Personalized Credit Education:

Consumer and Small Business Owner Attitudes, Impacts and Impediments

Michael A. Turner, Ph.D.
Patrick D. Walker

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Though this report relied upon contributions from many different people, some of whom were singled out in this acknowledgement, the views contained herein are strictly those of the authors and in no way reflect the viewpoints of any participating organizations or individuals.

[1] These were highlighted in written testimony offered Congress on September 27th 2016 in a hearing before the Subcommittee on Financial Institutions and Consumer Credit, Financial Services Committee of the United States House of Representatives.

Abstract

This study is designed to assess consumer credit score impacts from personalized credit education sessions as well as consumer attitudes regarding the sessions. Participants were recruited from community development organizations, a consumer panel, and a small business panel. Three months following the education sessions, 62% of participants who took the sessions had a credit score increase versus 33% who had a decrease. Over this period, these score changes translated to 19% of participants seeing their credit score rise to an improved risk band (such as moving from subprime to prime), while 9% fell to a lower score band. For a general random sample of consumers, 7% of consumers witnessed risk band rises (improvements) and 7% witnessed risk band falls. Over a nine-month period, 31% of credit education participants had a risk band improvement compared to 7% who had a decrease, this compares a random sample of consumers who had little net change in their risk bands. In an exit survey, 88% reported that they had a better understanding of the actions they could take to positively impact their credit scores. Finally, challenges in recruiting participants from the small business and consumer panels in this study and among college students in a separate effort were seen as indicative of consumer reluctance regarding credit education and opportunities to review their credit report and score. This may explain why barriers to credit education when offered by for-profit non-deposit institutions like the national credit reporting agencies, such as 3-business day waiting periods required by the Credit Repair Organization Act, could act as a major deterrence for consumer use of personalized credit education services.

Table of Contents

Executive Summary and Key Findings

For a variety of reasons, many consumers remain confused about the basic facts relating to credit reports, credit scores, and how their behavior impacts each. Given the importance of credit reports and credit scores to an individual's ability to access affordable credit, this lack of credit report and score literacy has been a top concern for policy makers and consumer advocates. Perversely, expansive interpretations of the coverage of the Credit Repair Organizations Act (CROA) in recent court decisions effectively inhibits the use of fee based credit report and score education services with waiting periods and intimidating legal disclaimers. It was aimed at fraudulent credit repair organizations and written prior to the development of direct-to-consumer credit report and score information and education services by the likes of the national credit bureaus, FICO, and certainly on-line service such as Credit Karma.

This final report presents findings from a study examining the impacts of the CROA upon consumer behavior when using services provided by the national credit bureaus that offer advice on how to improve credit scores. Additionally, our research design seeks to measure the impacts of personalized credit education from a national credit bureau on a consumer's credit standing. That is, after completing a personalized credit education session does the consumer experience any benefit? Finally, the ongoing research includes a survey of those who completed the personalized credit education session in an effort to understand better the consumers' and small business owners' views on whether the experience was beneficial. Key findings from the report include:

- **Personalized credit education materially benefits small businesses and consumers:** For the Credit Educator group, over twice as many participants, 19%, improved and moved up score bands (such as from subprime to near prime or prime) compared to the number that moved down a score band, 9%, three months following the credit education session. For the control group, there is no systematic change in the distribution, with the same share moving up as moved down, 7%.
- **Over 60% experience a score increase after personalized credit education session**: 62% see a credit score rise using the VantageScore 3.0 three months after the credit education. A full 32% of those receiving personalized credit education from a credit bureau advisor experienced a score increase between 1 and 20 points, while an astounding 30% experienced a score increase of 21+ points 90 days after completing the session.
- **Nearly 90% of small business owners report improved understanding of credit reports and credit scores after completing a personalized credit education session**: 88% of small business owners completing a personalized credit education session with a credit bureau credit advisor reported having a better understanding of how their credit behavior and credit record impact their credit scores.
- **Participants report they are more likely to act on new knowledge**: More than half reported that they would request their free annual credit reports from each of the three national credit bureaus (60%), are more likely to review their credit reports (59%), and are more likely to dispute any perceived errors in their credit reports (60%).

1. Introduction

Connecting the Dots—Credit Reports and Credit Scores Enable Asset Building. Asset Building is linked to Sustainable Poverty Alleviation

For more than a generation, the link between asset building and poverty alleviation has been documented and well understood.[2] While earlier poverty alleviation programs in the U.S. focused upon income, since 1990 this has been recognized as necessary but insufficient. Instead, it was established that true poverty alleviation can only be sustained when a household is able to build assets and generate enduring wealth.

According to the Corporation for Enterprise Development (CFED), households invest and grow wealth by "…leveraging savings through debt financing and public incentives that allow them to purchase a home, make financial investments or start a business."[3] Despite evidence of the relatively higher risk and lower returns for lower-income and minority home/small business owners versus their middle-income white counterparts, owning a home and/or small business remains virtually the only sources of asset building and wealth creation available to lower-income households.[4]

Since 2007, the Policy and Economic Research Council (PERC), along with the Center for Financial Services Innovation (CFSI) and CFED have been publicly raising awareness about the link between credit reporting, on one hand, and asset building on the other. PERC, CFSI, and CFED brought attention to the fact that access to credit is necessary to enable asset building. However, they estimated that as many as 54 million Credit Invisibles—people with either no credit report or insufficient data in their credit report to generate a credit score—were trapped by the "Credit Catch 22"—that in order to qualify for credit, you must already have established credit.[5] The CFPB paper *Data Point: Credit Invisibles* estimates that around 1-in-5 adults (around 45 million) are unscoreable with traditional credit scores using traditional credit data.[6] As with past PERC work, this report finds much higher rates of unscoreability among members of lower-income households, for instance the CFPB finds 45% of adults in the lowest income census tracts are unscoreable.

While separate policy efforts are afoot to thicken credit files by having non-financial payment data included in consumer credit reports—a national effort known as the "Alternative Data

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[2] Sherraden, Michael and Neil Gilbert. *Assets and the Poor: New American Welfare Policy*. Routledge. February 1991. See also Sherraden, Michael and Signe-Mary McKernan. *Asset Building and Low-Income Families*. Urban Institute Press. Washington, DC. 2008.

[3] Asset Building FAQ. Corporation for Enterprise Development. Text downloaded from http://cfed.org/about/asset_building_faq/

[4] Jacobus, Rick and John Emmeus Davis. "The Asset Building Potential of Shared Equity Homeownership." New America Foundation. Washington, DC. January 2010. Downloadable at https://static.newamerica.org/attachments/3856-the-asset-building-potential-of-shared-equity-homeownership/Shared_Equity_Jacobus_Davis_1_2010.9719b1f6de3f45a5a1f439eb4c69e89b.pdf

[5] See Jacob, Katy and Rachel Schneider. Market Interest in Alternative Data Services and Credit Scoring, The Center for Financial Services Innovation (CFSI), December 2006 for this Fair Isaac estimate.

[6] Kenneth P. Brevoort, Philipp Grimm, and Michelle Kambara. "Data Point: Credit Invisibles." CFPB. May 2015. Available at: http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf

Initiative"—by exposing the magnitude and plight of Credit Invisibles in the US, much needed policymaker attention is now being allocated to the need for lower income Americans to engage with their credit reports and credit scores to aid them on their pathway out of poverty.

The simple truth is that credit reports and credit scores are of paramount importance. They are the keys that enable Americans to access affordable credit needed to generate wealth and build assets. Given low levels of understanding about credit reports and credit scores, empowering a full range of market responses is responsible social policy.

Credit Reports and Credit Scores Increasingly Important

An estimated 3 billion credit reports are issued every year to lenders and other companies for risk management and other permissible purposes.[7] More than 10 billion credit scores are purchased annually in the US, including for origination and account maintenance purposes.[8] These credit reports and credit scores are used by lenders to assess consumer credit risk and ultimately help determine the price of credit, the amounts of credit extended and whether credit applications are approved.[9] A consumer could save thousands of dollars a year from lower interest payments on their mortgage, auto loan, and credit cards if they maintain a high credit rating relative to what they would pay with a lower, subprime or near prime credit rating.[10]

Since a consumer's credit standing results from their behavior, it is clear how important it is for consumers to understand the basics of credit scores, credit reports, and, importantly, how their behavior impacts them. Even a blemish that a consumer believes to be minor can stay with them for many years.

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[7] This CDIA estimate come from CFPB. "Fact Sheet: Credit Reporting Market." 2012. Available at: http://files.consumerfinance.gov/f/201207_cfpb_factsheet_credit-reporting-market.pdf

[8] A 9.9 billion TowerGroup estimate is found in CFPB, "The impact of differences between consumer- and creditor-purchased credit scores", July 19th, 2011. Available at: http://files.consumerfinance.gov/f/2011/07/Report_20110719_CreditScores.pdf), and Stuart Pratt of the CDIA noted that "CDIA member products are used in more than nine billion transactions each year" in his September 10th, 2014 Statements for Subcommittee on Financial Institutions and Consumer Credit (United States House of Representatives) on "An Overview of the Credit Reporting System." Available at: http://financialservices.house.gov/uploadedfiles/hhrg-113-ba15-wstate-spratt-20140910.pdf. In 2011, FICO noted that "About 10 billion FICO® Scores are purchased in the U.S. alone each year," in a FICO Score Fact Sheet (http://www.fico.com/en/node/8140?file=5283). And a 2015 Yahoo Finance article noted that while FICO produced 10 billion scores, VantageScore produced 6 billion (see http://finance.yahoo.com/news/vantagescore-vs-fico-score-difference-150323240.html). As such, we are estimating more than 10 billion credit are sold in the US annually.

[9] Michael Staten, "Risk-Based Pricing in Consumer Lending", Center for Capital Markets Competitiveness, U.S. Chamber of Commerce, 2014, pp 8-14.

[10] It can also be the case that those with higher credit scores may lower required down payments freeing up their personal capital reserves to pay off existing debt or providing them with financial freedom to purchase other goods and services. These consumers are also much more likely to have larger credit lines, which again provides them with greater financial flexibility.

Congress has recognized the importance of improving consumer credit report and score literacy. In 2003, Congress passed the Fair and Accurate Transactions Act ("FACT Act"). Among other things, the FACT Act granted consumers access to one free credit report (often referred to as a "disclosure") each year from each of the nationwide consumer credit bureaus (Equifax, Experian, and TransUnion).[11] This enables consumers to regularly check their credit reports to ensure the contents are accurate and up to date. The Fair Credit Reporting Act (FCRA) also requires lenders to send adverse action notices, whereby if the consumer is denied a loan based on information from a consumer report, for example, the consumer must be notified and provided free access to their credit disclosure.[12] And following requirements by the Dodd–Frank Wall Street Reform and Consumer Protection Act, the Risk-Based Pricing Rule has required a "risk-based pricing" notice or a Credit Score Disclosure notice be sent to consumers.[13] In 2011, the disclosure of the credit score used (and related other related information) was added to the requirements of adverse action notices.

"I am certain that if I follow these recommendations I will continue to benefit from a positive credit history."

--Greg, early 50's, married, consultant on senior issues, resides in GA

The CFPB also recognized how important it is for consumers to learn about their credit standing and their credit scores. In a February 10, 2014 letter to CEOs of credit card issuers, the Director of the CFPB asked them to freely provide credit scores to customers, stating, "I strongly encourage you to make the credit scores on which you rely available to your customers regularly and freely, along with educational content to help them make use of this information."[14] The Director also noted, "As public awareness grows and spreads, people also will likely want to learn more about how to improve their credit scores and build their credit profiles in ways that will make them better managers of their financial affairs and more attractive candidates for credit." Last year, the CFPB estimated that due in part to its credit score initiative "that more than 50 million consumers now have free and regular access to their credit scores through their monthly credit card statements or online." However, there is both a significant need and a growing demand for credit score and report education.

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[11] Public Law 108-159, 108th Congress, retrieved 2009-02-02.
[12] https://www.consumer.ftc.gov/sites/default/files/articles/pdf/pdf-0111-fair-credit-reporting-act.pdf
[13] See https://www.ftc.gov/news-events/press-releases/2011/07/ftc-federal-reserve-board-issue-final-changes-risk-based-pricing and https://www.ftc.gov/news-events/press-releases/2009/12/agencies-issue-final-rules-risk-based-pricing-notices
[14] CFPB. Letter to CEOs. Available at: http://files.consumerfinance.gov/f/201402_cfpb_letters_credit-scores.pdf

Credit Reports and Scores Not Well Understood

Evidence suggests that there does not appear to be a particularly high level of consumer credit report and credit score literacy.[15] For instance, a December 2014 survey conducted by Ipsos found that 44% of respondents incorrectly thought that credit reports and credit scores were just different names for the same thing, with even greater misunderstanding for lower income households (49%) and for younger respondents (52%).[16]

PERC / University of Arizona 2015 Report and other research

In a 2015 joint report by PERC and the University of Arizona, data collected and provided by Experian was critically analyzed to infer possible impacts of CROA on the uptake of a personalized credit education service—Credit Advisor—that was marketed at different price points ($20, $10, and free). While the Experian data is primarily gathered for purposes of market research—to test price elasticity of demand, to test different Web graphic user interfaces and to test different marketing campaigns across various channels—the results do yield valuable insights into the relationship between CROA compliance requirements and consumer use of the Credit Advisor product. Further, the Experian data are also useful to measure impacts of Credit Advisor on a person's credit standing and consumer perspectives on their experience with Credit Advisor—both those who completed a session and those who dropped off before completing a credit education session.

