

# 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 sub-prime 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.*

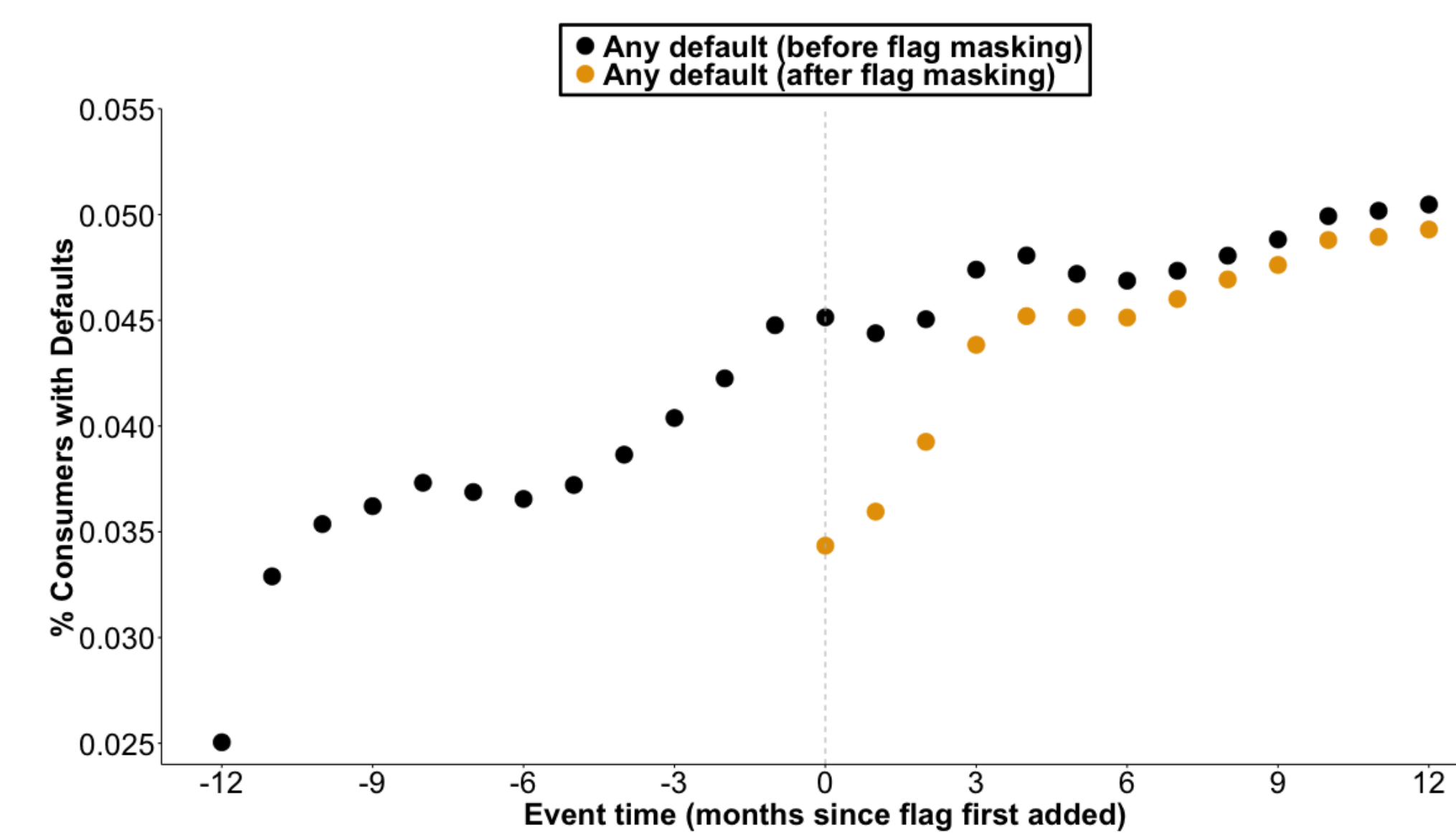
## Data

Credit file data from the University of Chicago Booth School of Business’s TransUnion Consumer Credit Panel (BTCCP). BTCCP is an anonymized 10%, monthly representative sample of people with USA TransUnion credit files (2000 - 2021).



