

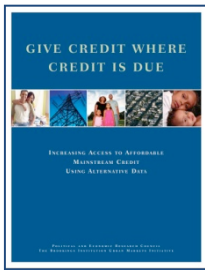
# Alternative Data Initiative: Report & Study Summaries



Policy & Economic Research Council  
6409 Fayetteville Rd, STE 120-240  
Durham, NC 27713

Contact Information  
Phone: +1 919.338.2798  
Web: <http://www.perc.net>

## Give Credit Where Credit is Due: Increasing Access to Affordable Mainstream Credit Using Alternative (2006)



Examined a sample of approximately 8 million TransUnion credit files in 2005 that contained alternative or nonfinancial utility and telecommunications payment information. Two sets of credit scores were captured, one set that included the alternative data and one set that excluded this data. Direct score impacts from the inclusion of alternative data could then be assessed. Credit scoring models included in the analysis include the VantageScore model, the TransRisk New Account model, the TransRisk Bankruptcy model, a Bankruptcy model from a bank, and a mortgage screening model from a bank. An additional 4 million credit files were used as a control, as they contained no alternative data. The study captured actual payment and credit outcomes over the following year (2005 to 2006) for the 8 million files with alternative data. This enabled an examination of how the alternative data impacted model performance. Socio-demographic information from Acxiom Corporation was appended to enable segmentation analysis by socio-demographic characteristics, such as age, income, and ethnicity.

"Minorities, lower-income consumers, and the young and the old are more likely to be thin-file borrowers, thus they are more likely to benefit from including alternative data in credit reports."

"The results from our study *Give Credit Where Credit is Due* and the analysis suggests increasing the full reporting of utility and telecom payments to consumer reporting agencies will improve financial access for those who only have a limited payment history in their credit files."

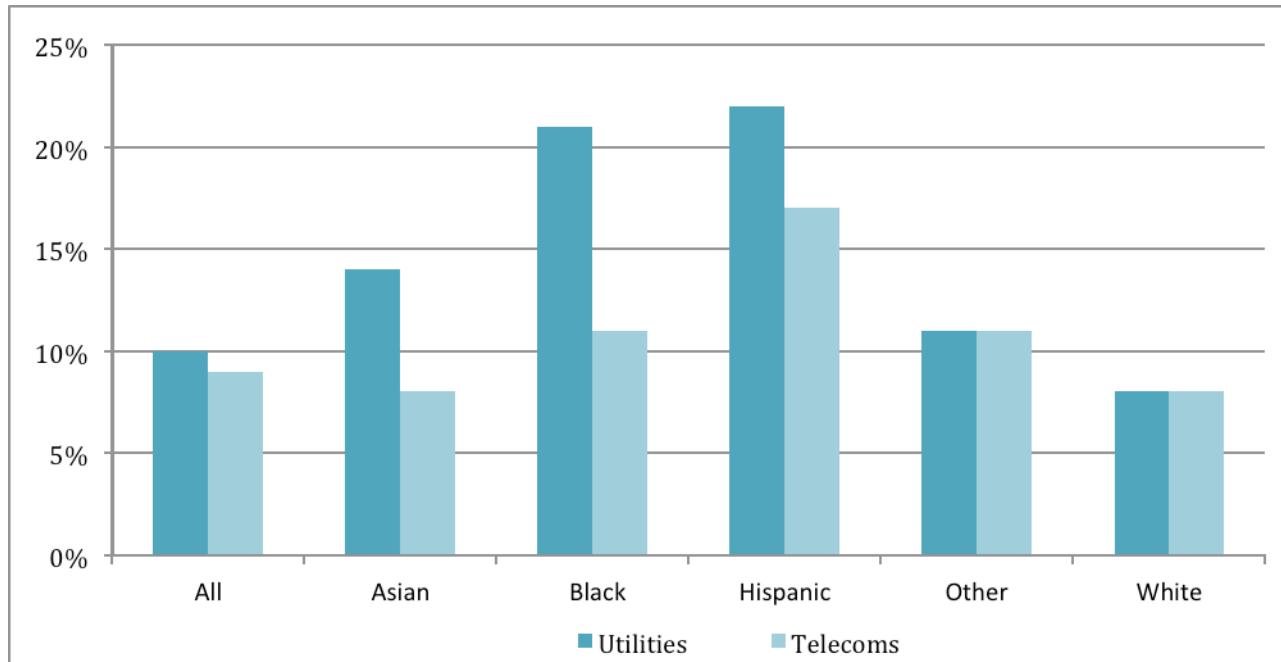
### Key findings include:

