



## Letter from the president

Most think tanks emphasize the R in R&D. PERC is decidedly different.

While we began with a heavy dose of research, we discovered that the problems our research identified weren't being

addressed—either through policy or the markets. This was our “ah-hah moment.” If our research were ever going to lead to actual change, we needed to be the change agents.

### Domestic Access to Credit

In the past five years, PERC has undertaken a major domestic initiative to have fully reported non-financial payment data—energy utility and telecommunications—included in consumer credit reports. Most of the data included before PERC's efforts was late payment data. This is changing, in no small measure due to efforts of PERC along with committed allies and a few major players in the credit reporting space. Together, and despite some irrational opposition, we are making a difference!

PERC is now expanding its efforts to include rental payment data, income and employment data, and solutions that make use of alternative data. In the global financial crisis aftermath, the value of alternative data is attracting more [attention](#). PERC will continue to lead efforts on this front.

With funding from the [Annie E. Casey Foundation](#), PERC and [CFED](#) will launch a major new study on the impacts of including alternative data in credit reports. We look forward to sharing the results.

### Global Access to Credit

Microfinance has begun looking a little tattered around the edges. Twenty years of growth and solid returns attracted significant investment, and lending became

irresponsible in some places. This does not mean there is no value in microfinance—that is preposterous. It means that microfinance institutions (MFIs) could benefit from using some of the tools used by mainstream creditors—credit information sharing and analytics solutions.

PERC was recently awarded a multi-year, multi-country contract by the [International Finance Corporation \(IFC\)](#) of the [World Bank Group](#) to study the impacts of credit information sharing on MFIs. This study could have a massive effect resulting in responsible lending growth.

### Good News for Consumers

Since 2000, much energy has been spent on credit report data accuracy. In 2003, Congress mandated the Federal Trade Commission to examine this issue. They are expected to present their findings at the end of 2012.

In the interim, policymakers in Congress and the newly created Consumer Financial Protection Bureau must rely on earlier studies despite the fact the [GAO](#) deemed them flawed.

Over the past three years, PERC conducted a major study on this topic, and in May released the results in Washington, DC. We found, the probability that a credit report possesses an error that would be consequential in a credit market is extremely low (about 0.5%). This is the largest report by sample size ever, and is the first published report involving consumers, data furnishers and credit bureaus. It will set the standard for all future reports on this subject. A full copy of [PERC's report](#).

As you can see, ever since our “ah-hah moment”, PERC has balanced the R with the D, and we've undertaken some incredible projects that will use information solutions to solve economic development problems. We look forward to continuing this amazing journey with you!

Sincerely,

Dr. Michael A. Turner

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## Developments Around the Globe

IFC awards  
PERC a  
contract to  
conduct a  
multi-country  
two-year study



THE WORLD BANK  
Working for a World Free of Poverty

PERC  
RESULTS AND SOLUTIONS



We were recently awarded a contract by the **International Finance Corporation (IFC)** of the **World Bank Group** to measure the costs and benefits of credit reporting and scoring for microfinance institutions (MFIs).

As MFIs reveal themselves to be prone to the same boom bust cycles evident in mainstream lending, a solution that modernizes micro-lending and enables better risk assessment while expanding lending becomes more pressing. Yet, there are genuine open questions and organizational hurdles to any such solution:

- Do MFIs have the knowledge and technical capacity to use shared borrower information effectively?
- What are the costs to MFIs of reporting loan information, of utilizing credit reports, of developing scoring solutions?
- How long will it take an MFI that has adopted program of information and score centered lending to realize their well-known benefits?

The research attempts to answer these questions in order to inform MFIs about the costs and benefits, timeframes for their realization and impacts on borrowers of credit reporting and scoring.

Our research will span three countries in three different regions. We will be working in a Latin American context (Mexico), in a South Asian economy (to be determined) and a Middle Eastern economy (also to be determined). The research will last two

years in each of these settings.

The project is unprecedented not only in its scope but also in the methodology. In fact, PERC will undertake a radical new approach to measuring the impact of credit reporting on microfinance. Unlike previous studies, we will not use credit file simulations, nor will we estimate the impact statistically with country level observations. Rather, working with lenders, we will deploy lending experiments that randomly channels borrowers into a specific lending channel.

The approach, pioneered by the **MIT Poverty Action Lab**, draws its inspiration from methods of testing in the natural sciences and has never been applied to

*We expect the  
research to be  
groundbreaking...*

these questions in micro-lending. We believe this innovative approach will allow us to directly compare the costs and benefits of information sharing and credit scoring with its alternatives—holding lender, customer base, regulation, etc. constant—and to remove researcher bias as much as possible.

We expect the research to be groundbreaking, offering definitive answers to what have been persistent questions in credit reporting. We hope and expect this research will be a major step in the radical transformation of one of the most promising solutions to global poverty—micro-lending.