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[15] The following surveys are not (typically) meant to be comparable. Questions are worded differently. They had different sample sizes and compositions and used different sampling methodologies and techniques. In addition, the credit reporting industry and governing laws have been changing. So, one should view these as only painting a broad picture of changes in consumer credit reporting awareness and literacy over time. For example: a 1978 survey found that of a sample of bank card customers only 37% correctly identified a credit bureau's function (http://www.researchgate.net/profile/William_Dunkelberg/publication/237229639_CONSUMER_PERCEPTIONS_OF_CREDIT_BUREAUS/links/53dffbd40cf2a768e49e2fdd.pdf); a Consumer Federation of America (CFA) survey conducted by ORC in 2003 found in a self-assessment of knowledge that 50% said that their knowledge of credit reports was either fair or poor and that 61% self-assessed that their knowledge of credit scores was either fair or poor (http://www.icfe.info/financial-news-press-releases/2003/20030731-consumers-lack-essential-knowledge.html); a 2005 GAO report found that "…many consumers did not know more detailed information, such as how long items remained on their credit reports or the impact their credit history could have on insurance rates and potential employment. Further, most consumers knew what a credit score was, and approximately one-third had obtained their credit scores, but many did not know that some behaviors—such as using all their available credit—could negatively affect their scores." It also found that "having less education, lower incomes, and less experience obtaining credit" was associated with less credit reporting literacy (http://www.gao.gov/new.items/d05223.pdf); the NFCC conducted financial literacy surveys from 2008 to 2014. The 2014 showed that 40% of respondents noted that they had ordered or received a credit score in the past year, but there was no obvious increasing or decreasing trend for the years 2011-2014. It also showed a number of widely held misconceptions regarding credit reports, such as the majority (54%) believe that standard credit reports contain credit scores (http://www.nfcc.org/NewsRoom/FinancialLiteracy/files2013/NFCC_2014FinancialLiteracySurvey_datasheet_and_key_findings_031314%20FINAL.pdf); and a December 2014 IPSOS Survey notes that 44% of respondents thought that credit reports and credit scores were just different names for the same thing, with higher rates for lower income households (49%) and for younger respondents (52%) (http://ipsos-na.com/news-polls/pressrelease.aspx?id=6724).

[16] Ipsos. "While Most Know that Everyone Is Given Access to a Free Credit Report Each Year, Four in Ten Have not Checked It in the Past 12 Months," Press Release. January 13, 2015. Available at: http://ipsos-na.com/news-polls/pressrelease.aspx?id=6724

The primary findings from the 2015 PERC / University of Arizona joint study include:

- 94% of those who contacted Experian in response to a Credit Advisor advertisement dropped off before completing a session, even with the service offered at no cost;
- 46% of those who dropped off reported that if the service were available when they called, they would have used it;
- Those who successfully completed Experian's Credit Advisor experience positive material impacts (moving to a better risk tier) at nearly twice the rate of those receiving educational materials only (22% vs. 13% for the VantageScore credit score, and 26% vs. 13% for the PLUS Score).

Since the 2015 PERC / University of Arizona report was published, the Urban Institute released a study commissioned by the CFPB that found among two financial education and coaching programs examined, that receiving such personalized education was associated with higher credit scores following the education.[17] In one of the two programs participants experienced a statistically significant increase in credit scores ranging between 21 and 33 points, depending upon how score differences were measured. The magnitude of higher credit scores following the education for the two programs, combined, ranged between 12 and 22 points.

These studies demonstrate that financial education and/or more focused and personalized credit score and report education can result in meaningful credit score impacts.

New Research

In addition, following the 2015 PERC / University of Arizona report, PERC began a new examination of the impacts of and barriers to personalized CRA credit education services. This builds on the earlier 2015 report but uses samples drawn by PERC, independent of the CRA (Experian) performing the credit education service examined. This, we believe, is crucial to determining how robust the earlier findings from the 2015 report truly are. First, the 2015 report was based on data from in-house product and marketing evaluations. Since this data was from "live" and "real market" experiences they may be very good at determining consumer sentiment regarding CROA barriers, such as the 3-business day waiting period, in the real world. But, they may be less ideal for determining how the typical consumer, or different segments of consumers, might evaluate the credit education service and be impacted by it. This is because only a small share of consumers who went to Experian's site actually completed the credit education service, even when it was free (in part due to CROA barriers). So, it is possible that only those seeking out such services, who were the most motivated, and willing to make it to the credit education service would find it useful and see credit score benefits. Or, there could have been some other unknown peculiarity in that sample of consumers that drove those results.

This new research, aims to gauge score impacts and consumer sentiment from samples of consumers seeking assistance from community development organizations (CDOs), an online consumer panel, and a panel of small business owners.

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[17] Brett Theodos, et al. "An Evaluation of the Impacts and Implementation Approaches of Financial Coaching Programs." Urban Institute. October 2015. http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000448-An-Evaluation-of-the-Impacts-and-Implementation-Approaches-of-Financial-Coaching-Programs.pdf

Credit Fitness

Malcolm is a 30-year old single working father with two little girls who resides in Marietta, GA. He is a personal fitness trainer. Malcolm brings an energy and enthusiasm to all that he does.

“When I was younger, I read all the financial books I could get my hands on. I understood the details about credit. But then life happened, and before I knew it I was drowning in debt. Eventually, I threw in the towel and gave up on paying my creditors.”

Malcolm completed a personalized credit session with a national credit bureau. The counselor worked with Malcolm to organize a credit fitness plan.

“The conversation was just what I needed. Although I was familiar with some of the information, I wasn't utilizing what I knew because I felt overwhelmed. I'm delighted to report that I am now getting my credit back into shape and I couldn't be happier.”

He did encounter some challenges in scheduling the appointment due to his job. It would have been much easier if he could have accessed a credit educator when he made his initial call. To accommodate the mandatory wait before his credit education session, he had to reschedule client appointments.

2. Methodology and Results

Methodology

Recruiting Consumers and Small Business Owners

To assess whether or not personalized credit education impacts people who use it, and their attitudes regarding the education, it was necessary to recruit a large sample of consumers. Given the ask of participants—registering for a session with a credit educator, completing an hour-long session, completing a follow on survey—recruiting a sufficiently large number of people to conduct meaningful analysis presented a considerable challenge.[18]

Further complicating matters was the desire to assess impacts on different subpopulations—people who are most likely to need and use personalized credit education, and small business owners who are pressed for time under the best of circumstances. Evidence of the magnitude of the challenge recruitment presented was noted during initial tests of a "cold call" approach, whereby PERC sent an email communication to 2,000 small business owners seeking their participation in exchange for a free credit report and score, plus a free session with a credit educator, yielded precisely zero participants. On that basis, PERC abandoned plans to send the same communication to a further 18,000 small business owners from a list it had purchased.

Given early returns, PERC realized that people are most likely to respond to requests from parties whom they already know and trust. Consequently, in order to recruit participants from among the population who both need and are therefore likely to want to use a personalized credit education service, PERC reached out to a number of respected community development organizations (CDOs) offering programs relevant to credit report and score education—programs such as credit counseling, financial stability, first time home buyers, and financial literacy.

The CDOs participating in this study include United Way of Greater Atlanta, Operation HOPE (over 15 locations), Urban League (Chicago), and Trident United Way (Charleston, SC area). Consumers were also recruited from a consumer panel by Branded Research and small business owners were recruited from a panel maintained by Lightspeed GMI. While we recognize the limitations associated with reliance on panel surveys and participants, we note that the incentives offered participants beyond the free credit report and score, and free credit education session, were standard and should not have biased uptake relative to other panel surveys. Further, use of a consumer and a small business panel allowed for PERC to compare the results from participants recruited by CDOs to participants from panels.

[18] For a discussion on the difficulties associated with recruiting participants for research on credit reports and credit scores, see: Report to Congress Under Section 319 of the Fair and Accurate Credit Transactions Act of 2003. Washington, DC. December 2012. Federal Trade Commission. The authors of this report to Congress note: "In line with the experience of the FTC pilot studies and the PERC study, the response rate is relatively low (approximately 3.9%). In reviewing credit reports, this study addresses matters that many consumers consider private and personal, possibly causing a reluctance to participate." Pg. 15..

Participants were recruited to complete a personalized credit education session with a nationwide CRA, specifically the Experian Credit Educator service. This personalized credit education session offers an in-depth, one-on-one phone call with an agent at Experian. During the session, consumers receive a copy of their Experian credit report and credit score, and a personalized, step-by-step walk-through of the report, as well as specific examples of legitimate actions that may improve their credit score and insights for future credit management decisions. All participants were invited to complete a follow on survey about their experience with the personalized credit education session and registration, regardless of whether they actually completed a session.

Measuring Credit Score Impacts

Essential to assessing the impact of personalized credit education is to establish whether or not completing a session has any discernable impact on a person's ability to access credit, as well as the terms and credit limits. Ideally, PERC would have been able to recruit a large sample of people in need of personalized credit education and who were going to apply for some type of credit in the near-term (during the initial period of the research project). Some would have been randomly selected for personalized credit education, while others would have been provided generic educational materials. Then results from their loan applications would have been captured—who was rejected and why? Who was accepted and what terms did they received? How do the two samples compare overall and by important subpopulations? Are there any differences and why?

While recruiting a sample of people who were in the process of applying for some form of credit was beyond the scope of this project—and would add another qualification that would substantially constrain participant recruitment efforts while dramatically increasing the research budget—we can extrapolate credit market impacts by focusing on individual credit score impacts. Most importantly, an analysis of the material impact (moving into a different credit risk score tier as a result of a score change during some period after the session was completed, controlling for routine movements in credit scores) from completing a personalized credit education session.[19] In addition to gauging the materiality of completing a personalized credit education session, we also examined the impact on average participant score and the score distribution. Where possible, results are compared with earlier studies as well.

While 713 participants completed credit education sessions, 667 completed them by April 2016 allowing the credit score change data to be included in the 3-month observation period results. A subset of these, 161, had sessions completed by November 2015, enabling 9-month score change results to be captured. As seen in the following table, this 9-month score change group was entirely made up of CDO-recruited participants.

[19] For examples of such challenges in recruiting samples, see: see: Report to Congress Under Section 319 of the Fair and Accurate Credit Transactions Act of 2003. Washington, DC. December 2012. Federal Trade Commission; See also Turner, Michael A., Robin Varghese and Patrick Walker. U.S. Consumer Credit Reports: Measuring Accuracy and Dispute Impacts. Durham, NC. PERC Press. May, 2011.

Completed CE Sessions	**713**
CDOs	447
Panels	266
Completed CE Sessions by April 2016 (3-month observation period sample)	**667**
CDOs	426
Panels	241
Completed CE Sessions by November 2015 (9-month observation period sample)	**161**
CDOs	161
Panels	0

Measuring Participant Attitudes

Assessing impacts on a participant's credit score—material and otherwise—provides only a partial picture of the potential value to an individual from completing a personalized credit education session. Some participants may have a more near-term focus, and their objective to take whatever specific steps available to them to increase their score within a short period of time to secure a desired credit outcome with no further impacts. Other participants may learn things about how their behavior impacts the contents of their credit report, and by extension their credit score, affecting the way they behave for the rest of their lives. In other words, it is not sufficient to rely only on near-term credit score impacts to measure the full range of potential impacts on an individual from completing a personalized credit education session with a national consumer reporting agency.

To gain insights into the full potential utility of personalized credit education, PERC, our CDO partners, and the market research firms we retained disseminated an online survey. PERC designed the survey with some very specific questions in mind—Did you learn anything new about your credit report and score? Did you apply what you learned? Was the session helpful in answering your questions? Do you plan to continue using this knowledge moving forward?—but PERC also wanted to give participants an opportunity to register thoughts about their experience in their own voice. As such, a number of open questions were included in the survey instrument as well.

PERC did make an effort to have those persons who were recruited to participate (e.g. they were identified by a CDO, given a promotion code and the contact information) but who did not register or did not complete a session after having registered. The intent with this group was to assess whether and to what extent the CROA compliance requirements—notably the legal disclaimer and the mandatory 3-business day wait before receiving the service—deterred uptake and use of the free personalized credit education service despite the established need and desire for it exhibited/expressed by the recruited participant. As one would expect, very few of the persons recruited for the study who either did not register or did not complete the session bothered to complete the follow on session. Consequently, a statistically meaningful sample was not generated.

It is important to note data limitations here. Those completing the education session and follow on survey are a non-random sample of highly motivated persons recruited by trusted third-parties with whom they had a prior business relationship. The very fact that they completed the personalized credit education session by definition means that they did not find the compliance barriers too onerous to complete a session. We cannot say the same for those who did not complete the session as we simply don't have the data to make a definitive statement.

