PERC
RESULTS AND SOLUTIONS

General Response to Criticisms of recent PERC report:
U.S. Consumer Credit Reporting: Measuring Accuracy and Dispute Impacts

PERC agrees that those who experience inaccuracies in their credit reports can experience difficulties—sometimes even significant difficulties—and that reducing the frequency and consequences of credit report inaccuracies is an important goal. Our report in no way contradicts this, in fact it found participants that were in a lower credit tier or two because of inaccuracies. The aim of the report was not to confirm what is indeed the case, that inaccuracies can be very consequential; it was to determine the frequency and rate of potentially consequential inaccuracies.

Credit Scoring Experts Praise PERC Study

While this report constitutes a general rebuttal to some criticisms and misunderstandings of our study on credit report accuracy and the consequences of inaccuracies, it is worth noting that not all reactions were critical. In addition to the strongly positive comments from independent academic peer reviewers—economists from the University of Pennsylvania Wharton School, the University of North Carolina, and Duke University—other reviewers with considerable expertise in credit reporting and risk analytics lavished praise on our study by confirming and corroborating its results and conclusions.

Credit.com's consumer credit expert Tom Quinn wrote:

> "…these findings did not surprise me. First, the majority of information that is material to a credit decision is reported accurately for most consumers. At the same time, it is inevitable that there will be some degree of errors within a voluntary data infrastructure as large and complex as the US consumer credit reporting system. Thirdly, there is a workable process in place that allows consumers to check the information for accuracy and get the verifiable inaccurate data reported correctly."[1]

Before joining Credit.com, Quinn worked for many years at Fair Isaac (a.k.a. FICO), serving as a senior VP. Interestingly, on the heels of PERC's study release, FICO—an elite consumer credit analytics firm—issued the following statement:

> "The fact that the survey was sponsored by the credit reporting agencies will lead some people to dismiss the findings. They shouldn't. FICO has studied consumer data from many different sources over the years. We have consistently found that the data in credit bureau reports is more accurate than data from other sources,

[1] Downloaded from http://www.credit.com/blog/2011/06/new-study-examines-reliability-of-credit-reports/

> and offers exceptionally high value when one is predicting the financial decisions that people will make."[2]

While praise for our report has been uniform, criticisms have come in two varieties. The first variety questions the method, analyses and interpretations of the facts we do in fact find. The second variety questions the intentions, motivations and integrity of our research. We wish to separate these criticisms, as the latter serves to drown the former and the response to it. We will address each in turn, beginning with criticisms of our method, analyses and interpretations.

A. Methodology and Analyses and Interpretation

Use of Consumers for Identifying Inaccuracies is Valuable

Critics allege that the "fundamental flaw" in PERC's report is the use of consumers alone to identify errors and file disputes. Apparently consumer credit reports are so complex that most consumers aren't able to actually identify potential inaccuracies. It should be noted that using consumers is common practice and is largely unavoidable. The FTC and US PIRG make use of consumers to identify errors in their studies. The question is whether consumers alone will under-identify potential errors. To clarify, we did not use consumers alone but did provide them guidance in the form of a guidebook and Frequently Asked Questions (FAQ) sheet (included in PERC's report).

Challenges to our approach along these lines have been twofold and contradictory. The first argues that our methodology is flawed because we do not use coaches that can provide guidance. The second argues that the provision of guidance in the form of educational material is distorting, as it would not reflect 'real world' experience.

First, having a "coach"—an expert in consumer credit reporting—walk each individual consumer through the contents of their credit report and help them identify and dispute potential inaccuracies may increase identification of errors. PERC expressly states as much in our report. But we also believe that it could bias samples. Coaches may dissuade those who are privacy sensitive and/or potentially embarrassed from participating. Perhaps more likely, they may skew the sample towards those who could afford the extra time, given the time commitments needed for coaching on the consumer. Engaging a wider array of consumers would require compensation, which may also bias the sample. In addition, some of the identified errors may not truly be errors, but may be perceived by the participant as embarrassing derogatory information that they do not wish to affirm as correct to a coach.