*“This study could  
have a massive  
effect resulting in  
responsible  
lending growth.”*

Dr. Michael Turner

## PERC and credit data accuracy in the press

### Opposing View: Credit report data show few errors

PERC in **USA Today**- June 25, 2011

### Letter to Editor to Privacy Times, From Michael Turner, Executive Director, PERC

PERC in the **Privacy Times**- June 13, 2011

### BUCKS; How Errors Affect Credit

PERC in **The New York Times**- June 11, 2011

### New Study Examines Reliability of Credit Reports

PERC in **Credit.com**- June 7, 2011

### With Credit Bureaus, It Pays to Be on V.I.P. List

PERC in **The New York Times**- May 14, 2011

## PERC releases seminal research on U.S. credit report data quality



During May, 2011 in Washington, DC, PERC released results from a major new study titled **“US Consumer Credit Reports: Measuring Accuracy and Dispute Impacts.”** The study is the first ever published directly involving consumers, data furnishers and nationwide consumer reporting agencies. It moved the general understanding of credit report accuracy beyond fiction to instead focus on facts.

The study of 2,338 consumers reflective of the general and adult credit populations by every socio-demographic metric and by credit score tier produced compelling results. The study, which was rigorously reviewed by a panel of imminent academics with Duke, UNC, and U Penn Wharton, establishes a baseline against which all future studies on consumer credit report accuracy must be measured. Key findings and a detailed discussion of the methodology were presented to regulators from the Federal Reserve Board, the Federal Trade Commission and the Consumer Financial Protection Bureau, as well as representatives from consumer advocacy groups, asset building groups, think tanks and industry.

Key contributions from the study include:

- Less than 1 in 5 credit reports reviewed by consumers contained a potential error—header and/or tradeline;
- Roughly 1 in 10 credit reports reviewed by consumers contained potential errors that consumers either disputed or indicated that they would dispute;
- 7.4% of reports reviewed by consumers were disputed, with two-thirds relating to tradelines and one-third concerning header only data;
- 5% of credit reports reviewed by consumers had tradeline disputes that were modified as a result of the dispute;
- 3.6% of credit reports reviewed by consumers were disputed and modified and had a credit score increase as a result;
- 0.5% of credit reports reviewed by consumers were disputed and modified and had a credit score increase that moved the consumer from a lower score band to a higher score band indicating improved credit standing.

PERC’s use of a “material impact rate” reflects a significant contribution to the understanding of the impacts of credit report inaccuracies. Earlier generation studies used arbitrary score changes to indicate “materiality.” For instance, a 20-point score increase was implied to be more consequential than a 10 point score increase. In reality, the impacts of a score change depend entirely upon a person’s credit score when the inaccuracy is modified. For some on score band cut off points, a very small change—even a single point—could result in a material impact whereby they would be moved from a higher risk to a lower risk score band.

## PERC and Foundation for Louisiana release report on state of small businesses

Continuing its ongoing work on the economic impacts of the 2005 natural disasters on affected communities in Louisiana, PERC released two new reports in March of 2011 in New Orleans at an event hosted by the **Louisiana Disaster Recovery Foundation (now the Foundation for Louisiana)**. The study examined both the current state of small business activity in Louisiana, and the efficacy and impact of Foundation for Louisiana programs designed to aid small businesses affected by the 2005 disasters.

### Key findings regarding the economic well-being of Louisiana small businesses include:

- At least 100,000 small businesses in Louisiana still feel negative impact from 2005 hurricanes
- Minority owned and operated businesses feel most severely and persistently impacted
- Access to credit still a major hurdle for many small business owners
- Recovery was interrupted by the macro-economic downturn and the BP oil spill

## Alternative Data Initiative

This summer PERC, partnering with the **Corporation for Enterprise Development (CFED)**, will begin the data analysis stage for a new report to examine the impact of including fully reported utility, telecom and other alternative data payment histories in consumer credit files.

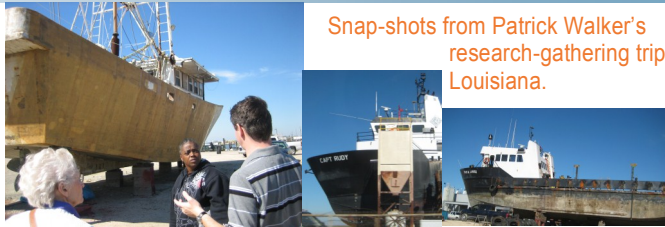
The analysis, supported by the **Annie E. Casey Foundation** and major national credit bureaus TransUnion and Experian, will be a follow-up to PERC's 2007 research summarized in the report **"Give Credit**

**Where Credit is Due,"** which used over eight million consumer credit files from 2005 and 2006.

The key results from the earlier study included:

- alternative data can help up to ten percent of consumers gain credit files or credit scores
- nearly ten percent of consumers could gain access to mainstream affordable credit
- better credit decisions could be made
- the benefits of alternative data disproportionately accrued to those with thin

Snap-shots from Patrick Walker's research-gathering trip to Louisiana.