- **Most individuals in thin-file/unscorable population are not at high risk in terms of lending.** The risk profile of this segment—after energy utility and telecommunications data sets are included in their credit files—is similar to that of the general population (as measured by credit scores).
- **Including energy utility data in all consumer credit reports increases the acceptance rate by 10 percent, given a 3 percent default rate.**
- **Minorities and the poor benefit more than expected from alternative data**
  - Hispanics saw a 22 percent increase and Blacks saw a 21 percent increase in the credit acceptance rate.
  - Acceptance increased 14 percent for those aged 25 or younger and 14 percent for those aged 66 older;
  - Those whose household earned \$20,000 or less annually saw a 21 percent increase in credit acceptance and those with household earnings between \$20,000 and \$29,999 saw a 15 percent rise.
- **More comprehensive data can improve scoring models and underwriting.** Increases in credit acceptance resulted from improved model performance and bringing previously unscorable consumers in to the system, that is better underwriting and more inclusive underwriting, and not looser credit.

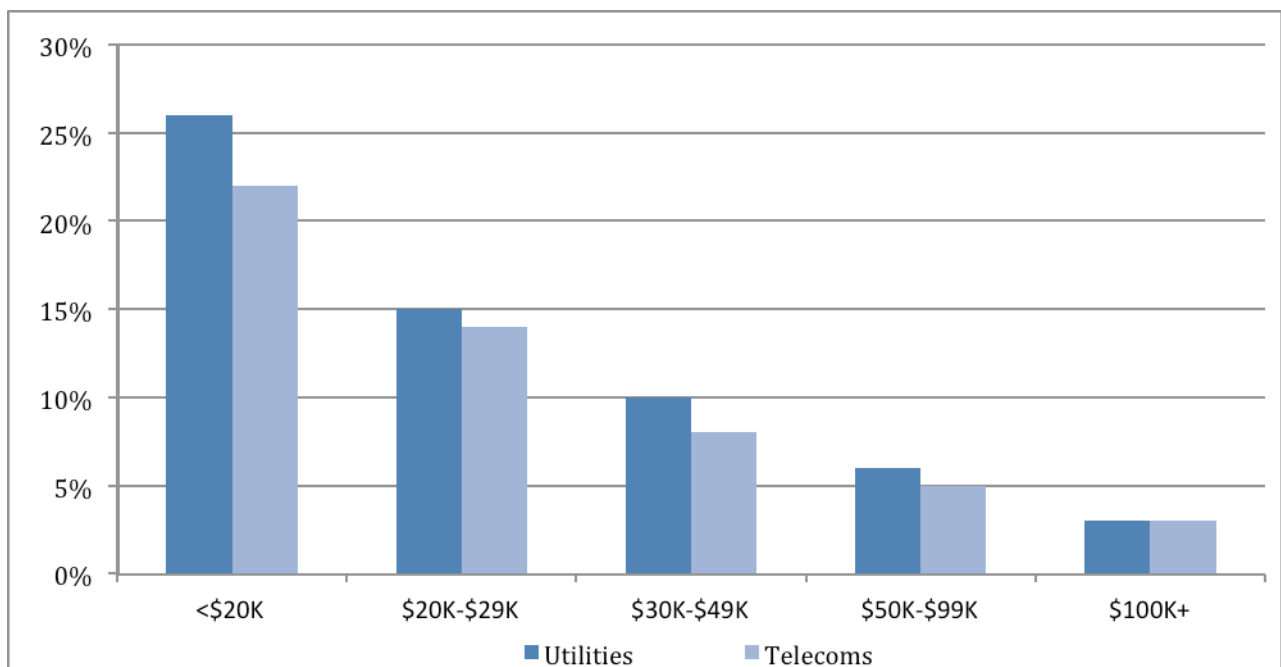
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## Change in Acceptance Rates with Inclusion of Alternative Data (Assumes a 3 percent portfolio default rate)