On other topics—such as the perceived value of the session, what was learned, whether behavior and decisionmaking were affected—responses provided are useful and offer great insights.

As is seen in the following table, 192 participants completed the follow up attitude survey after completing the credit education session.

Completed Survey After CE Session	**192**
CDOs	70
Panels	122
Consumer	*72*
Small Business	*50*

Credit Report / Score Education Session: The Credit Educator Case

In this subsection, we will examine Experian's Credit Educator as an example of a nationwide CRA credit report and score education service. The service retails for $39.95 per education session. Consumers begin by signing up online or calling to schedule a single credit report coaching/education session. During this initial call, the Experian representative verifies the consumer's identity, describes the service that will be provided and specifies the credit score that will be used. In this call, a number of consents also need to be agreed to online and many caveats are presented to the consumer (e.g., no outcomes are guaranteed; there are other credit scores in the market; consumers can obtain free credit report disclosures). In all, this initial session registration call can last over 20 minutes.

The session, however, cannot begin then but must be scheduled at least three business days following the initial session (given CROA and state restrictions) and payment for the service cannot be collected until after the education session has occurred. The credit education call itself lasts roughly 45 minutes. The consumer goes over their entire Experian credit report online and in real time while discussing it with an Experian credit specialist. The credit specialist goes through the online report tab by tab with the consumer. First covered are any negative items. The credit specialist discuss with the consumer how long different types of negative items can stay on a credit report and how open and closed account information in good standing stay on the reports. The dispute process is mentioned including the fact that items thought to be inaccurate can be disputed at no cost and that the online report offers easy online disputes. It is also possible and simple to dispute online during this education session. The credit specialist discusses the consumer's hard and soft inquiries, explains the difference, and why it is important to only apply for credit when you need it. The specialist then goes over the rest of the report, such as the remaining accounts, personal (header) information, and public records. Importantly, this is done in a very interactive and engaging way to ensure that the consumer understands the information that is being presented to them. This is the bulk of the credit report educational service. Next, the consumer's VantageScore credit score is discussed.

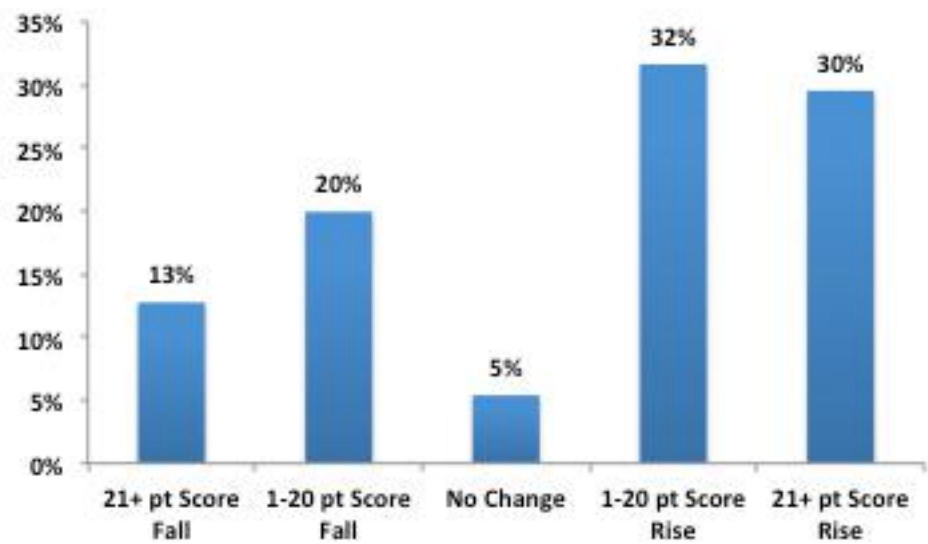
The value of the consumer's credit score is discussed in the context of the average national, state, and local score and the credit score model itself is discussed with the usual caveats, such as the score is one of many and may not be used by any particular lender. The general risk classification of the consumer's score is discussed. The session then moves to the key factors that are lowering the consumer's score. These are presented in relation to the consumer's actual credit report details. Then conversation moves to how the consumer could go about improving their score. Again, this is with specifics, such as which balances would it be best to pay down first, and by how much. Credit score simulations are created to show the consumer if they had an extra $X (this amount is chosen by the consumer) then which specific accounts would it make sense to pay down to maximally raise the consumer's credit score. So, $Y should go to this account and $Z to that account. The importance of paying on time, settling collections, asking a credit card issuer for a higher credit limit, would also be discussed if pertinent.

In short, the session is a very comprehensive overview of a consumer's credit report and what specific steps the consumer can take to raise their credit standing. All of this represents the credit score educational component of Experian's Credit Educator one-to-one session. Taken together with the credit report component, upon successful completion of the session a person should understand how to read their report, how to dispute perceived inaccuracies, and how their behavior can improve their credit score.

Consumer and Small Business Owner Credit Score Change Results

Among the participants who took the credit education sessions as part of this research, 161 participants completed their sessions prior to November 2015 and had nine months of history since their sessions. The average VantageScore 3.0 credit score change nine months following the credit education session for this group was a score increase of 20 points (This average score increase is in line with the two program average score increase of between 12 and 22 points seen in the previously discussed CFPB commissioned Urban Institute study.[20]) For the 667 participants who completed the sessions by April 2016 and had at least three months of a post-education observation period, the average credit score change was an increase of 10 points. These score changes contrast to the little to no change in the average credit scores expected in the overall population. For instance, in a 3 to 6 month period, a control sample from Experian showed only a 1-point score increase. And in the 2015 PERC/ University of Arizona report, the control sample saw little systematic change in the distribution of credit scores over a four-month period.

Figure 1a: Three-Month VantageScore 3.0 Change following Credit Education Session

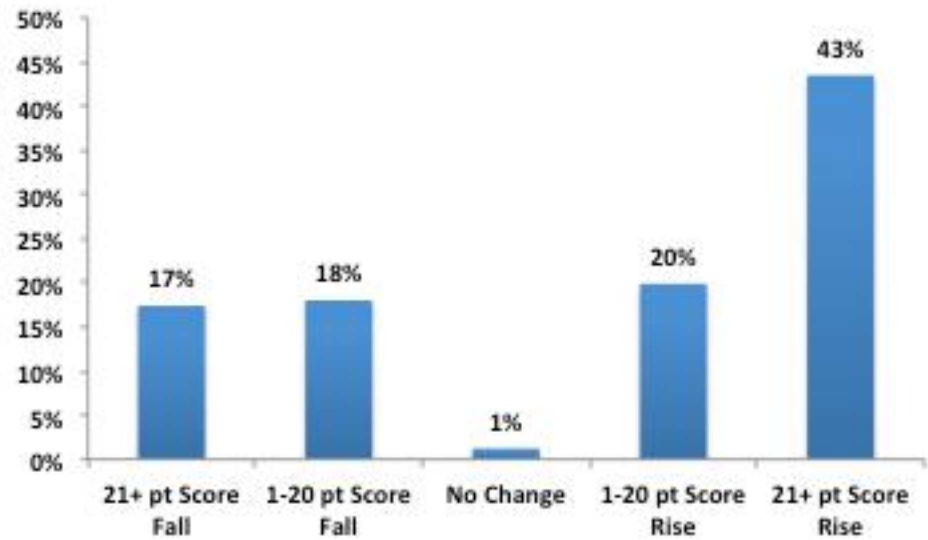


As can be seen above, nearly twice as many consumers saw a credit score rise following the credit education session than those that saw credit score declines. These results are broadly consistent with the 2015 PERC/ University of Arizona results, though the newer findings shown above are stronger (showing a greater share of credit score rises) than the earlier PERC/ University of Arizona results. While the 2015 report found 55% of consumers had credit score rises with Experian's PLUS credit score four months after the credit education session, the new results find that 63% see a credit score rise using the VantageScore 3.0 three months after the credit education session. Again, it should be noted, that this study and that study recruited

[20] Brett Theodos, et al. "An Evaluation of the Impacts and Implementation Approaches of Financial Coaching Programs." Urban Institute. October 2015. http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000448-An-Evaluation-of-the-Impacts-and-Implementation-Approaches-of-Financial-Coaching-Programs.pdf

participants in very different ways and, thus, the underlying samples were likely different in important ways.

Figure 1b: Nine-Month VantageScore 3.0 Change following Credit Education Session



As discussed in the prior PERC / University of Arizona publication, the actual, material, impacts for consumers from changes in their credit scores will most likely result from changes to their credit score bands. This is the case since offers and terms of credit are often related to credit score bands (such as Prime, Near Prime, or Sub Prime) and not particular credit scores. As such, it is changes in score bands that are a better proxy of meaningful credit score changes. For example, a person who is deep subprime or already super-prime might be completely unaffected by a 25 or even 50 point score change, while a person who is near a cutoff point between score tiers could be materially affected by a 1 point score change, such as from a 619 to a 620 on a scorecard that defines subprime as below 620 points.

Given that there is no universal set of credit score bands, we use the following example for purposes of this analysis.[21]

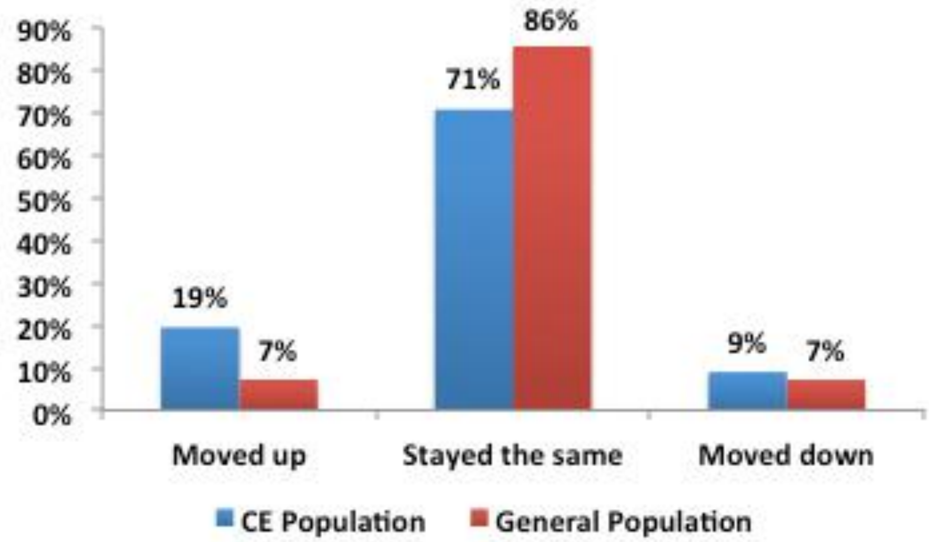
Table1: Score Band Example for VantageScore 3.0

VantageScore 3.0	Risk Level	What this May Mean
661-850	Prime and better	Lenders will likely offer good/best interest rates
601-660	Near Prime	Lenders will likely offer average interest rates
500-600	Subprime	Lenders who extend credit will likely charge higher interest rates
300-499	Deep Subprime	Lenders are unlikely to extend new credit

[21] This was provided by a CRA as representing an example of typical cutoffs for the VantageScore 3.

Using these score bands, the following bar chart illustrates the share of consumers who moved up and moved down score bands for the group of consumers who completed a personalized credit education session and a random sample of consumers.

Figure 3a: VantageScore 3.0 Risk Tier/Band Change over Three Months for CE Group and a Random Sample of the General Population



For the Credit Educator group, over twice as many consumers (19%) improved and moved up one or more score bands compared to the number who moved down one or more score bands (9%) within the three months following the personalized credit education session. That is, among study participants, there was a 10% net rise in score tires. For the control group, there is no systematic or net change in the distribution, with the same share moving up as moved down (7%). These results are very similar (within the margin of error) to the prior PERC / University of Arizona results which found 22% of consumers witnessing VantageScore credit score band rises and 10% seeing declines.

Figure 3b: VantageScore 3.0 Risk Tier/Band Change over Three Months for CE Panels, CE CDOs, and a Random Sample of the General Population

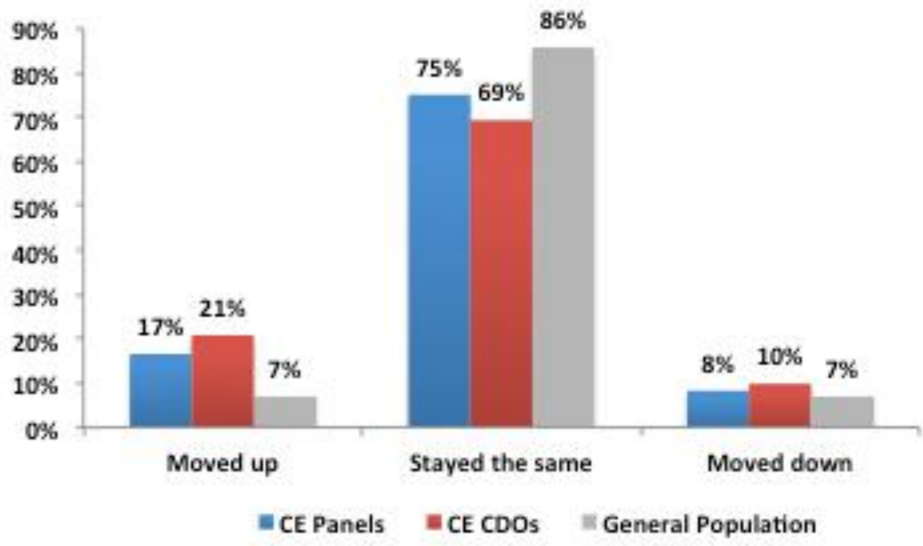


Figure 3b shows that whether participants were recruited via panel (consumer or small business) or by CDOs, the pattern of greater credit score tier increases than decreases persists. This is important since it could be argued that it was not the personalized credit education but instead other efforts by CDOs that were driving the results. We do not see evidence for this conclusion. While data on types of panel participants and types of CDOs exist, it in not possible to break down score change results meaningfully due to sample sizes involved.