[2] Nelson, Lisa. "Credit Reports More Reliable Than They Get Credit For." May 11, 2011. Downloaded from http://bankinganalyticsblog.fico.com/LisaNelson.html It is noteworthy that FICO is one of three parties partnering with the FTC on their credit report accuracy study.

Second, the use of educational materials was designed to provide participants a quick and easy guide to assist them in their identification of potential errors and to help them file disputes more easily so that *more potential errors* would be disputed.

In concert, the guidance material, we believed and still believe, made the task of identifying and disputing potential errors easier for participants while minimizing potentially serious sampling bias. It may be the case that coaching yields very different results; but the jury is still out on that matter and this issue cannot even meaningfully be addressed until such time as the FTC's full report results are published next year.

No approach involving consumers is likely to be an 'ideal' approach without any downsides. Similarly, approaches that exclude the consumer also have upsides and downsides. A thoughtful comparison and synthesis of well-executed studies using different methodologies will enable researchers to better understand these methodological deficiencies and strengths and the overall landscape of data quality.

Study Participants Were Treated As Normal Disputants

When consumers contacted a nationwide CRA, they interacted with the same consumer specialists that handle consumer disputes as part of their regular job. No specialists were assigned specifically for this project, or specifically for participants. Furthermore, two of the three nationwide CRAs were unable to identify participants when routed through consumer service centers as part of the routine dispute process. Information about participants' disputes, and the outcomes, was culled out of the database on the backend after the dispute was filed and reinvestigated.

PERC was able to compare results from all three nationwide CRAs. Because two nationwide CRAs didn't flag participants while one did, this provided the perfect experiment—a control sample and an analytic sample. Any noticeable deviation among the three would have been flagged both in our pilot study and in the subsequent full study. The fact is that there were none. Consumers filed the same types of disputes, and received the same types of outcomes across all three bureaus.

As a further check, disputants were asked questions about their experience with the dispute resolution process as part of their exit survey. Here again there was no deviation between the nationwide CRAs that did not flag participant IDs and the nationwide CRA that did, both in terms of consumer reported information on how their dispute was handled, and their overall satisfaction with the outcome and experience.

The Logic of Consulting Industry Expertise Is Sensible

Much of the seemingly controversial "guidance" and "input" we received from credit bureau experts in relation to our report (and which we recognize in our Acknowledgments) was from consumer relations staff at the three bureaus—people who are in the trenches every day interfacing with consumers who have questions or disputes relating to their credit reports. We used this information to guide and inform our FAQ sheet and Guidebook. In generating these documents, we could not think of a better primary source for information. Critics provide no example, real or hypothetical, is given of how interviews with credit bureau dispute personnel about procedures and challenges faced by disputants could contaminate the study.

All Consequential Errors Are In Fact Counted

Another criticism is that the "error rate" (presumably the material impact rate, as the PERC study includes an ensemble of metrics and thoroughly explains the value and limitations of each) is deficient because it:

- Excludes verified header errors;
- Excludes those who reported an inaccuracy, and reported an intention to dispute but never disputed.

Yes, inaccurate header data could lead to matching issues that may result in mixed files, some of which may negatively impact a consumer's credit standing. To the extent that *inaccurate header data alone is excluded*, it is simply a product of the fact that we cannot measure impacts that have not happened yet. Header errors that have resulted in mixed files at the time of the study are captured as below the line errors (e.g., "not mine" as a response to the error). If a participant had yet to experience the below the line effects of a mixed file—but have identified potentially errant header data—they are excluded from our "material impact" as they have not yet had a credit score impacted.

PERC's "Material Impact" Refers to Score Tier Migration <u>NOT</u> a 25 Point Change

The material impact rate has been confused by those commenting on the report a number of times, so reemphasize that material impact refers to a credit score tier migration and not a 25-point credit score change.