Consumers by Race with Utility and Telecom Trades



Consumers by Race with Utility and Telecom Trades



Both charts from the 2006 PERC study, "Give Credit Where Credit is Due."

## Economic Impacts of Payment Reporting Participation in Latin America (2007)



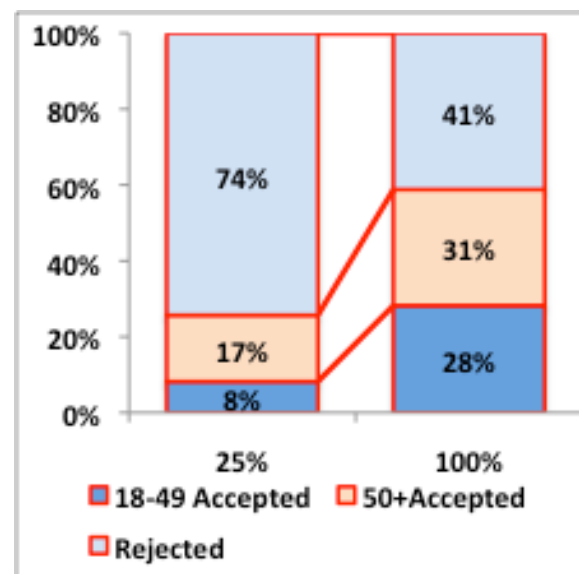
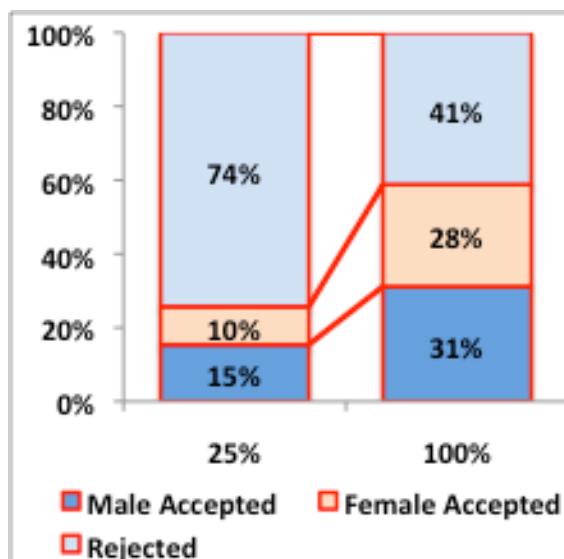
The study assesses the impact of varying participation rates on access to credit and default rates in Latin America. A series of micro-simulations using Colombian credit files and a generic scoring model simulated the impact of changes in the rate of participation in reporting *positive* information. The 5.1 million Colombian credit files used contain both financial accounts (traditional data) and non-financial accounts (alternative data).