Figure 3c: VantageScore 3.0 Risk Tier/Band Change over Nine Months for the CE Group and a Random Sample of the General Population

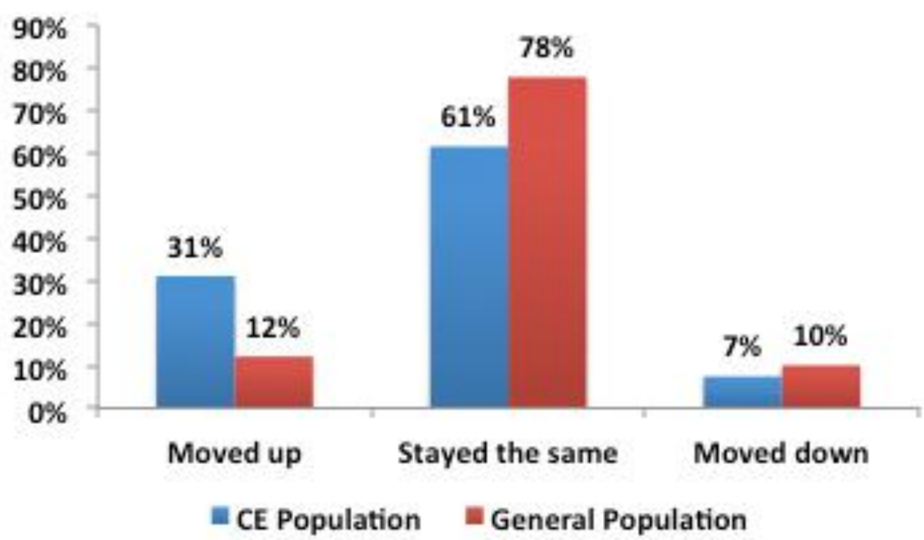


Figure 3c shows the score tier change over a longer period of time, nine months. It is also important to note that since the sample available for the nine month observations was made up of the CDO sample it is better to view the CE population in figure 3c as similar to the CE CDO population of figure 3b.

It is also important to note that the sample of the more typical consumers (General Population) had an average beginning credit score of 734, while the Credit Educator study sample had a beginning average credit score of 617. So, if we consider the possibility that there would be a natural "regression to the mean," it may be that we should expect to see more score rises and tier improvements in the study sample, in which three-quarters started off with a deep subprime, subprime or near prime credit score. Indeed, those in the deep subprime category have nowhere to go but up. Focusing on these categories individually, we find the following.

Figure 4a: VantageScore 3.0 Risk Band Rises by Risk Band over Three Months for the CE Group and a Random Sample of the General Population

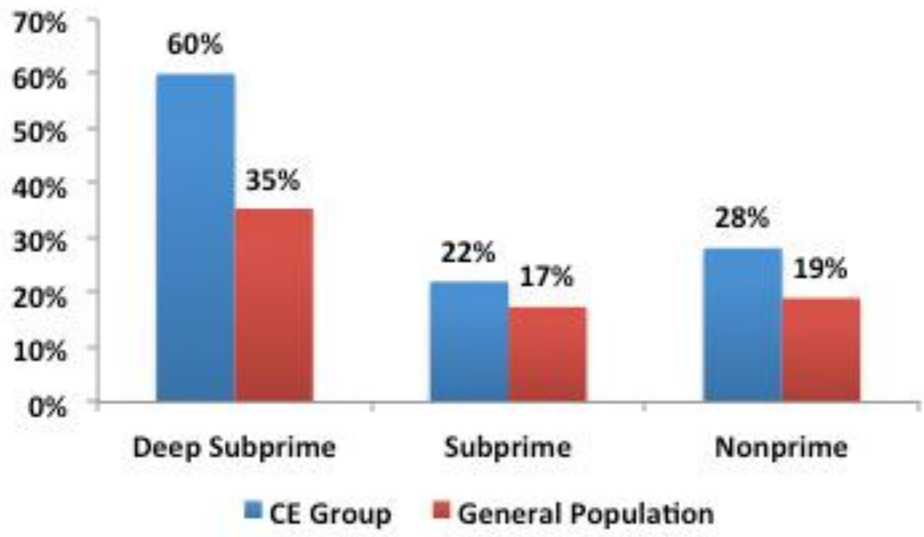


Figure 4b: VantageScore 3.0 Risk Band Rises by Risk Band over Three Months for the CE Panel, CE CDO, and a Random Sample of the General Population

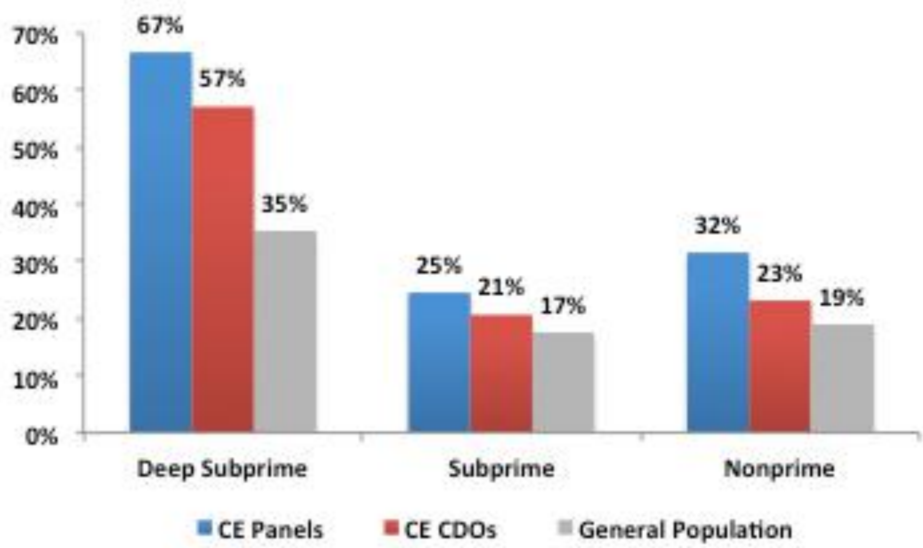
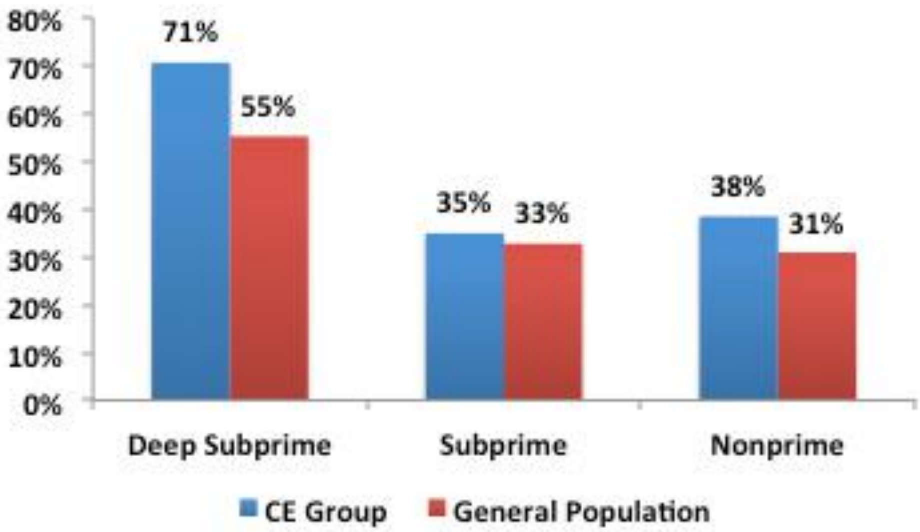


Figure 4b shows, as before, that whether participants were recruited from panels (consumer or small business) or from CDOs, participants who had credit education sessions were more likely to see tier rises (controlling for score tiers). This demonstrates that there is not evidence that score change results were due to other education efforts by CDOs (other than the CRA personalized credit education). In fact, 4b shows stronger impacts among the panel participants.

Figure 4c: VantageScore 3.0 Risk Band Rises by Risk Band over Nine Months for the CE Group and a Random Sample of the General Population



Figures 4a and 4c show that controlling for risk bands, CE Group consumers in the Deep Subprime, Subprime, and Nonprime risk bands are more likely to witness score band increases than are consumers in the general population. Of particular note is the fact that the very group most in need of personalized credit education—those with credit scores placing them within the deep subprime risk band—show the greatest relative score band rises. In most cases, for those migrating from deep subprime to subprime, this will mean the difference between accept and reject when applying for credit in addition to better terms. Thus, this level of score tier migration could move someone away from a relationship with a payday lender or pawnshop and into a relationship with a credit card issuer that makes offers to consumers with subprime credit scores, such as Capital One or FS Card. It would also mean that the borrower begins building a credit history with such a credit card, and would thicken their credit file and increase their chances of further score tier migration.

In summary, the credit score change results are consistent with a positive relationship between completing a personalized credit education session and an improved credit score. Further, these results provide collaborating evidence that the 2015 PERC/ University of Arizona findings of positive credit score and credit tier changes associated with taking the credit education session were not an aberration.[22]

[22] Positive credit score changes following financial education were also found in Brett Theodos, et al. “An Evaluation of the Impacts and Implementation Approaches of Financial Coaching Programs.” Urban Institute.

The following table contains changes in a few requested characteristics of the credit reports of the CE population sample and the general population sample over a nine-month period (following the CE population's credit education sessions). The purpose of examining these specific characteristics is to show some evidence that study participants acted upon their new knowledge following a personalized credit education session. In other words, this suggests a link between completing a session and changes in an individual's (or group's) credit score(s).

Table 2: Selective Credit Report Characteristic Changes over Nine Months Following CE Sessions for the CE and General Populations

	CE Population	**General Population**
Percent Change in total number of open revolving trades reported in the last 6 months	20%	-1%
Percent Change in total number of trades ever 30 or more days delinquent or derogatory in the last 6 months including external collections	-33%	-2%
Percentage Change of trades excluding external collections that are never delinquent or derogatory in the last 12 months	16%	0%
Percent Change in Overall balance to credit amount ratio on open trades with credit amount > $0	-4%	-1%

Dissecting whether participants took specific, individualized advice or the determining the exact drivers of overall credit score changes was deemed beyond the scope of this research. We did, however, request the data summarized in Table 2 to see if there was any evidence to suggest that CE participants may have acted upon the advice they received, such as not closing certain accounts or opening new accounts if advantageous, paying obligations on-time, disputing inaccurate (derogatory) information, and lowering credit balances.

While we cannot put too much weight on the results summarized above, they are consistent with what we would expect given the differences observed in credit score impacts between the sample of participants and the general population sample. For example, we would expect the credit education population to be advised to "thicken" their credit file by opening new revolving accounts—a measure that could also positively impact their utilization rate. Consequently, evidence that some portion of those completing a credit education session could be inferred from differences in the number of new revolving accounts opened between the analytic sample (those completing a personalized credit education session) and the control sample (the general population). That the personalized credit education participants showed a 20% increase in the number of revolving accounts, while there was little change in the general population, supports the position that personalized credit education impacts individual behavior.

It is reasonable that a portion of the study participants would have been advised to pay down their existing debt and avoid being late on any payments. Again, where the general population showed little change in the total number of delinquent or derogatory trades (accounts), this declined 33% for the credit education group. Conversely, the total number of trades (accounts)

October 2015. http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000448-An-Evaluation-of-the-Impacts-and-Implementation-Approaches-of-Financial-Coaching-Programs.pdf never delinquent increased in the credit education group but did not in the general population sample. Finally, the overall balance to credit ratio declined one percent for the general sample and declined slightly more (four percent) for the credit education sample. All of this suggests that study participants acted upon the knowledge gained from completing a personalized credit education session.

The following subsection summarizes results from the participant survey about personalized credit education.

Survey

A few more words about the participants are in order here. PERC as an institution has as its core mission the promotion of financial inclusion through the use of information solutions. In this regard, PERC's constituents are the 54 million Americans, and the estimated 4 billion persons worldwide, who either don't have a credit report (no file), or who have insufficient data contained in their credit report to generate a credit score (thin file). This population of "Credit Invisibles" find themselves excluded from mainstream credit, and have their lives and life chances constrained as a result. Given this, we wanted to include in this analysis a sample that included a fair number of Credit Invisibles.