In Section 4.3 "Consequences of Credit Score Changes: The Material Impact Rate" after discussing the relationship between credit score changes using a VantageScore, the report states explicitly:

> "This approach, (relying on score changes to suggest the impact of errors) ultimately, is plagued with a degree of arbitrariness and subjectivity. A one-point change could be material for a consumer and a 90-point change may not be, depending on the consumer's pre-change score in relation to an important cutoff score. *That is, <u>a one-point change could result in a consumer gaining credit approval or receiving or better terms</u>, or a 90 point change could result in neither—which would be more likely for those with very low or very high credit scores.* It is for this reason that PERC extends the tradeline modification impact analysis from just credit scores to include changes in consumer credit risk tiers as well." (Emphasis added.)

In the subsection titled "Changes in Credit Tiers: Gauging the Materiality Impact of Tradeline Modifications" PERC argues:

> "Viewed through the prism of public policy, while the credit score impact from tradeline modifications is important, how that score change affects a consumer's access to credit and pricing (credit terms) are the more critical questions."

The report continues:

> "As discussed above, for one person, a three-point increase could result in better credit terms while a 43-point increase for another may not."

Again, and most explicitly:

> "One of the credit report's migration patterns did illustrate that it matters where a score falls in the distribution. This particular credit report had a score increase of only one point, but moved from 899 to 900, thereby migrating across score tiers in two of the score tier cases...when [consumers] are affected, they would likely face altered access to credit and prices, or more commonly in the contemporary credit market, altered credit terms. In this sense, *the rate of credit tier migration is the best approach to estimating the incidence of material impacts. For these reasons, the "material impact rate" is defined in this study as the percentage of participants migrating to a higher tier."* (Emphasis added.)

In addition to reporting 25+ point score changes, rates of 1+ and 10+ credit score changes are also reported. Criticisms that PERC arbitrarily chooses a 25+ point change as a measure of materiality are baseless and ignore the fact that we do no such thing, and that our calculations are not based on any such threshold, as stated several times and explained extensively throughout the report—not in some obscure footnote. We believe that one significant contribution from PERC's analysis is the use of a realistic definition of material. In this case, upward or downward score tier migration indicates a material impact.

PERC Does Provide Alternative Estimations That Include Those Not Disputing

As for the claim that our rates understate actual credit score impacts and material impacts from tradeline modifications by ignoring those who did not dispute, this is simply untrue. Section 4.5 clearly entitled, "Accounting for Those Planning to Dispute and Others Who did not Dispute," provides an alternate estimate accounting for those who did not to dispute. In that section, we provide a counter-factual showing the credit score impacts and material impact rate assuming all participants disputed who both identified an error and expressed an intention to dispute the error (whether they actually disputed or not). The results change but not in a way that would alter the report's broader conclusions about the accuracy of credit report databases maintained by the three nationwide consumer reporting agencies, or the consequences from inaccuracies.

B. Intentions and Motivations

PERC's Commitment to Credit Underserved

Our study is a study of the quality of credit reports, a study that found the rate of errors to be considerably lower than previously thought. For making this point—a point recognized both by Congress in the FCRA and courts in litigation regarding data accuracy and the "maximum possible accuracy" standard—PERC has been unfairly attacked for somehow discounting the real struggles of those who suffer from consequential errors in their credit reports.

This is unfair because for the past decade PERC has been committed to the completeness and accuracy of data in credit reports. During this decade, PERC's efforts have led to real improvements in consumer credit reporting—including the integration of millions of non-financial payments in credit reports (so-called "alterative data")—that have helped hundreds of thousands of thin-file/no-file Americans build credit histories and access affordable sources of mainstream credit.

PERC Learned from Earlier Generation Studies

While this may sound like a methodological critique, we believe the claim that our study is redux of an earlier Arthur Anderson study (now Accenture) is intended to critique by baseless association. In the course of undertaking this analysis, PERC thoroughly reviewed all available reports on this topic, and learned lessons that indeed shaped and influenced our research design.

PERC's research methodology is more similar to the Federal Trade Commission's (FTC's) pilot studies than to any other earlier report. Claims that it is a redux of an earlier Arthur Anderson study (now Accenture) are made without any direct comparison of features of the methodology of each study and are literally made baselessly, that is, without any specific points raised.

As always, we welcome all constructive feedback and are always open to engaging any interested party in professional discussions regarding our report.