### Key findings include:

- **Increased participation in full-file credit reporting leads to greater access to mainstream credit.** Assuming a 5% default rate, the proportion accepted (for credit) rises from 19.28% to 41.35% when credit-sharing participation rises from 50% to 100% of data furnishers.
- **Higher participation rates in full-file credit reporting system leads to fewer mistakes by lenders and fewer defaults by borrowers.** An additional approximate 3.5% who are bad risks would be extended credit if comprehensive credit reporting drops to only 25% of data furnishers from the 100% full-file scenario. Perhaps more importantly, close to 8% of the sample who are good risks and deserving of credit would be denied access with reduced data sharing.
- **Increased participation in full-file credit reporting results in a more equitable distribution of credit.** Specifically, we found that women and younger individuals were disproportionately hurt with the removal of positive payment information, perhaps, we speculate, due to those groups having relatively thinner credit files.
- **Approximately 2 million Colombians have access to mainstream credit due to the full-file reporting of utility payment data.**

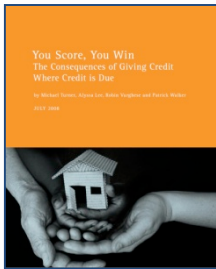
Located here: [www.perc.net/wp-content/uploads/2013/09/Latin\\_America.pdf](http://www.perc.net/wp-content/uploads/2013/09/Latin_America.pdf)

### Increased Lending and Equity in Colombia when Full-file Reporting Increases (Shift from 25% to 100% of Data Furnisher, Assumes a 7% Portfolio Default Rate)





## You Score, You Win: The Consequences of Giving Credit Where Credit is Due (2008)



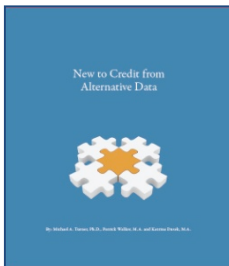
In this follow-up to groundbreaking report on alternative data (*Give Credit Where credit is Due*) PERC examines the long-term effects of using non-traditional data in credit files using quantitative analysis. This analysis used the same data in *Give Credit Where Credit is Due*, but looked at longer term impacts on consumers from having alternative data in their credit files. This included consumers with a new account opened for less than a year after having only alternative data, consumers with accounts opened 1 to 3 years after having only alternative data, and consumer with accounts and alternative data older than 3 years in the credit files.

### Key findings include:

- **No Score declines over time.** No evidence in our data of deteriorations of credit score over time for those with nonfinancial payment data in their credit files and little or no traditional payment data.
- **No rise in overextensions.** No evidence in our data that those who open new accounts after having only non-financial accounts become overextended and witness declines in credit scores.
- **All evidence suggests that reporting payment data serves both as a consumer protection and a system wide protection.**

Located here: [www.perc.net/wp-content/uploads/2013/09/web\\_layout-you-score.pdf](http://www.perc.net/wp-content/uploads/2013/09/web_layout-you-score.pdf)

## New to Credit from Alternative Data (2009)



This study summarized and highlighted results from *Give Credit Where Credit is Due* and *You Score You Win* with focus on the credit impacts on those who were new to credit from alternative data. It utilized the data in those studies.

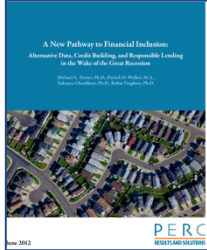
### Key findings include:

- **Credit scores rise across income and racial/ethnic groups over time after consumers are new to credit from alternative data.**

Located here: [www.perc.net/wp-content/uploads/2013/09/New\\_to\\_Credit\\_from\\_Alternative\\_Data\\_0.pdf](http://www.perc.net/wp-content/uploads/2013/09/New_to_Credit_from_Alternative_Data_0.pdf)

“Including fully reported utility payments in consumer credit reports makes credit reports more inclusive and enables fairer, more responsible, and more inclusive lending”

## A New Pathway to Financial Inclusion: Alternative Data, Credit Building, and Responsible Lending in the Wake of the Great Recession (2012)

