives.⁹

As shown in Figure 3, the number of distinct telecom collections (based on the approximation described above) that appear on the credit record for the time was between about 2.5 and 3.5 million for most quarters of the sample period, with a notably higher number in the first half of 2014 and lower counts in the last two quarters shown.¹⁰

⁹ Corporate mergers include: T-Mobile USA Inc. and MetroPCS Communications (March 2013); AT&T Inc. and Leap Wireless International Inc. (Cricket Wireless) (March 2014); AT&T Inc. and DIRECTV (July 2015); Altice N.V. and Suddenlink Communications (December 2015); Altice N.V. and Cablevision Systems Corporation (May 2016); and Charter Communications, Time Warner Cable, and Bright House Networks (May 2016). During this time period, the Bureau working in close coordination with the Federal Communications Commission (FCC) and state attorney generals took action against Verizon and Sprint for placing illegal charges on telephone bills (cramming). “CFPB Takes Action to Obtain \$120 Million in Redress from Sprint and Verizon for Illegal Mobile Cramming,” May 12, 2015, available at www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-to-obtain-120-million-in-redress-from-sprint-and-verizon-for-illegal-mobile-cramming/, The Federal Trade Commission, in a separate action, coordinated with the FCC and state attorney generals to settle with AT&T for cramming. “AT&T to Pay \$80 Million to FTC for Consumer Refunds in Mobile Cramming Case,” Oct. 8, 2014, available at www.ftc.gov/news-events/press-releases/2014/10/att-pay-80-million-ftc-consumer-refunds-mobile-cramming-case.

¹⁰ The data do not allow for a more detailed analysis to test the effects of specific changes in the telecommunications marketplace for this time period.

FIGURE 3: NUMBER OF NEW DISTINCT TELECOM COLLECTIONS TRADELINES BY QUARTER



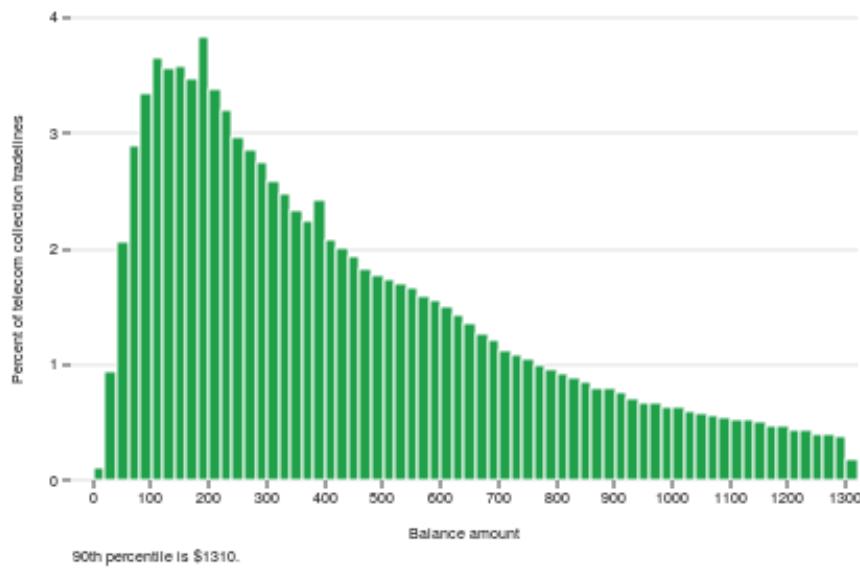
Note: Counts of tradelines after eliminating telecom collections that had a balance within 10 percent of a preexisting telecom collection reported in the prior 18 months.

Many telecom collections are for amounts \$200 or less, but 17 percent exceed \$1000 (Figure 4). The median balance is \$408, and the mean balance is \$599.¹¹ The larger balances likely include not only unpaid service bills but also the value of financed devices (such as phones or tablets), unreturned rented devices (such as cable or satellite boxes or modems), and possibly early termination fees (ETF).¹²

¹¹ The apparent clustering of balances near \$200 and \$400 is partly but not entirely due to aggregation of balances within histogram bins. Narrower bin widths also contain smaller spikes at these amounts.

¹² For example, for mobile wireless services there could be telecom collections of ETFs that reflect a large range of debt. For example, depending on when the contract was broken, a consumer with a family plan with four smartphones could incur an ETF between \$580 and \$1,100, and a consumer with a single smartphone could incur an ETF of \$145 to \$295. (These estimates are based on an ETF of \$325 for a smartphone minus \$10 per completed month of a service contract. See, for example, <https://www.att.com/esupport/article.html#/wireless/KM1253555>.)

FIGURE 4: BALANCES OF TELECOM COLLECTIONS TRADELINES



Twenty-two percent of consumers with a credit record had at least one telecom collection tradeline on their credit record between mid-2013 and early 2018 (Table 1). The percentage of consumers with a telecom collection falls sharply across credit score category from 59 percent of consumers with a subprime score to one percent of consumers with a super-prime score. The disproportionate share of consumers with lower scores who have a telecom collection likely reflects the fact that credit scoring models generally assign lower scores to consumers with a recent collection tradeline or major delinquency.¹³

For context, Table 1 also shows the comparable shares of consumers with any collection and with a medical collection, which are the most common collections in credit records and which have been explored in other Bureau research.¹⁴ The percentages of consumers with any collection or a medical collection likewise fall across credit-score categories, but telecom collections are more concentrated among consumers with lower scores. Consumers with subprime scores are 12 times as likely to have a telecom collection as consumers with prime scores. By comparison, consumers with subprime scores are five times as likely to have medical collections or any collections as consumers with prime scores.