Because qualifying participants based upon representations from prospective participants about whether or not they had a credit report, and the thickness (how many accounts were contained in their credit report) would have proven to be a fatal constraint, in order to maximize the probability that Credit Invisibles would be included, and possibly over-represented, we focused our many of our efforts on recruiting from groups of people who are known to be counted among the Credit Invisible.

A number of organizations, including PERC, have conducted studies of the financially excluded in the United States.[23] What is known about this population is that they are overwhelmingly lower income, members of minority communities, younger and elderly, and immigrants. In that the US Census Bureau reported a median household income of $51,939 in 2014 (the most recent date for which data is available), our analytic sample is reflective of the general population in that regard. Regarding younger (18-25) and elderly (above 66), our sample underrepresents these key Credit Invisible populations (an estimated 14% of both categories are Credit Invisibles) but to the extent that 51% of our sample are members of minority communities our analytic sample over-represents these communities and should help ensure that a fair number of Credit Invisibles are included in our analysis.[24]

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[23] For instance, for a few examples see Kenneth P. Brevoort, Philipp Grimm, and Michelle Kambara. "Data Point: Credit Invisibles." CFPB. May 2015. Available at: http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf, Turner, et al. Research Consensus Confirms Benefits of Alternative Data. PERC. March 2015. http://www.perc.net/wp-content/uploads/2015/03/ResearchConsensus.pdf, and Rachel Schneider and Arjan Schütte The Predictive Value of Alternative Credit Scores. CFSI. November 1, 2007. http://www.cfsinnovation.com/Document-Library/The-Predictive-Value-of-Alternative-Credit-Scores

[24] For instance, a December 2014 survey conducted by Ipsos found that 44% of respondents incorrectly thought that credit reports and credit scores were just different names for the same thing, with even greater misunderstanding for lower income households (49%) and for younger respondents (52%). Data from a 2005 GAO report and various other surveys indicate that members of lower income households, less educated consumers, and younger (18-24) and

Survey Sample Characteristics

Characteristics of those 192 participants who completed the survey after CE session.

Channel of Recruitment:

CDOs:	*36%*
Panels:	*64%*

Annual Household Income Profile:*

$0-$24,999	*21%*
$25,000-$49,999	*30%*
$50,000-$74,999	*29%*
$75,000-$99,999	*7%*
$100,000+	*13%*

Age Profile:*

18 to 24	*3%*
25 to 34	*26%*
35 to 44	*24%*
45 to 54	*24%*
55 to 64	*18%*
65 to 74	*5%*
75 or older	*1%*

Race/Ethnicity Profile:

Asian / Pacific Islander	*3%*
Black or African American	*42%*
Hispanic American	*3%*
Multiple ethnicity / Other	*4%*
White / Caucasian	*49%*

Annual sales/revenue of small business?:*

$0-$99,999	*62%*
$100,00-$249,999	*18%*
$250,000-$499,999	*12%*
$500,000-$999,999	*2%*
$1,000,000+	*6%*

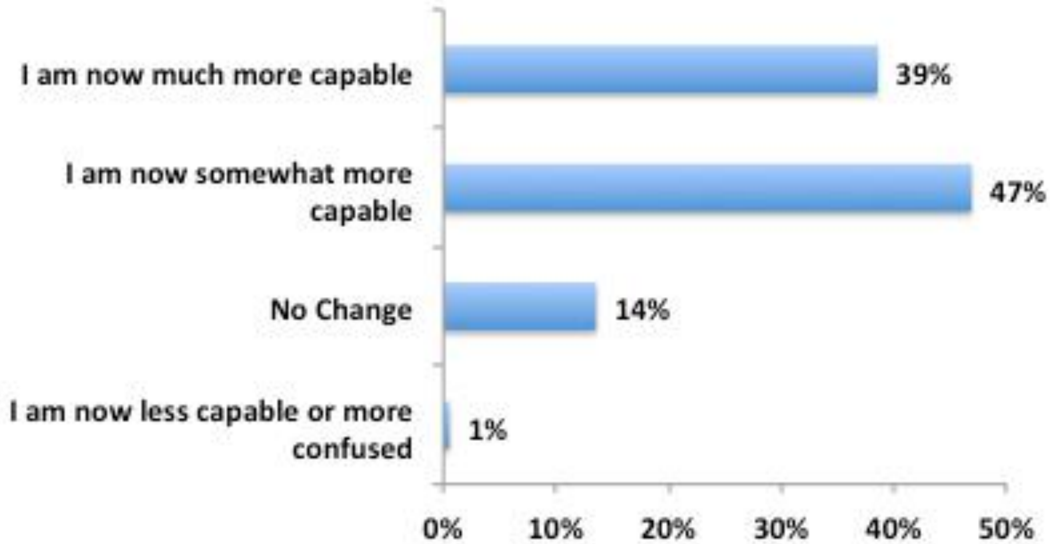
* Age profile and household income excludes the small business owner sample participants, as that data was not captured for small business owners. Annual sales/revenue figures only includes the small business panel participants.

Small Business Owner and Consumer Survey Results

Perhaps the most important question we could ask participants was whether they felt that completing a personalized credit education session was beneficial to them. In particular, we wanted to know whether, as a direct result of having completed a session, they anticipated that their behavior regarding their management of credit would be changed. Figure 5a below graphically depicts their responses.

older (65+) consumers are most in need of credit report and credit score education. Ipsos. "While Most Know that Everyone Is Given Access to a Free Credit Report Each Year, Four in Ten Have not Checked It in the Past 12 Months," Press Release. January 13, 2015. Available at: http://ipsosYna.com/newsY polls/pressrelease.aspx?id=6724

Figure 5a: (Q1) Following the credit education session, how would you say your credit management skills have changed?

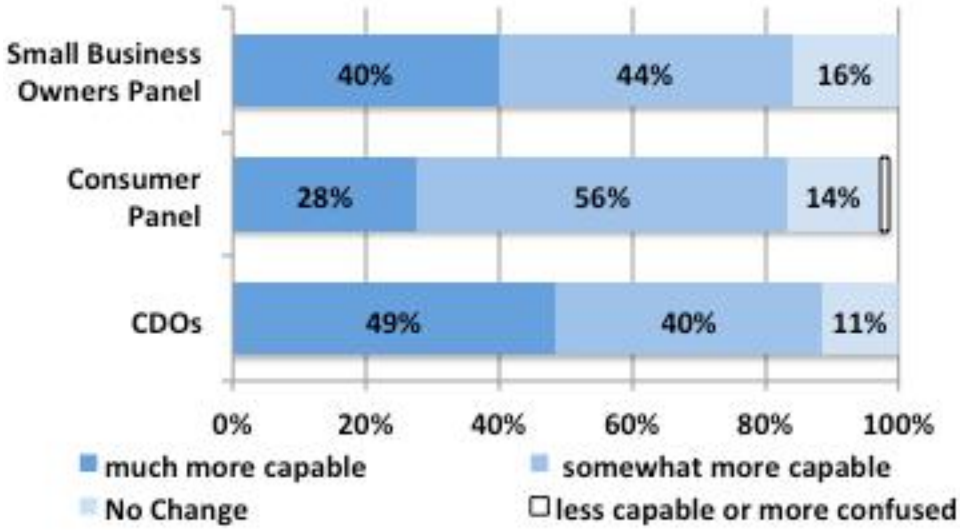


For the above question, 86% of those surveyed indicated that they were more capable in their credit management skills following the credit education session—with nearly 4 in 10 participants indicating they were "much more capable." These results are remarkably similar to the same question reported in the 2015 PERC/ University of Arizona report, in which 85% reported that they were more capable following the credit education session. This consistency in consumer sentiment, despite differences in both time period and the sample sources, speaks well to the overall robustness of these results.

One of the more significant contributions of this specific study relates to the use of some form of segmentation analysis. In particular, in constructing the analytic sample, different channels were used in order to engage target groups of participants including members of minority communities, lower income persons, small business owners, and Credit Invisible persons.[25] Figure 1b below highlights some key differences among the groups engaged in this report by recruitment channel.

[25] We also sought to supplement our findings with results from a parallel experiment undertaken by college students, but recruitment of participant made this difficult as is discussed later in this report.

Figure 5b: (Q1) Following the credit education session, how would you say your credit management skills have changed? (by source of participant)



When looking at the results across key stakeholder groups included within this study there is a remarkably high level of consistency regarding the change one's credit management skills. CDOs participants witnessed a slightly higher level of increased credit management skills (89%) compared to Small Business Owners and Consumer Panel participants (84%). The most striking difference among the groups recruited by different channels has to do with the percentage claiming to be "much more capable." Almost half of all those who were recruited by CDOs reported being "much more capable," while just over 1 in 4 of those recruited from a consumer panel responded similarly. Interestingly, 4 in 10 small business owners reported being "much more capable" suggesting a strong need for personalized credit education among MSMEs. This is somewhat surprising, as one would think small business owners are especially adept at credit management by virtue of owning a small business.

After being asked about whether what they learned made them feel more or less capable of managing their credit, participants were then asked whether what they learned during their personalized credit education session increased their understanding of the different variables that impact their credit score—things like credit utilization rate, age of oldest open account, and credit mix. In this case, 91% of participant respondents indicated that they had a better understanding of different variables that impact their credit score.

Figure 6: (Q2) Do you have a better understanding of what impacts credit scores?

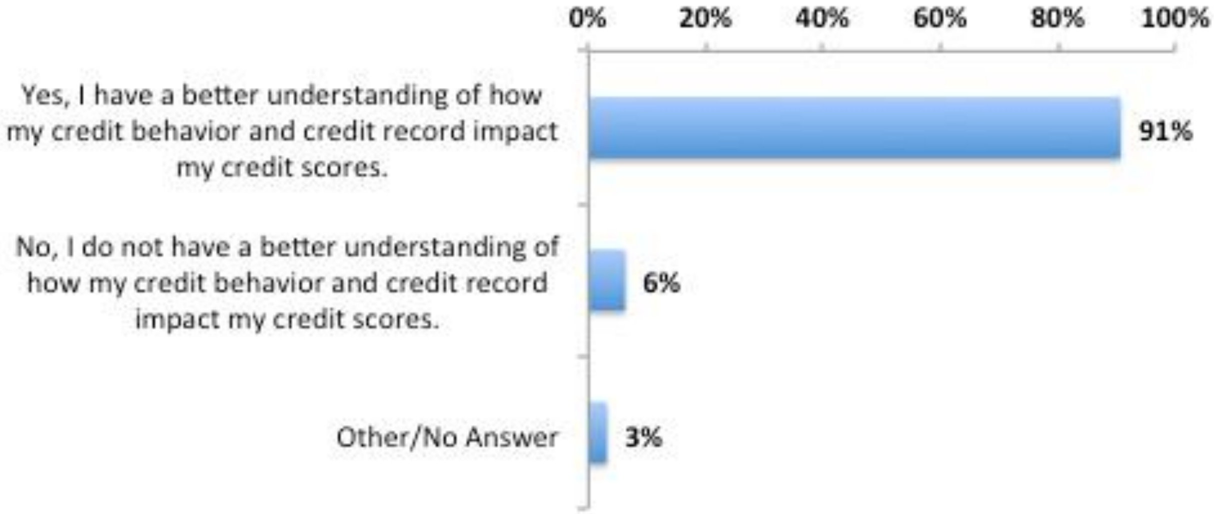
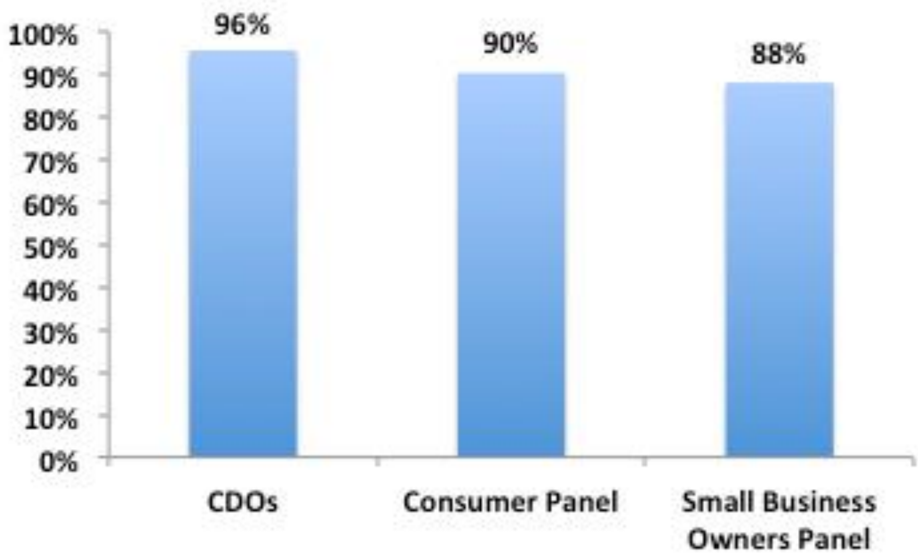


Figure 7 shows the breakdown of answering Yes to the previous question by participant group. Here we see that large majorities of all three groups answered yes, but there is a notable difference between the CDO group and the participants from the Small Business Panel.