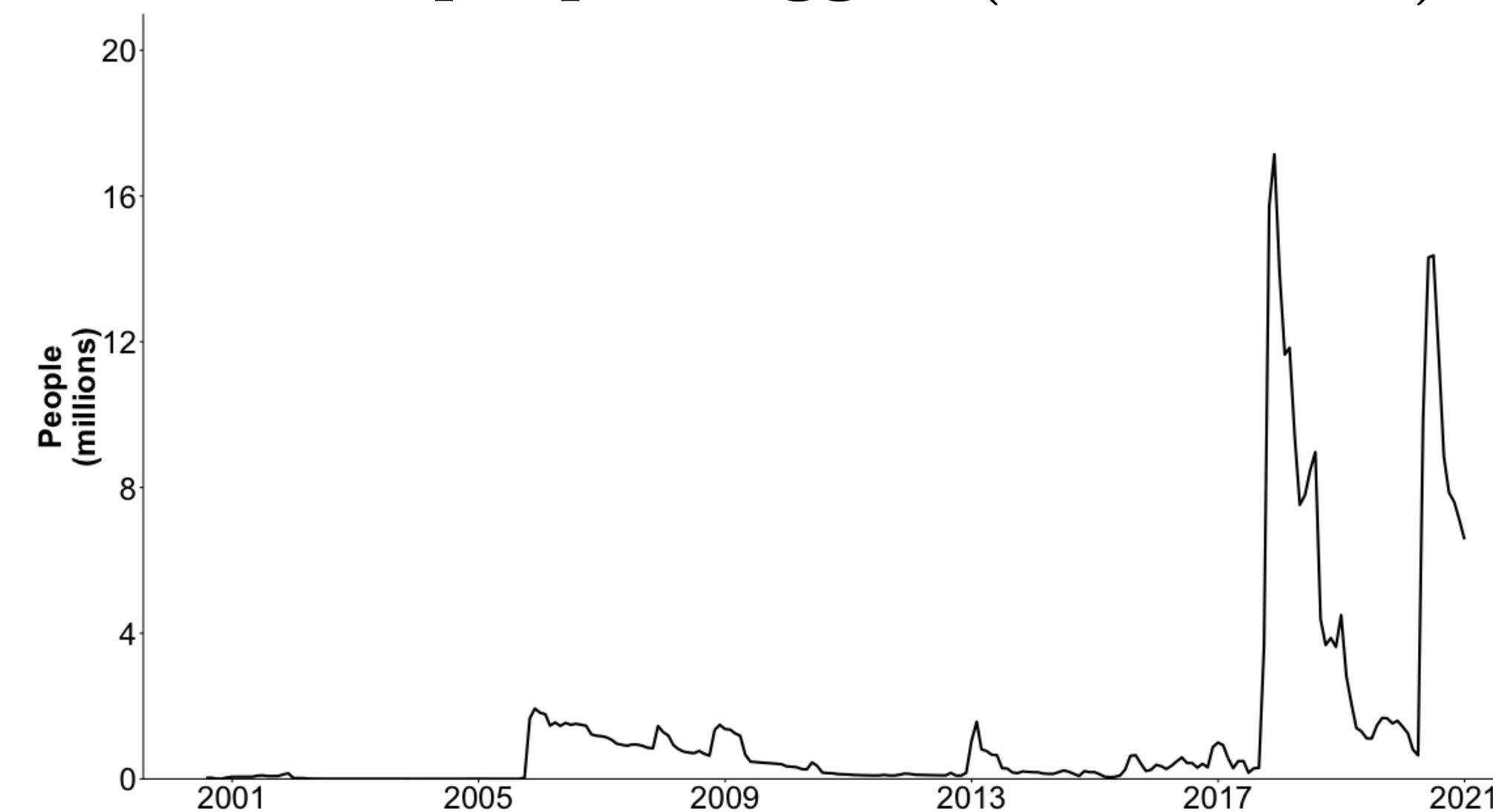
## What are disaster flags?