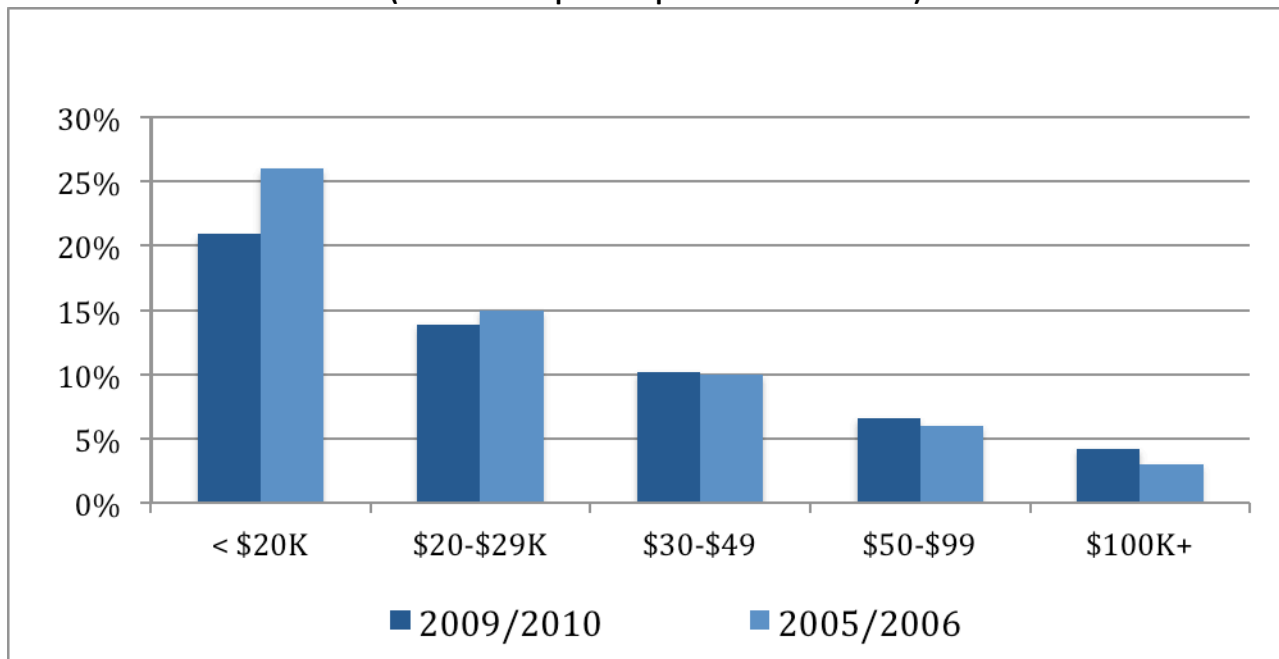


This study compares results with data from 2005/2006 and 2009/2010 credit reports to assess the consumer credit impact of including fully reported alternative data in credit reports. The data was selected to capture the period during which unemployment and late payments spiked. Despite the Great Recession, the preponderance of evidence establishing the value proposition of alternative data is overwhelming and in-controvertible.

### Key Findings:

- **Massive material impacts for the financially excluded:** Including in this group those who become scoreable when alternative data is added, assuming that not having a score is viewed as very high risk, then 64 percent experience a score tier rise and 1 percent experience a score tier fall.
- **Score impacts are stable over time:** Comparing the 2005 (pre-Great Recession) results with the 2009 (post-Great Recession), those whose scores improved with the inclusion of alternative payment data increased by 4 percent, those whose scores were unchanged increased by 10 percent and those whose scores lowered declined by 19 percent.
- **Credit underserved primary beneficiaries of alternative data:** The largest net beneficiaries in terms of improved credit access are lower income Americans, members of minority communities, and younger and elderly Americans. For example those earning less than \$20k annually saw a 21 percent increase in acceptance rates, African-Americans saw a 14 percent increase, those age 18-25 saw a 15 percent increase and those above 66 years of age saw an 11 percent increase.
- **Those with past serious delinquencies benefit from alternative data:** Consumers with a public record including a bankruptcy and/ or very late payments (90+ days late) among the traditional accounts reported to CRAs, witnessed more score increases than decreases (55 percent versus 30 percent) when alternative data were included in their credit files.