Figure 7: Yes, I have a better understanding of how my credit behavior and credit record impact my credit scores (by source of participant)

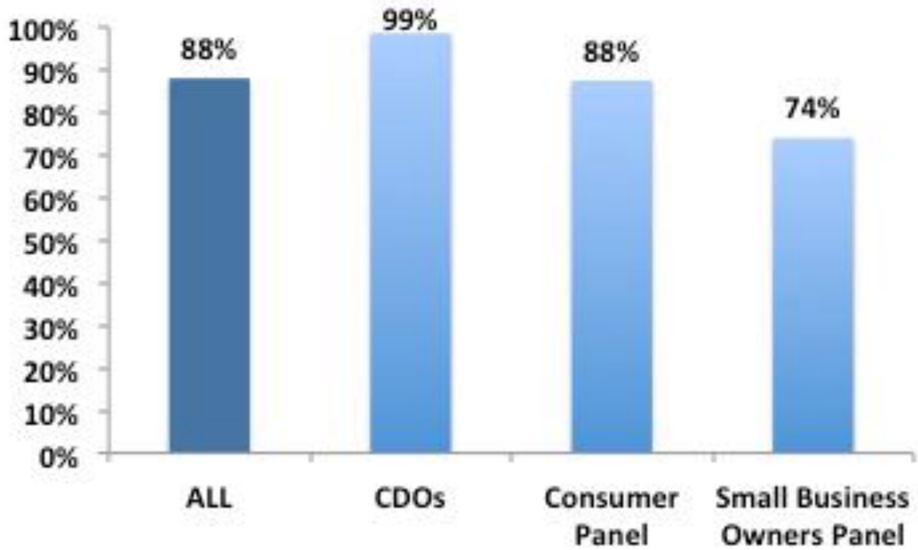


Related to the previous question was a follow on question about whether the personalized credit education session provided them with actionable intelligence—information they could apply to improve their own credit score. Each key stakeholder group experienced a significantly better understanding as to specific steps they could take to improve their credit scores. Interestingly, participants who were recruited by CDOs experienced the highest level of improved understanding (99%) compared to Consumer Panel (88%) and Small Business Owners (74%)

participants. The result from small business owners was much more in line with expectations given the critical role played by credit in most small businesses and micro-enterprises.

Consistent with the sample results from the 2015 PERC/ University of Arizona report, a large majority of consumers in the new sample appear to find the CRA credit education session useful, enabling a better understanding of their credit score and how they can influence it.

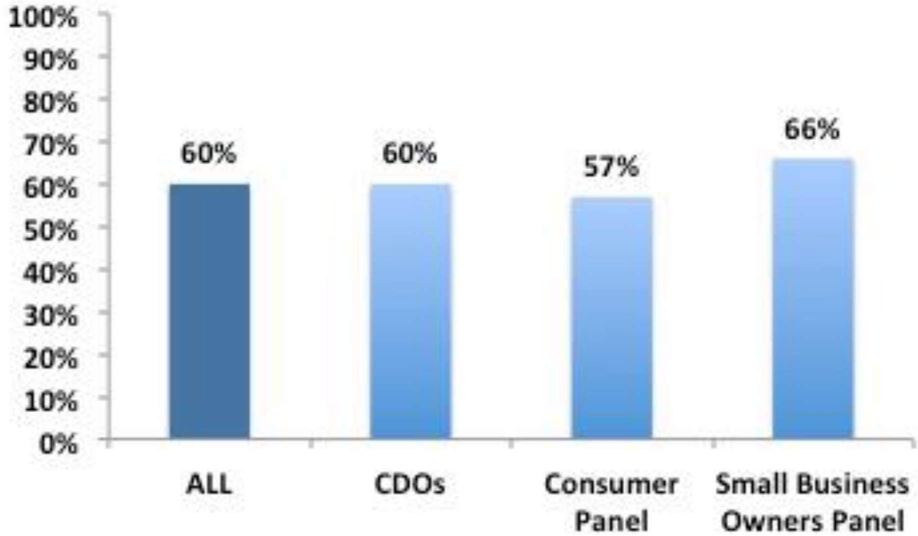
Figure 8a: (Q3) I have a better understanding of the actions I can take that may positively impact my credit score (by source of participant)



The next question, focusing more narrowly, again touches on specific actions. It asks whether participants are more likely to review their credit reports. Here, following the credit education session, approximately 6 in 10 indicated they were more likely review their credit reports, request their free credit reports, and look for and dispute inaccuracies. If the intent of Congress in providing free annual disclosures was to encourage consumers to engage their credit reports and dispute perceived inaccuracies, then it would seem that personalized credit education solutions offered by nationwide consumer reporting agencies certainly support that objective.[26]

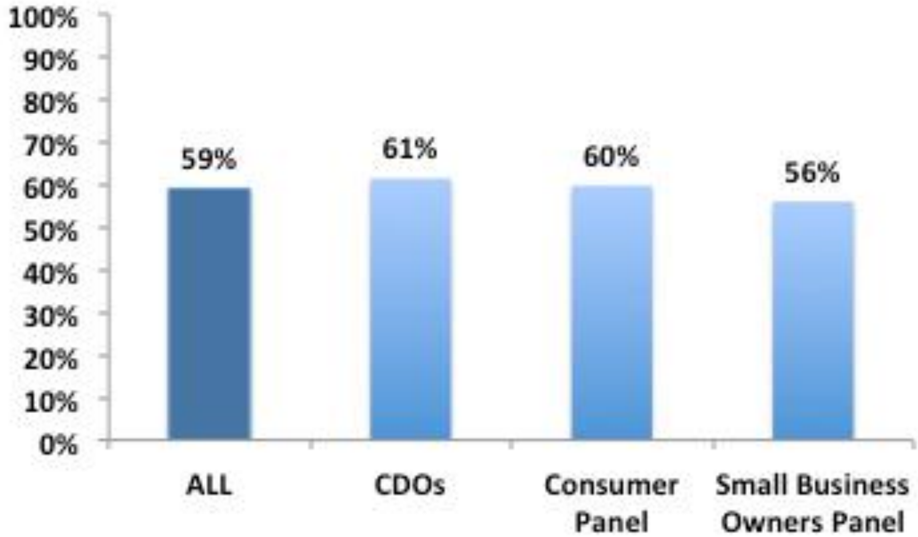
[26] It is upon this basis that the authors of this report contend that by applying CROA to credit education, credit monitoring, and other direct-to-consumer offerings from the nationwide CRAs, the courts have created a tension between CROA, on the one hand, and the Fair Credit Reporting Act (FCRA) and Fair and Accurate Credit Transactions Act (FACT Act) on the other hand.

Figure 8b: (Q3) I am more likely to review my credit reports. (by source of participant)



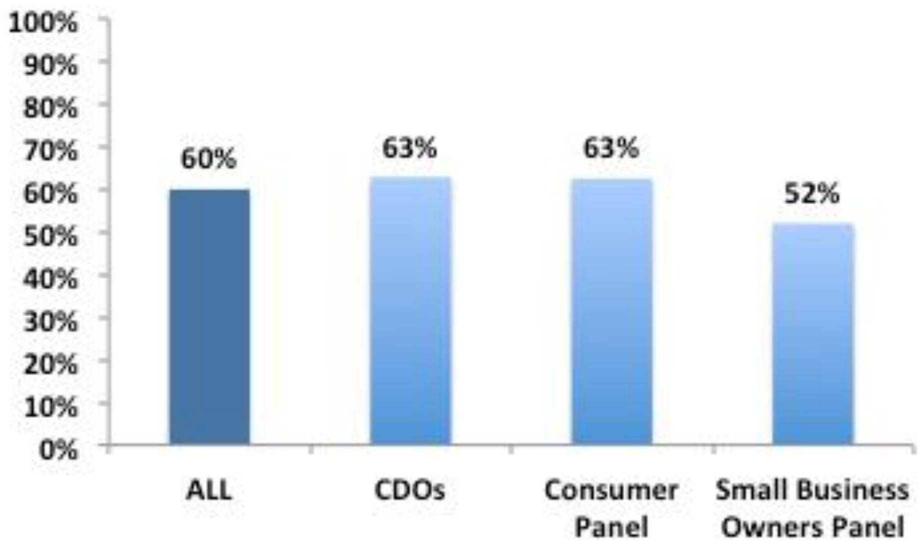
Similar to the results in Figure 8a, with possibly less discretionary income CDOs participants were slightly more likely to request a free copy of their credit report than Consumer Panel (61%) than Small Business Owners (56%). Further to the point made immediately above, if a consequence of personalized credit education is to increase the likelihood of a majority of participants subsequently requesting one or more free credit report disclosures annually, then this service can only be construed as supporting the policy objectives of both the FCRA and FACT Act that were specifically designed to encourage a dialogue between consumers and nationwide credit bureaus about the contents of credit reports. Such a conversation, in many instances, could logically expand to include topics such as: How do the contents of my credit report affect my credit score? And, What can I do to improve my credit report based upon the contents of my credit report? To the extent that CROA impedes such conversations by limiting these conversations and requiring a three-business day wait after reading a complex and convoluted disclaimer, the courts application of CROA to personalized credit education puts CROA at odds with the policy objectives of the FCRA and FACT Act.

Figure 8c: (Q3) I am more likely to request my free credit reports. (by source of participant)



Similar to the previous results, participants completing the study indicated a high likelihood to look for and dispute inaccuracies (60%). Here there is a significant difference between consumer participants and small business owner participants (11 percentage points or a 21% difference).

Figure 8d: (Q3) I am more likely to look for and dispute inaccuracies. (by source of participant)



Participant Open-ended Survey Results

Q: In your own words, please describe whether you found the credit education session useful. If not, why and if so, what did you find useful about the education?

As of the interim report in April 2016. there were 78 responses received for this question. We classified them as to whether they were generally positive regarding the usefulness of the credit education session, mixed/neutral, or negative.

- *70 (90%) were interpreted as generally positive regarding the usefulness of the credit education session*
- *6 (8%) were interpreted as generally neutral*
- *2 (3%) were interpreted as generally negative*

Examples of the "positive" comments were:

> "I found the credit education session useful because I was provided with information on what I could do immediately to increase my credit score and I was made aware of what had a little impact to a great impact on my credit score."
>
> "It was useful for it clearly explained each section of the report and how I should keep accounts open because the age of the account can give you a better score. It was useful because it showed me how my actions affect my score."

Both and *all* "negative" comments were:

> "It was not very useful. It was common sense things that most people should know. Before I had medical problems, my score was over 800, so I already had a good grasp on the information."
>
> "not really useful to me, i have great credit and he couldnt tell me much to improve anything."

Given that the great majority of comments were positive and the only two participants with negative comments thought the credit education session was not useful because they already had a high enough credit score and/or already had sufficient knowledge speaks well to the overall perceived usefulness of the service. This is particularly the case for the typical consumer who would most likely benefit from a credit education service.

Confronting Credit Demons

Many are introduced to credit during college—usually in the form of a credit card. This was true for Janean. And like so many, during that period Janean focused more on her college life than on her credit life. Her credit problems began with her first credit experience. Because of this, Janean associated credit with anxiety. She avoided her credit problems rather than confront them.

Then last year, the car she had owned for 20 years died. As a married and working mother of 6 children, and grandmother to 2 more, Janean needed a new car. She knew in order to qualify for auto-financing, she must face her credit demons. Having worked in community development for years, Janean found it ironic that the very person who had counseled so many others on the importance of maintaining good credit was now seeking credit education.

She first tried online credit education. For Janean, this was like going to a library and checking out a book. While filled with helpful information, it offered little specific for her situation. “It had nothing in terms of steps I needed to take to apply that knowledge. Verification…that it is reality. I don’t believe everything I read. I needed someone who knows what’s important and could assist me.”

Resolved, she turned to Operation HOPE for assistance. They directed Janean to a personalized credit education service offered by a national credit bureau. “When you are someone who’s determined to do it, you will no matter what. But I could see how this [3-day mandatory wait] would deter many others.”

Janean called to schedule an appointment. Owing to her busy schedule, she missed her first appointment. Janean's growing anxiety took two weeks to overcome, but then she called to reschedule. She again had to wait, this time 3 business days meant 5 days as she had called on a Friday afternoon. Fearful but resolute, she connected with a credit educator.

"They were open to any questions I had concerning my credit report and score. It was comforting to have someone who knows what they're talking about validate what I knew."

Janean worked with the credit education specialist to develop a plan to gradually improve her credit score. Then she worked with counselors at Operation HOPE to implement the game plan. "I did not think I had any leverage. But this program gave me confidence to apply what I knew and push forward to settling into a better life with better credit."

Janean is now glad she called back. As a result of completing a personalized credit education session and acting on the plan with Operation HOPE counselors, her credit score increased more than 150 points. Not only was she able to secure auto-financing, but her improved score also qualified her for a better job, which in turn helped her secure a favorable home mortgage loan. "I would not have even tried anything like this without the confidence I gained."

Janean sent the authors of this report a follow on communication. She said that she hoped sharing her experience for this report would help others who may be paralyzed by fear gain the courage to confront their credit demons. Janean also acknowledged that managing her credit "…will be a daily struggle. Not because I want to spend, spend, spend; but because sometimes life just happens."