Flags voluntarily applied by lenders to accounts on borrower’s credit files following disasters (e.g. hurricanes, wildfires, COVID-19). While applied, flags temporarily mask adverse data on accounts:

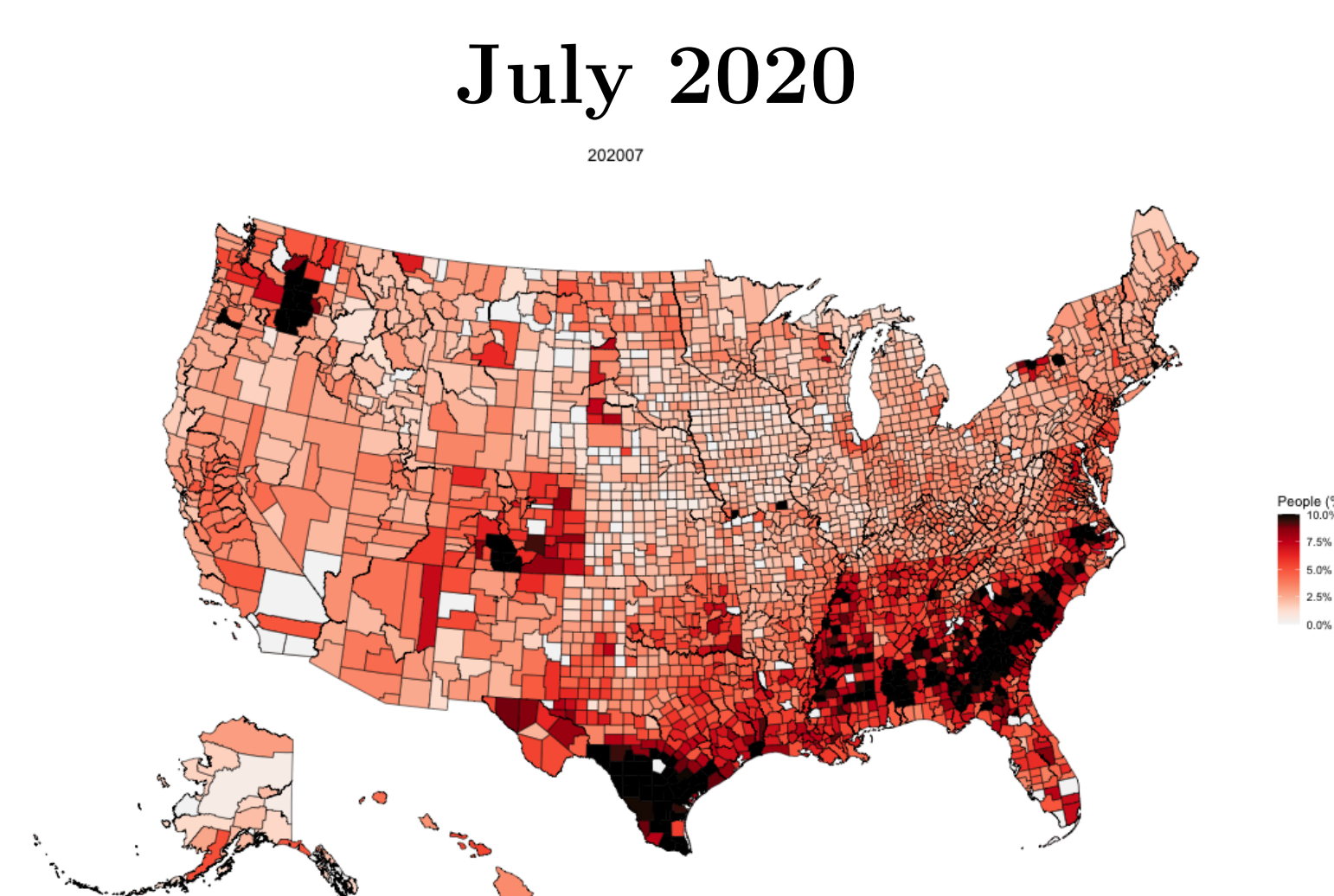


## Flag use common in recent years

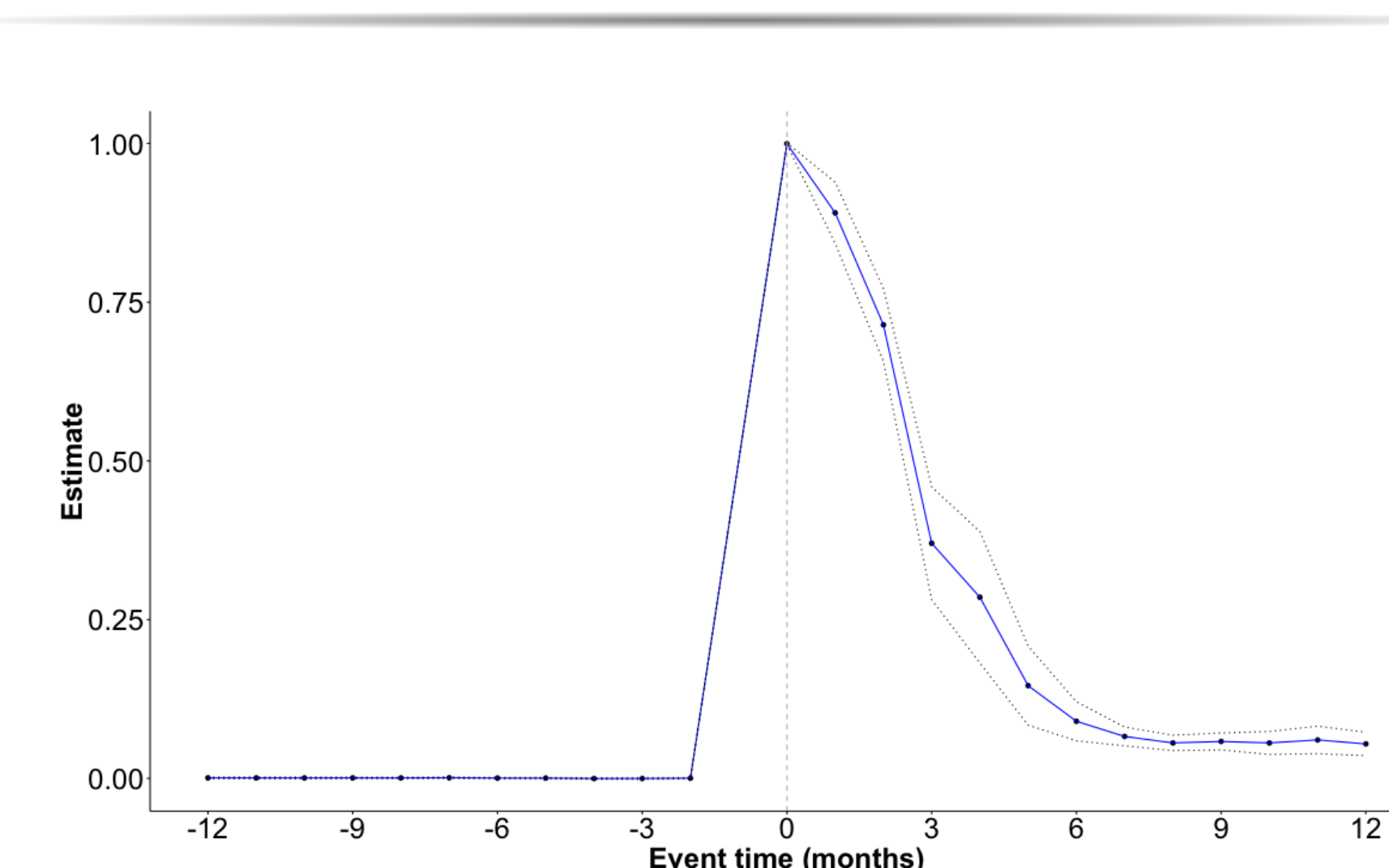
59.2 mn people flagged (2010 - 2020)