### Change in Acceptance Rates with Inclusion of Alternative Data: Comparing 2009/10 Results to 2005/06 Results by Household Income (Assumes a 3 percent portfolio default rate)



Located here: <http://www.perc.net/publications/new-pathway-financial-inclusion/>

## Credit Impacts of More Comprehensive Credit Reporting in Australia and New Zealand (2012)



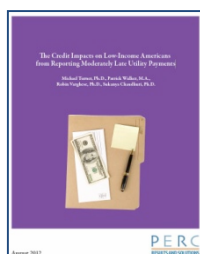
This pioneering joint project undertaken by PERC and Dun & Bradstreet used credit data from 1.8 million Australians to understand the impact of Australia and New Zealand moving to more full-file credit reporting. Since a comprehensive database of full file credit information does not currently exist in Australia, a research database with payment information from nearly 2 million Australians was constructed for this effort. This combined negative data from Dun & Bradstreet with positive account data from banks and a telecommunication company.

### Key Findings:

- **More Comprehensive Credit Reporting Creates Growth in Lending to the Private Sector.** At a 4% default rate, acceptance could rise 27% without increasing defaults. Fewer lending errors are made and lenders will be able to make more credit available.
- **More Comprehensive Credit Reporting Makes Lending Fairer:** At a 4% default rate, while total acceptance rises 27%, and rises for all age groups, it rises the most for the younger borrowers. For instance, borrowers between 18 and 25 witness a 46% increase in acceptance and those between 26 and 35 witness a 42% increase.
- **Alternative or Non-Financial Account Data is Valuable for Credit Risk Assessment.** Credit Scorecard performance, as measured by the Gini coefficient, rose 16% when fair file telecommunications account information was included. The result of this was to increase acceptance by 20% at the target default rate of 3% for those borrowers with fair file telecommunications account data reported. About 22% of the sample had no other credit file data other than telecommunications account information.

Located here: <http://www.perc.net/wp-content/uploads/2013/09/PERC-Report-Final.pdf>

## The Credit Impacts on Low-Income Americans from Reporting Moderately Late Utility Payments (2012)



"The Credit Impacts on Low-Income Americans from Reporting Moderately Late Utility Payments," is a follow-up to the June 2012 report, "A New Pathway to Financial Access." The new report addresses concerns some had about the impacts of reporting moderately late utility payments for low-income Americans.

### Key Findings:

- **The reporting of moderately late payments has little negative impact for consumers,** including low-income consumers, and is dwarfed by the benefits of reporting positive data;
- **40 times as many in the lowest income group gain access to credit** (at a 3% default target) than those who lose access with a moderately late payment in the last 12 months; and
- **Given current industry practices, the number of lower-income people who would either experience a dramatic score reduction, or a reduced credit standing, from a moderately late payment is miniscule (less than 0.8%).**

Located here: [http://www.perc.net/wp-content/uploads/2013/09/ADI\\_ML\\_Impacts.pdf](http://www.perc.net/wp-content/uploads/2013/09/ADI_ML_Impacts.pdf)

## Research Consensus Confirms Benefits of Alternative Data (2015)



This paper reviews research on the impacts of and need for Alternative Data that has been carried out by many organizations, including PERC, TransUnion, Experian, Equifax, LexisNexis, FICO and VantageScore. Despite differing approaches, competing products, different data and solutions analyzed, the research carried by industry contain consensus in a number of key points. Many key results are also consistent with conclusions found earlier by private researchers outside of industry (PERC, Brookings) and more recently by government researchers (CFPB).