¹³ Some recently developed score models exclude collections that are for relatively small amounts or have been paid in full. Consumers are classified into score ranges in Table 1 based on the median credit score between January 2012 and March 2018.

¹⁴ See, for example, *Data Point: Medical Debt and Credit Scores*, available at files.consumerfinance.gov/f/201405_cfpb_report_data-point_medical-debt-credit-scores.pdf.

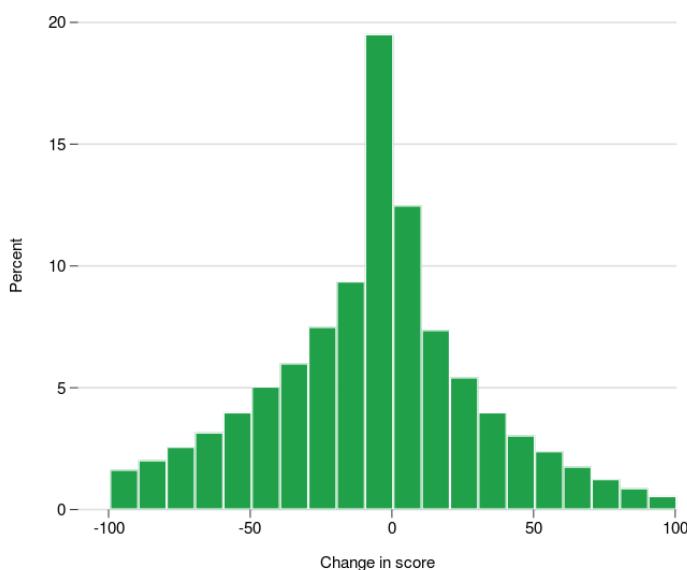
TABLE 1: SHARE OF CONSUMERS WITH COLLECTION TRADELINES BY CREDIT SCORE RANGE

| Score | Telecom collection | Medical collection | Any collection |
|---------------------------|--------------------|--------------------|----------------|
| All consumers | 22 | 27 | 41 |
| Credit score range | | | |
| Subprime | 59 | 61 | 92 |
| Near prime | 22 | 39 | 55 |
| Prime | 5 | 11 | 18 |
| Super prime | 1 | 3 | 5 |

Note: Consumers are classified into score ranges based on the median credit score between January 2012 and March 2018.

Having a telecom collection reported might be expected to reduce a consumer's score in most cases, but the change in score is often small. Figure 5 plots the changes in consumers' credit scores over the six-month window spanning the quarter before a telecom collection appears on a credit report to the quarter after it is reported. Almost 20 percent of consumers experience a score decline of 10 points or less after a telecom collection appears on their credit report, for example, and a smaller share (about 13 percent) experience no change or a score increase of less than 10 points.

FIGURE 5: CHANGE IN SCORE AFTER TELECOM COLLECTION TRADELINE



This score change does not isolate the effect of the collection being reported, since consumers have varied and active financial lives and many of these activities may affect their credit score. Similarly, consumers with a debt being collected are likely having multiple negative entries on their credit reports, and a telecom collection is one of several collections. Of consumers with a telecom collection, 62

percent also have a collection of a non-telecommunications debt on their credit report at some point between mid-2013 and early 2018. Nonetheless, a change in score between -10 and 10 points suggests that a telecom collection by itself may have little effect on the cost of credit for many consumers.

The effect of a telecom collection being reported could differ across consumers according to the other information in the credit record. A telecom collection may have little effect for a consumer with a subprime score, for example, since it accords with the information and history captured in the credit score that the consumer has a relatively weak repayment history. In contrast, a new telecom collection may be more informative about the current financial situation of a consumer with a higher credit score.

Table 2 reports the median and mean score change between the quarter prior and a quarter after a telecom collection is reported for consumers with scores in different score ranges. For consumers with subprime scores the median change is a negligible two-point decrease. The median change increases in absolute terms for those with higher scores, increasing to a nearly 30-point drop for consumers with super-prime scores. The mean score changes for those with a telecom collection are even larger but follow a similar pattern across score groups. By comparison, the median and mean score changes for consumers without a collection is often zero and never more than seven points.

TABLE 2: CHANGES IN CONSUMER SCORES AFTER A TELECOM COLLECTION

| Credit score range | Median change: consumers with a telecom collection | Median change: consumers with no collection | Mean change: consumers with a telecom collection | Mean change: consumers with no collection |
|--------------------|--|---|--|---|
| Subprime | -2 | 0 | -7 | 7 |
| Near prime | -13 | 0 | -25 | 3 |
| Prime | -19 | 1 | -33 | 0 |
| Super prime | -28 | 0 | -41 | -3 |

Note: Consumers are classified into score ranges based on the median credit score between January 2012 and March 2018.

At least the high-level in this report suggests that in most instances, a single telecom collection is unlikely to change a credit decision. In particular, telecom collections are most common among consumers with lower credit scores, for whom the score changes tend to be small. At the other end of the spectrum, although scores change more substantially around the date a new telecom collection enters the credit record of a consumer with higher credit scores, only a very small share of these consumers have a telecom collection, even looking across a nearly four-year period.