## Flags are used across USA



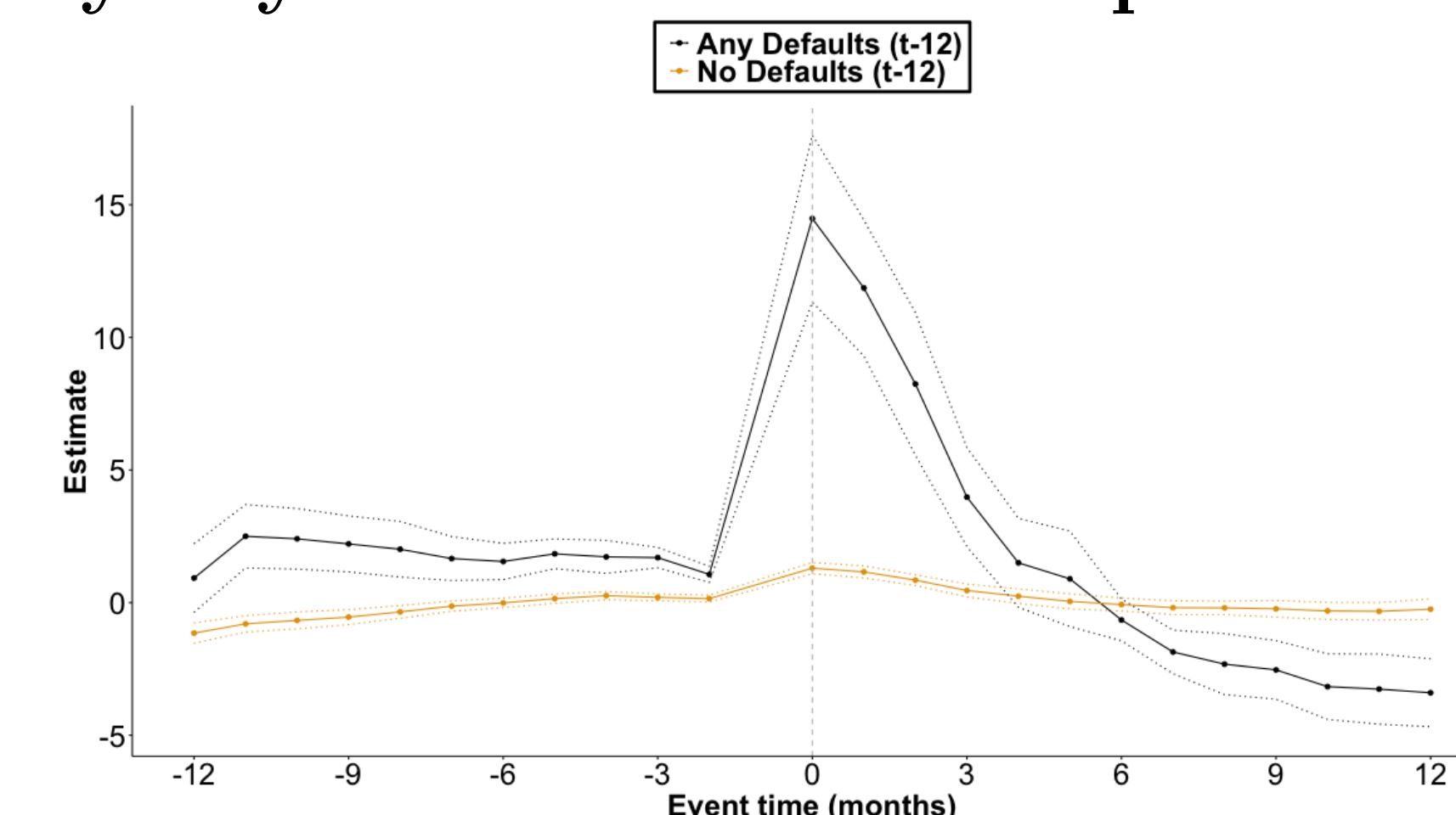
## Flags typically only remain on credit files for $\leq 3$ months.