### Key Findings:

- **Credit Invisibility is a Big Problem.** Equifax estimated that 64 million were traditionally unscoreable. LexisNexis found about the same, that 24% of consumers were traditionally unscoreable. This compares to more recent CFPB results that nearly 1-in-5 adults are traditionally unscoreable.
- **Credit Invisibility Disproportionately Impacts Members of Low-income Households and Ethnic Minority Groups.** LexisNexis, PERC, Equifax, and VantageScore all found that members of ethnic minority groups are more likely, typically much more likely, to be unscoreable by traditional means. This was also found by the CFPB. Prior work by PERC and more recent work by the CFPB published after this study found that members of lower income households were much more likely to be unscoreable (the CFPB found that 45% of adults from lower-income census tracts were unscoreable).
- **Added Alternative Data and Using New Solutions Can Reduce Greatly the Credit Invisibility Problem, Resulting in Increased Access to Sound, Mainstream Credit.** Equifax alone maintains utility and telecom payment histories on 25 million consumers that do not have sufficient traditional credit data, LexisNexis finds that approximately 40 million consumers can become scoreable by using new data / new solutions. Depending the data and solutions examined, anywhere from one-third to two-thirds of those becoming scoreable with new data could gain access to low-cost mainstream credit.

Located here: [www.perc.net/wp-content/uploads/2015/03/ResearchConsensus.pdf](http://www.perc.net/wp-content/uploads/2015/03/ResearchConsensus.pdf)

(the CFPB study *Data Point: Credit Invisibles* can be found here:

[http://files.consumerfinance.gov/f/201505\\_cfpb\\_data-point-credit-invisibles.pdf](http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf) )

## Predicting Financial Account Delinquencies with Utility and Telecom Payment Data (2015)



### Key Findings:

- **Utility/Telecom Payment History Predictive of Future Credit Delinquencies.**  
Example: For consumers with a severe delinquency on a utility or telecom account in the year prior to July 2009 the Bank Card delinquency rate was 47.7%. For consumers with no past delinquency reported for utility or telecom accounts this rate is just 4.5%.
- **After Controlling for Traditional Data Credit Scores, Utility/Telecom Data Still Predictive:** Active bank card customers with VantageScore credit scores in the 800---899 range had a bank card delinquency rate of 2.7% if they had no prior utility/telecom delinquencies reported and a rate of 11.4% if they did have one. **Seeing Only Credit Accounts Misses the Whole Picture.**
- **Not Fully Reporting Utility/Telecom Payments is Unfair to Those Who Pay On Time**

Located here: [www.perc.net/wp-content/uploads/2015/05/Alt-Data-and-Traditional-Accounts.pdf](http://www.perc.net/wp-content/uploads/2015/05/Alt-Data-and-Traditional-Accounts.pdf)

## Changing the Lending Landscape: Credit Deserts, the Credit Invisible, and Data Gaps in Silicon Valley (2017)



This report presents findings from the pilot effort of the Credit Deserts Project, which aims to map the incidence of Credit Invisibility, in which consumers have credit reports with no or insufficient data with which to generate a traditional credit score. Previous research suggests that Credit Invisibles disproportionately live in lower income areas of communities and help form what we call Credit Deserts.

### Key Findings:

- **Credit Deserts of Silicon Valley are Mapped.** Maps are produced of the geographic location of Credit Deserts (geographic areas with high concentrations of Credit Invisibles and AFSPs and below average credit scores) in a large US community, Silicon Valley.
- **The Credit Score Impacts of Adding Alternative Data is Mapped.** A visual rendering is produced of how credit reporting “alternative data” and use of alternative credit scores can impact Credit Deserts and the lending landscape.
- **Added Alternative Data has a large Impact.** Perhaps the most compelling finding from this analysis is the dramatic impact from credit reporting even very modest amounts of alternative data and the use of alternative scores on the credit score landscape across Silicon Valley. The share of consumers with credit scores needed for mainstream credit increases noticeably while Credit Invisibility is nearly stamped out.

Located here: [http://www.perc.net/wp-content/uploads/2017/11/Credit\\_Desert.pdf](http://www.perc.net/wp-content/uploads/2017/11/Credit_Desert.pdf)

### Unscoreable Rate in Silicon Valley...