That she could continue to work with her counselors at Operation HOPE, and armed with her new found confidence in directly calling national credit bureaus, lenders, and any other relevant parties about her credit report gives Janean solace in an important area of her life.

"I did not think I had any leverage. But this program gave me confidence to apply what I knew and push forward to settling into a better life with better credit."

3. Assessing the Impact of CROA Requirements on Consumer Access to Personalized Credit Education

As noted in a prior PERC publication, the movement to greater consumer access to credit scores as well as credit score and credit report information is a very positive development.[27] So too is the growth of more interactive, consumer-specific online credit information tools, such as Mint or Credit Karma.

However, a likely important impediment to the full development and use of innovative, scalable, and convenient credit education services is the Credit Repair Organizations Act (CROA). CROA was passed two decades ago with the intent of reining in unscrupulous organizations promising to improve consumer credit reports, oftentimes for an exorbitant fee. Many of these organizations would either not produce results as promised or encourage consumers to dispute accurate, but negative information in credit reports. Organizations that provide services for a fee and act to improve a consumer's credit standing are covered by CROA. The law works to discourage usage with a lengthy and repellant disclaimer and a mandatory 3-business day waiting period before providing a service.

Back in 1996, credit bureaus, credit score developers, and other such legitimate organizations did not provide consumer education services. At the time, CROA may have been well crafted in its aim at the unscrupulous credit repair organizations. However, there have been two significant changes in the US credit ecosystem over the past 20 years. First, subsequent circuit court rulings have interpreted CROA in such a way to make it more and more expansive in coverage.[28] Second, recognizing the demand for consumer credit report and score information and education, CRAs and other legitimate organizations have been developing innovative services for this space.

These efforts at credit education innovation have now very much collided with the ever-expanding reach of CROA. Each day, consumers are directed by thousands of credit score disclosers (mostly lenders) to contact CRAs to discuss questions regarding their consumer report. Such questions often go beyond the dispute resolution services required of the CRAs by law, and evolve to questions regarding how the consumer can raise his or her credit score or otherwise improve their credit standing. The CRAs, as a matter of course, have the resources and expertise to offer such additional services in a cost effective and efficient manner. Unfortunately, given the recent expansive circuit court rulings, such services offered the consumer fall under CROA. Consequently, in this scenario, the consumer-initiated conversation must stop for a three-business day waiting period (requiring the scheduling of a future meeting).

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[27] Michael Turner, Michael Staten, and Patrick Walker. "Is CROA Choking Credit Report Literacy?" April 2015. Available at: http://www.perc.net/wp-content/uploads/2015/04/CROA.pdf

[28] Recently, some courts have interpreted CROA as encompassing forward-focused credit counseling and, arguably, credit monitoring services. *Stout v. Freescore, LLC*, 743 F.3d 680, 686 (9th Cir. 2014) (holding that CROA covers the offering of "services aimed at improving future creditworthy behavior with prospective promises of improved credit"); *Zimmerman v. Puccio*, 613 F.3d 60, 72 (1st Cir. 2011) (finding that credit counseling aimed at improving future creditworthy behavior is credit repair).

In this on-demand, instant information world, a three-day waiting period doesn't just delay a conversation, but in many cases may kill it. The expansive circuit court interpretation of CROA puts it at odds with the stated objectives of the Fair Credit Reporting Act (FCRA), the very foundations of which rely upon robust communications between consumers and CRAs. In addition to creating a policy tension, recent circuit court rulings on CROA represent a threat to many beneficial direct to consumer products from CRAs that were never intended to be covered by CROA—either by Congress or the FTC.[29]

In many respects, one could be left wondering which CRA services are *not* covered and discouraged by CROA?

While this study was not directly designed to measure whether and to what extent CROA regulatory requirements—specifically the legal disclaimer and the mandatory 3-business day wait—impact consumer uptake and use of personalized credit education services offered by national CRAs, it was sufficiently of interest to warrant consideration in our survey of participants—both those who completed a session and especially those who did not.

Importantly, because the sample used in this study were recruited by community development organizations (CDOs) and consumer and small business panels, they are a non-random sample and their behavior is not reflective of that of the general population in one important respect: participants in this study had an existing relationship with a trusted third-party (a CDO or a panel survey firm) that acted to encourage and /or assist them in completing a session. In the case of panel participants, incentives were also offered. As such, while the primary focus of this research can be achieved with this sample—that of measuring the credit standing impacts from completing a personalized credit education session—the sample are far less useful in assessing the potential impacts of CROA requirements on consumer behavior.

"I have invested heavily in self-education about credit, but I picked up more in my one-hour [personalized credit education] session than I have learned in the last several years."

-- Brandon. 30, single HR professional who resides in GA

[29] In 1996, when CROA was passed as part of an omnibus bill, there were scant direct to consumer offerings from the national CRAs. They were not in credit repair (nor are they today), and they did not offer credit education, credit monitoring, or even credit scores to consumers. As such, Congress could not have intended to cover the national CRAs under CROA at that time. For a discussion on the FTC's views on this matter, see the following transcript: S. HRG. 110–1170 "Oversight of Telemarketing Practices and the Credit Repair Organizations Act (CROA)." Hearing before the Committee on Commerce, Science, and Transportation. US Senate, 110th Congress, 1st Session. July 31, 2007. Transcript pages 12-24. In particular, see the FTC's testimony beginning on page 12, as well as an interaction between Senator Pryor and the FTC's witness beginning on page 18. Therein, an FTC officer states that the FTC is sympathetic to the desire of the national CRAs to be exempted from CROA.

Anecdotally, however, we have testimonials from many participants who either commented on their survey, or wrote letters to a CDO or PERC describing their views on the mandatory 3-business day wait (largely viewed as a "challenge," a "source of frustration," or a "deterrent").[30] One participant remarked: "I have worked in community development for years. Whenever I hand out a phone number and someone has to wait, 90 percent of the time they won't call back." The most common feedback from participants was that they [*participants*] called when they had time, and it would be more convenient to be able to access the service when they called. Some had to reschedule multiple times owing to busy and fluid schedules.

These anecdotal findings are broadly consistent with empirical findings from the 2015 PERC / University of Arizona joint study, which used a separate sample collected by Experian. In addition to the credit score change and consumer sentiment findings, the 2015 study found that well over 9 in 10 consumers (96%) that explored a CRA credit education service dropped off before actually taking the credit education session, even when it was offered at no cost. A follow-up survey of the consumers that dropped off found the CROA related restrictions played a big role. Of those surveyed, 46% reported that if the service were available when they called, without the CROA required wait period, then they would have used the service.

It is important to note that services like Credit Karma, which do not require monetary payment by the consumer, operate as though they do not have the CROA restrictions.[31] These services make money in other ways, such as by using data about the consumers using their products, and then selling marketing opportunities to the likes of card issuers based on the consumer data. The use of these non-CROA covered services has exploded and opens new questions about the seemingly uneven application of CROA across credit education service providers.

For instance, organizations that do not wish or would find it difficult to operate by marketing financed services, but instead generate revenues directly from consumers with a paid-for app or a paid-for service likely suffer from a severe CROA-induced competitive disadvantage. This, no doubt, reduces consumer choice, competition, product development and innovation.

The troublesome result of the credit education collision with CROA is that some of the most useful consumer services for credit report and credit score literacy for those most in need might be higher-touch services in which a consumer has a one-on-one tutorial / education session about their specific credit report and score or a web-based interactive learning experience. Such services are sufficiently costly and labor intensive to operate that it does not appear possible that they could be financed via marketing and offered at no cost to consumers. The development and use of this entire class of credit report and score education services is likely being stunted by CROA restrictions and requirements.

[30] Survey responses gathered from August 2015 to September 2016). Correspondence from participants to CDOs and PERC from 2015 and 2016. PERC staff telephone interviews with select participants September/October 2016.

[31] However, it is important to note that CROA includes service "in return for the payment of money or other valuable consideration." As such, the consumer providing data to the online service that is then monetized could potentially be treated as a valuable consideration. If so, the ever-expanding reach of CROA could collide with the "free" online services as well.

There is evidence of the chilling effect of CROA on personalized credit education offerings from other sources. Following the release of the 2015 PERC / University of Arizona study, American Student Assistance (ASA), a nonprofit organization assisting college students in the financing of higher education, began to pilot the use of a CRA credit education service. The pilot suffered from a very low participation rate. Of 48,603 students contacted through e-mail campaigns and phone counseling sessions, only 87 fully completed the credit education session. The Director of Strategic Partnerships for ASA, noted in the final report on the pilot that this very low completion rate, of only 0.2%, "was not anticipated by ASA."[32]

The final ASA report on the credit education pilot also noted that the CROA required 3-business day waiting period was suspected to be a major obstacle for use of the service and a major reason for the low completion rate. The report stated,

> "According to ASA's internal benchmark study, credit education ranks third among the most important financial concerns of young consumers. The low completion rate for this pilot seems to contradict this finding. One of the major drawbacks of the Credit Educator program is the requirement for a three day waiting period before a consumer can be counseled on their personal credit. This was seen as a significant barrier to completing a session. First, there were multiple steps in the process including acting on their own student loan issues, scheduling an appointment for a future credit counseling session and finally meeting with an Experian agent. Typically, this population of young consumers is used to on-demand service and waiting three days may have been too complicated and at variance from their usual method of gaining personal financial information."[33]

[32] Robert Cole. "Credit Educator Final Report" American Student Assistance. March, 2016
[33] Robert Cole. "Credit Educator Final Report" American Student Assistance. March, 2016

Finally a Phone!

Esther is 59, divorced with one adult child. She lives in Oakland and has resided in California for 20 years. She is an entrepreneur, writer, public speaker and professional life coach. She has always had a fear of managing money and credit. She knew her credit score was bad, and for many years she was too embarrassed to discuss it with anyone.

"Throughout my adult life, I've been nearly phobic about finances. I get anxious just thinking about my credit score and how to solve the problems I've created for myself through my lack of understanding about credit."

Through her personalized credit education session, she learned her current score and about the contents of her credit report. "I now know how to receive free copies of my credit reports from all credit bureaus. I know what actions to take to improve my score. I understand how to respond to information on my report to correct mistakes, and what actions to take to respond to other issues as needed."

Esther shared that her last cell phone was in her boyfriend's name, but she recently got a phone in her name because she has improved her credit. She talked about how great that felt. "The [personalized] credit education session really helped. I learned a lot and it helped me get over my fear of reviewing my credit report." She is now looking forward to the future.

4. Participating Community Development Organizations and Client Testimonials

Operation HOPE

Since 1992, Operation HOPE has been moving America from civil rights to "silver rights," with the mission of making free enterprise and capitalism work for the underserved. Through its core programs, the nonprofit has provided financial dignity and economic empowerment to over 2.6 million individuals worldwide, and $2 billion in economic activity for the disenfranchised—turning check cashing customers into banking customers, renters into homeowners, small business dreamers into small business owners and minimum wage workers into living wage consumers.

“This transparent approach opens up the opportunity for the general public to speak directly with a credit bureau and engage them on matters they previously feared or didn’t understand.”

-- Lance W. Triggs, President, HOPE Office of Program Operations

In addition to credit and money management literacy, Operation HOPE delivers small business and entrepreneurship training, homeownership coaching, and disaster financial preparedness, response/recovery programming. Hence, there is a great need for credit report access and education to support all HOPE programming.

According to Lance Triggs, President of Operation HOPE’s Office of Program Operations: “Our clients took full advantage of the Credit Educator offering, considering their desired outcome and the ability to learn more about their credit. A large segment of our population did not express the desire to review their credit, because they didn’t understand the need and/or impact it can have on their lives. The clients utilized the opportunity to help build debt-reduction plans to achieve their targeted goal of increasing their credit scores with not only Experian, but also all reporting agencies.”

“The Credit Educator has immense value because of the personal approach Experian is taking. Until now, credit reporting agencies have been stereotyped as being deceptive. Overall, a program like this can have a broader, positive impact on communities, as individuals gain success in managing their credit and money,” added Briggs.

Locations of Operation HOPE offices involved in this study and recruiting participants include Atlanta, Birmingham, Brooklyn, Cleveland, Detroit, Las Vegas, Long Beach, Memphis, New Orleans, Oakland, Orlando, St. Louis, Tampa, and Washington D.C.

United Way of Greater Atlanta

The United Way Atlanta is one of the largest United Ways in the nation with more than $100 million in annual revenue. They invest in more than 200 programs in 13 counties through the United Way Impact Fund and participate in Collaborative Networks and Opportunity Zones with caring community partners to address challenges facing families and individuals.

Its mission is to engage and bring together people and resources to drive sustainable improvements in the well-being of children, families and individuals in the community.

United Way Atlanta's Individual Development Account (IDA) program was started in 1997 to help low-to-moderate income families save for the purchase of an asset. Skills learned through IDA include:

- Developing a budget and setting goals
- Establishing regular savings habits
- Building assets for long term economic security

Highlights of the IDA program

- More than 800 people have successfully completed the program and have either purchased a home, started a business or obtained additional education for economic success.
- Matches the savings of families with between 1-5 times the amount of their deposit.