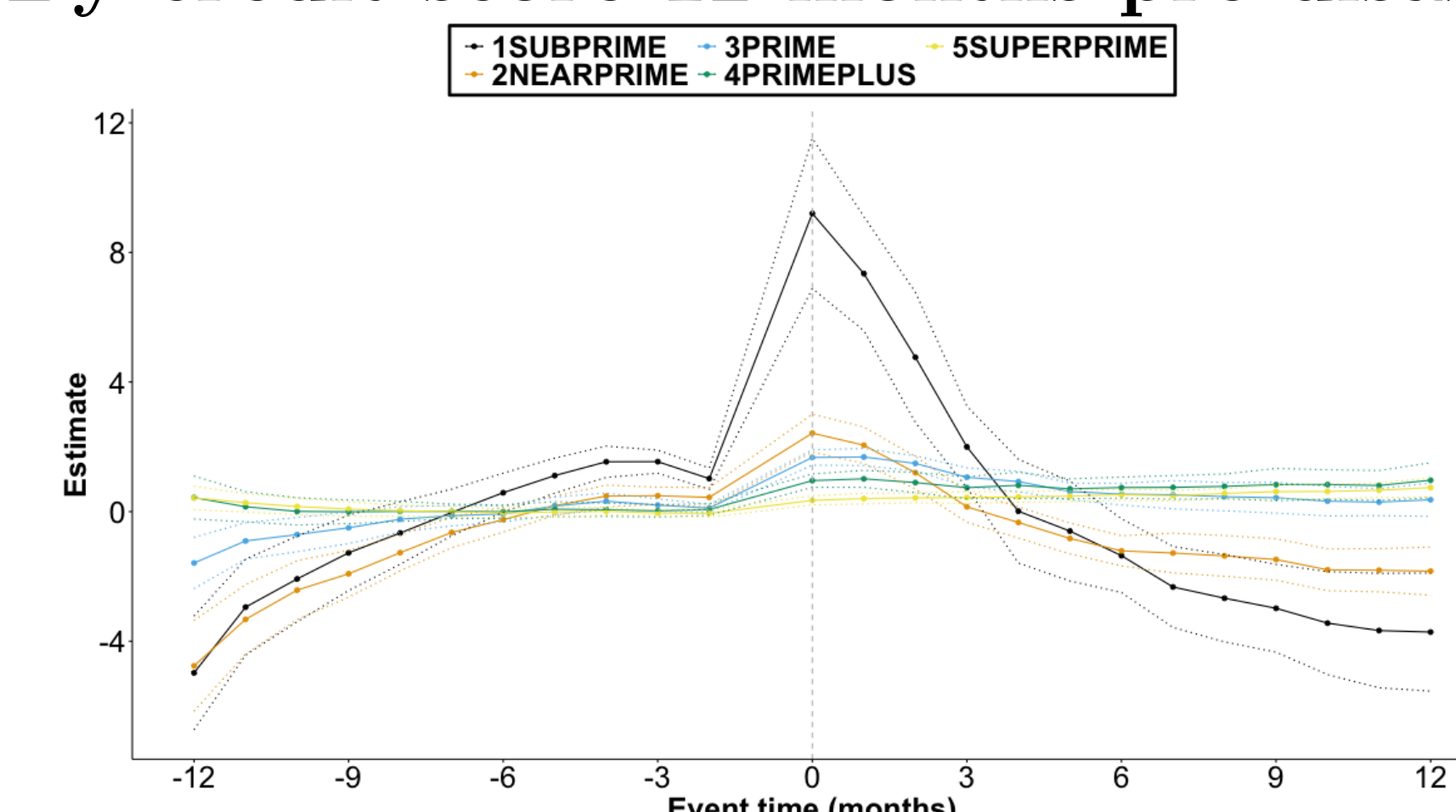
## Flags temporarily $\uparrow$ financially-distressed consumers’ credit scores

Difference-in-difference estimates of ATT on credit score (VantageScore) using control group matched by geography & credit file portfolio. ATT ‘small’ 1.5-2 pp. Average effects driven by those financially-distressed pre-disaster (10-15pp):

Effects of flags on credit score...  
...By any default 12 months pre-disaster.