### Key findings regarding the efficacy of Foundation for Louisiana development programs include:

- Foundation for Louisiana aid distributed 2 months faster than aid from other programs
- 91% of small business owners said financial aid, and 78% said technical assistance was critical to recovery
- Those that received aid from the Foundation for Louisiana showed a much higher degree of sales recovery, had much more optimistic assessment of near and medium-term business prospects, and more frequently expected to hire over the next year
- Community-based aid was key, as local organizations better understood the circumstances and value of small businesses within a community context
- Every dollar of aid distributed likely produces over a dollar of new wages from new jobs.

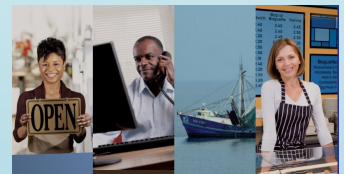
## Publications

May 2011



*U.S. Consumer Credit Reports: Measuring Accuracy and Dispute Impacts*

March 2011



*Louisiana Small Business Five Years Post-Katrina: Assessing LDRF Program Impacts And Measuring Existing Needs*



*Assessment of Small Business Aid and Needs in Louisiana Five Years After Hurricane Katrina: Overview of Case Studies*

credit files, low-income households, and ethnic and racial minorities.

The 2011 update will examine whether the impacts seen with the 2005/2006 data differ from those with 2009/2010 data, specifically, whether the economic downturn and credit crisis have significantly altered the effects of the inclusion of alternative data. The new study will also answer interesting policy questions that have arisen since the release of "Give Credit Where Credit is Due."

### Recent Coverage





## ASIA-PACIFIC CREDIT COALITION

### Select

### Past Events

**July 12-14, 2011—  
Urumqi, P.R. China**

Galina Ho of APCC member Experian presented at the ADBI-AFDC-ABAC International Seminar on Financial Inclusion for Central Asia, the Caucasus and South Asia.

**April 26, 2011— Seoul,  
Republic of Korea**

Tom Clark of APCC member GE Money participated in the ABAC “Workshop to Promote SMME Finance/Financial Inclusion through Strengthening of Credit Information Systems, Legal Frameworks for Secured Lending and Micro-savings.”

*To learn more about  
upcoming events, please  
visit*

[www.perc.net/events](http://www.perc.net/events)

## EVENTS



## Winter Summit

### Featured Upcoming Event

From the sixth through the eighth of September, the **Asia-Pacific Credit Coalition** with the APEC Business Advisory Council and the **OECD** is co-organizing a workshop entitled, “Expanding Financial Access through Regional Public-Private Cooperation.” The workshop will take place in Tokyo at the **Asian Development Bank Institute**, who is sponsoring and leading the event. Intended for regional regulators from APEC and ASEAN member states, the workshop is designed to assist regulators in addressing key elements of regulatory frameworks for microfinance (comprising micro-lending and micro-savings), SMME financing, remittances and credit reporting. Members of APCC will present on a number of topics at the workshop. Presentations from APCC will be available on the **APCC website** shortly after the workshop as a resource to regulators and stakeholders.

### Select Past Events

**May 19-21, 2011 - Sydney, Australia**

Dr. Michael Turner served as keynote speaker at the 2011 World Credit Congress, speaking on credit reporting reform within the Asia Pacific region and serving as a member of a discussion panel.

**May 5, 2011— Washington, DC**

We released “**U.S. Consumer Credit Reports: Measuring Accuracy and Dispute Impacts.**” Our report assessed the accuracy and quality of data collected and maintained by the three major nationwide Consumer Reporting Agencies (CRAs): Equifax, Experian, and TransUnion.

**March 14-17, 2011- Rio de Janeiro, Brazil**

Dr. Michael Turner presented findings from PERC's Alternative data research at the World Bank Group's Financial Infrastructure Week 2011 in Rio de Janeiro, Brazil.

**Mar 1-3, 2011 - Orlando, Florida**

Dr. Michael Turner spoke about alternative data at the Platts 10th Annual Credit and Collections for Utilities.

**Feb 4, 2011 - New York, New York**

Dr. Michael Turner participated in the Furman Center for Real Estate and Urban Policy's Institute for Affordable Housing Policy roundtable discussion, *Navigating Uncertain Waters: Mortgage Lending in the Wake of the Great Recession*.



# PERC

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## RESULTS AND SOLUTIONS

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PERC is a non-partisan centrist policy institute devoted to research, education, and outreach on public policy matters. PERC has a broad mandate but emphasizes Issues related to information policy, credit access, and the global information economy.