"I ended the session feeling more confident about the strategies I need to implement so that my business can be elevated to the next level in the near future."

-- Twanna. 45, married with one child, and a small business owner in GA.

IDA components include:

- Financial literacy curriculum
- Asset goal specific training
- IDA Savings Account at partner financial institution (SunTrust, Wells Fargo)

Chicago Urban League

The Chicago Urban League works for economic, educational and social progress for African Americans and promotes strong, sustainable communities through advocacy, collaboration and innovation.

The Chicago Urban League is committed to implementing its mission with a strategic focus on educational equality, economic development and social justice and through the well-informed pursuit of the following strategies:

- Ensuring access to quality education that prepares individuals to become lifelong learners and to be competitive and successful in the global economy.
- Preparing individuals for work at all levels in an ever-changing economy, developing engaged citizens, and building strong families.
- Supporting community based investment and growth through facilitating entrepreneurship, business development, and home and real estate ownership
- Advocating for policies and programs that ensure equal participation by African Americans in the economic and social mainstream.

Trident United Way

The Trident United Way operates in South Carolina's Lowcountry, including the Charleston area. A key issue of focus for the Trident United Way is financial stability. As part of its efforts to increase financial stability in the Lowcountry, particularly among an estimated 200,000 people who have difficulty meeting their basic needs, Trident United Way operates Prosperity Centers. Among other services, these centers provide financial education, credit counseling, and foreclosure prevention assistance. Trident United Way has recruited participants for this study via its Prosperity Centers.

5. Conclusion

The results from PERC's most recent analysis corroborate the findings from the earlier PERC/University of Arizona study along two key questions: (1) Whether and to what extent personalized credit education offered by a national consumer reporting agency (CRA) impacts a person's credit standing as measured by both credit score impact and material impact (movement into a different risk tier); and (2) Whether and to what extent Credit Repair Organization Act (CROA) regulatory requirements impact uptake and use of personalize credit education services. This study's results provide strong support for the following conclusions:

- **Credit bureau personalized credit education services can have big positive impacts:** Slightly under two-thirds of those who completed a CRA personalized credit education session witnessed an increase in their credit score within 3 months after completing the session. 30% percent witnessed a credit score increase of more than over 20 points, and 19% witnessed a credit score band rise, over twice as many that witnessed a score band fall.

- **Both participants recruited from Panels (Small business owners and Consumers) and those recruited from CDOs witness more score tier rises than the general population:** This suggests that score change results are not simply driven by other financial and credit education efforts that may be offered by CDOs.

- **Consumers and small business owners highly satisfied with credit bureau personalized credit education services:** Almost nine in ten persons who completed a personalized credit education session reported that the session was useful or expressed positive feelings about their experience. 88% agreed that after the education they had a better understanding of what actions they could take to improve their credit score. This is also demonstrated with the participant testimonials and open-ended comments.

- **CROA drives a wedge between national CRAs and consumers:** While not a primary focus of this study, PERC did engage participants who completed and those who did not complete a personalized credit education with a national credit bureau. Among the questions asked were several regarding how much their behavior was impacted by both the mandatory 3-business day wait before beginning a credit educations session, and being exposed to a complex legal disclaimer before scheduling a credit education session. While most participants reported that the disclaimer was not much of an issue (we live in a world where disclaimers are imposed between consumers and services of all kinds), nearly every participant interviewed on their experience indicated that the 3-business day mandatory wait was a challenge. Many had to reschedule multiple times, and some were so frustrated they didn't complete a session. In discussions with a college student organization they tried to enlist participants in credit education, efforts yielded a dramatically lower than expected participation rate (0.002% for college students). The organization singled out the mandatory 3-day wait as the most likely explanation for the low uptake rates.

As many recent studies by government agencies, consumer advocacy groups, and industry have demonstrated, a large segment of the credit eligible population in the United States is confused about credit reports and credit scores. This is especially true for younger and lower-income Americans who together comprise a large majority of the Credit Invisible population in the United States. Both of these groups tend to have below average credit scores and would greatly benefit from access to personalized credit education services offered by the nationwide credit bureaus. In this context, lawmakers should be bending over backward to promote market responses to this large unmet need.

CROA was never intended to interrupt the communications between consumers and nationwide credit bureaus.[34] Clearly, Congress has long been promoting this dialogue and recent court rulings are contrary to the spirit and intent of Congress in this regard.[35] National credit bureaus are not trying to produce fraudulent services—as so many credit repair organizations did and continue to do despite the enactment of CROA.

Further, imposing CROA on national credit bureaus offers no additional consumer protections—national credit bureaus are already heavily regulated (as supervised entities) by the CFPB, the FTC, states attorney's general, and state banking regulators. Should national credit bureaus mislead or deceive consumers in any fashion regarding their personalized credit education services, the FTC and CFPB can act for violations of Unfair, Deceptive, or Abusive Acts or Practices (UDAAP) and the FTC and state regulators can act for violations of Unfair and Deceptive Acts and Practices (UDAP).[36] Further, none of the national credit bureaus have ever been subject to an administrative enforcement action against them for violations of CROA nor has there been a single court ruling finding consumer harm resulting from national credit bureau CROA violations.

Fears about possible national credit bureau behavior expressed by some advocates as reasons for continuing to subject national credit bureaus to CROA are little more than baseless name-calling and fear-mongering. Opponents cite a UDAP violation as "evidence" of consumer harm that "will occur" should the national CRAs be exempted, not realizing that they are being rebutted by

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[34] For a discussion on the FTC's views on this matter, see the following transcript: S. HRG. 110–1170 "Oversight of Telemarketing Practices and the Credit Repair Organizations Act (CROA)." Hearing before the Committee on Commerce, Science, and Transportation. US Senate, 110th Congress, 1st Session. July 31, 2007. Transcript pages 12-24. In particular, see the FTC's testimony beginning on page 12, as well as an interaction between Senator Pryor and the FTC's witness beginning on page 18.

[35] When the first class actions were filed under CROA against consumer reporting agencies ten years ago, courts initially interpreted CROA as applying to companies that ***retroactively*** fixed (or represented that they could fix) a consumer's past or historical credit record. *Hillis v. Equifax Consumer Servs. Inc.,* 237 F.R.D. 491, 514 (N.D. Ga. 2006) ("Congress did not intend for the definition of a credit repair organization to sweep in services that offer only prospective credit advice to consumers or provide information to consumers so that *they* can take steps to improve their credit in the future.") However, more recently some courts have interpreted CROA as encompassing forward-focused credit counseling and, arguably, credit monitoring services. *Stout v. Freescore, LLC,* 743 F.3d 680, 686 (9th Cir. 2014) (holding that CROA covers the offering of "services aimed at improving future creditworthy behavior with prospective promises of improved credit"); *Zimmerman v. Puccio,* 613 F.3d 60, 72 (1st Cir. 2011) (finding that credit counseling aimed at improving future creditworthy behavior is credit repair).

[36] UDAP pre-dates UDAAP. UDAP is spelled out in Section 5 of the Federal Trade Commission Act ("FTC Act"). 15 U.S.C. § 45. UDAAP powers for the CFPB were created by the Dodd Frank Wall Street Reform Act ("Dodd Frank"). Dodd-Frank Wall Street Reform and Consumer Protection Act, 12 U.S.C. §§ 5301 *et seq.* (the "Dodd-Frank Act"); *see, e.g.,* 12 U.S.C. § 5552 (2014).

their own evidence. That UDAP was enforced—before there was a CFPB and quite without CROA—strongly proves that CROA is not needed to protect consumers from national CRAs offering personalized credit education, credit monitoring, or any other direct-to-consumer products that are not credit repair.

In summary, there is no plausible reason to subject nationwide credit bureaus to CROA. This position is neither supported by reason nor by fact. Quite the contrary! All available evidence suggests that segments of the American population are being harmed when CROA is applied to nationwide credit bureaus. CROA requirements—including a lengthy and intimidating legal disclaimer and a mandatory 3-business day wait before receiving the service—act as major barriers between consumers and credit bureaus, deterring all but the most committed consumers from benefitting by engaging a national credit bureau for credit report and score education.

Efforts to exempt the national CRAs and others from CROA have been held up over the years for two reasons: (1) class-based exemptions risk foreclosing competition; and (2) a product-based exemption risks consumer harm. While the FTC is sympathetic to the position of the national CRAs, they have been unable to find a solution that would both promote competition and protect consumers. They assert that a class-based CROA exemption may dampen competition, while a product-based approach may allow bad actors to slip in, gain an exemption, and cause consumer harm.[37] Somehow they believe that inaction—doing nothing—is the least harmful approach.

More recently, Congress has been considering a statutory fix to issues created by the circuit courts.[38] One bill, the "Promoting Access to Credit Act of 2015" (H.R. 347) offers a class-based exemption that would exempt national CRAs that are classified either as 603p or 603f under the Fair Credit Reporting Act.[39] This approach has identified the group of firms that are (a) most likely to be interested in offering personalized credit education services direct to consumers; and

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[37] For a discussion on the FTC's views on this matter, see the following transcript: S. HRG. 110–1170 "Oversight of Telemarketing Practices and the Credit Repair Organizations Act (CROA)." Hearing before the Committee on Commerce, Science, and Transportation. US Senate, 110th Congress, 1st Session. July 31, 2007. Transcript pages 12-24. In particular, see the FTC's testimony beginning on page 12, as well as an interaction between Senator Pryor and the FTC's witness beginning on page 18.

[38] See H.R. 347 titled "The Promoting Access to Credit Act of 2015." Sponsored by Rep. Royce (R-CA).

[39] A 603(f) is a consumer reporting agency. Under the FCRA, "…the term "consumer reporting agency" means any person which, for monetary fees, dues, or on a cooperative nonprofit basis, regularly engages in whole or in part in the practice of assembling or evaluating consumer credit information or other information on consumers for the purpose of furnishing consumer reports to third parties, and which uses any means or facility of interstate commerce for the purpose of preparing or furnishing consumer reports." By contrast, a 603(p) is known as a nationwide credit reporting agency, but the actual name is in the definition below. A 603(p) has to provide credit reports though www.annualcreditreport.com and other duties. Experian, Equifax and TransUnion are the only three firms with 603(p) classification to date. Under the FCRA, the term "…"consumer reporting agency that compiles and maintains files on consumers on a nationwide basis" means a consumer reporting agency that regularly engages in the practice of assembling or evaluating, and maintaining, for the purpose of furnishing consumer reports to third parties bearing on a consumer's credit worthiness, credit standing, or credit capacity, each of the following regarding consumers residing nationwide: (1) Public record information. (2) Credit account information from persons who furnish that information regularly and in the ordinary course of business." 15 U.S.C. § 1681a(f) and 15 U.S.C. § 1681a(p).

(b) have the wherewithal to implement and scale up a national solution using innovative technologies; and (c) pose the least amount of risk to consumers owing to their status as CFPB supervised entities and owing to their obligations under the FCRA.

Here it is worth offering a brief note on the notion of competition, which has been the stumbling block for the FTC for a decade on this matter. It is contestable whether a class-based exemption would dampen competition for either "credit education" or "credit repair."

First, the competitive landscape for those entities offering credit repair would be totally unaffected by the proposed exemption of nationwide CRAs as the CRAs would be offering credit education, not credit repair services. It is worth spending a moment to differentiate between the two distinct product categories to reduce any confusion. Credit education is proactive and involves implementing measures in the future to improve your score over time. By way of an analogy, this would be akin to taking lessons from a golf coach and applying what you learned to improve your technique over time in order to improve your golf handicap in the future. Credit repair, by stark contrast, is reactive and involves manipulating past information to change your current score based on modified historical data. Returning to our analogy, this would be akin to a person who consults with a colleague who knows the details of the course rules, and retroactively changes the score based upon little known nuances in the rules. Often times, this involves gaming the system and cheating—such as by knowingly contesting accurate but negative information. In golf as in credit scoring, this is a short-term fix, and the results won't likely be carried forward in the future once the data is corrected and the person's real behavior revealed.

Second, there are already thousands of FDIC regulated lenders and thousands more non-profits exempted from CROA, many of which offer some form of credit education. Given this, one could argue that by exempting national CRAs (FCRA classified 603p and 603f firms) would have the net effect of promoting competition within the credit education market—all while protecting consumers from the very type of behaviors that CROA was designed to stymie for reasons enumerated above.

The authors of this paper realize that this is just one approach from among a range that Congress may consider. For instance, an alternative approach could be one that requires entities to self-certify with the FTC that they do not offer credit repair services, to explain their business model, and to swear that they will never undertake any activity associated with credit repair. The best approach is for Congress to decide. The larger point is that Congress has real choices and need not be defeatist and throw in the towel because finding a solution is challenging.

In summary, acting to exempt the nationwide credit bureaus from CROA will not cost the taxpayers a penny, does not carry any risk to consumers, and will result in an immediate and enhanced relationship between consumers and national credit bureaus. Failing to act—especially in the face of compelling evidence of material benefits to consumers and extraordinarily high consumer satisfaction—is anti-consumer and serves only the interests of unscrupulous credit repair organizations…ironically the very same ones against which CROA was designed to protect consumers.