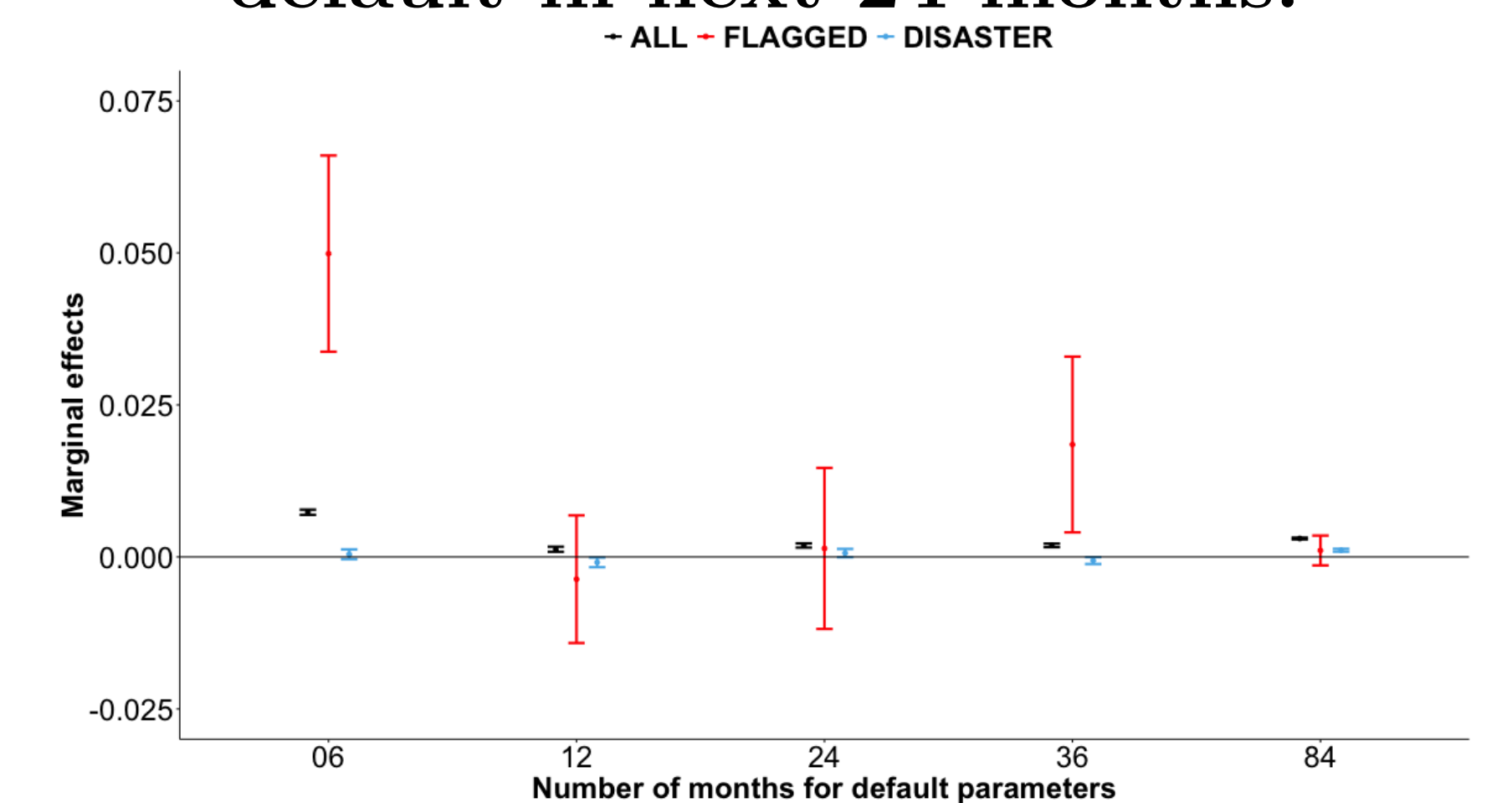


...By credit score 12 months pre-disaster.



## Flagged defaults riskier than non-flagged defaults. Disaster defaults no riskier.

Coefficients on default parameters from logistic regression predicting any new default in next 24 months.



## Limited predictive loss from counterfactual regime requiring masking all disaster defaults

Measures of predictive performance have very small differences baseline (AUROC = 0.8790) and a counterfactual masking all defaults in counties affected by natural disasters (AUROC = 0.8777-0.8764) despite this masking 6.66-18.42% of US defaults.

## Contact Information

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