



Addition is Better than Subtraction

The Risks from Data Suppression and Benefits of Adding More Positive Data in Credit Reporting

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This paper examines approaches to credit reporting in response to the COVID-19 pandemic. While lenders are using existing tools under the Metro 2 credit reporting standards—including the use of Special Comment Codes (SCC) and Payment History Profile codes to indicate accounts affected by a natural disaster (SCC “AW”), account in forbearance (SCC “CP”), and payments deferred (Payment History Profile code “D”)—and are making accommodations for some student loan and residential mortgage borrowers under the CARES Act, there remain calls by some members of Congress for an outright ban on credit reporting any adverse information, covering all consumers during (and for some period after) the COVID-19 crisis—a policy referred to as “suppression and deletion.” Proponents of suppression/deletion argue that borrowers remain at risk through no fault of their own, and existing measures fall short. Opponents of suppression/deletion worry that such a policy will (1) result in a substantial degradation of the integrity of the national credit reporting system, (2) pose a threat to the safety and soundness of the financial sector, and (3) do more harm to consumers (particularly lower-income consumers) and small businesses than good.

This paper gauges the probable impacts from large-scale data deletions by using past, empirical evidence. The data show that suppression/deletion will greatly reduce access to affordable sources of credit, harming consumers, but particularly lower to moderate income persons, as well as the young and members of minority communities. This paper also considers an alternative, encouraging the reporting non-financial positive payment data (timely payments). Evidence from the impacts of including telecoms payment data is examined, and shows benefits in terms of greater access to mainstream credit and improved lending performance. Instead of restricting accurate late payment data, Congress should encourage the reporting of timely payment data from large broadband, content, and telecoms services providers to the NCRAs as a proactive, evidence-based solution. If these large service providers continue to choose not to report on-time payments voluntarily, a reporting mandate could be used as have been utilized in other countries.

Key Findings

A proposed federal legislative response to COVID-19 crisis, now in the U.S. House's HEROES Act, would suppress or delete all adverse credit data reported to credit bureaus during an indeterminate period of time. While there is no doubting the good intentions of the proposed legislation, past research has shown that the consequences of such a largescale data deletion would likely have the opposite impact of what is intended. It would likely result in reduced credit access, especially for members of lower-incomes households.

- Theory and empirical research consistently find that reducing lender access to useful information on applicant credit risk *reduces* consumer access to credit, particularly for those on the credit margins, such as members of lower income households.
- An adverse credit data deletion simulation from 2003 research originally carried out to inform the FCRA reauthorization debate provides a useful example of the impacts of large-scale negative credit data deletions.
 - The example simulation deleted, among other items, accounts with 30-, 60-, or 90-day delinquencies and all adverse information at 4 years. The details are different than what is proposed in the HEROES Act, but may be comparable in scope.
 - Credit scores go up, but credit *approvals* decline, in one model declining by 30%.
 - This occurred because not only did the credit scores rise artificially, but the loss of valuable data made the credit scores less meaningful. Credit approval score cutoffs rose to offset this (as would certainly happen with lenders in the real world).
 - Members of lower-income households were most hurt by the pull back in approvals, with approvals falling 37% for those from the lowest income households.
- Credit reports and scores act as trusted information and substitute for financial/asset collateral or lending relationships. These are most valuable to lower-income and lower-asset households. Damaging credit reporting and scoring will harm these households the most.
- Community lenders and the smallest banks rely on credit reports and third-party generic credit scores since they do not have large internal databases (not impacted by proposed legislation) nor internal analytics departments. They will be particularly harmed if third-party credit data and scores are degraded.
- Safety and soundness in lending will be degraded if accurate adverse information is removed en masse (unless one assumes that adverse information is no longer related to credit risk).
- Instead of removing accurate adverse information, policymakers should advocate for *adding* on-time, positive information for telecom accounts. Unfairly, while on-time payments for such accounts *are not* reported, very negative payment data and collections *are* reported. This would make the system fairer, aid the credit invisible, improve predictability, and help lower-income households. A mandate to report covering large service providers could be used if the on-time payment data is not reported voluntarily.

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1. Introduction

Protecting Consumers from Unfair Harms

Policymakers are struggling with consumer and commercial credit challenges created by the COVID-19 pandemic. Shelter-in-place orders implemented to tamp down the spread of the coronavirus led to levels of unemployment not seen in the U.S. since the Great Depression. The official unemployment rate published by the Bureau of Labor Statistics surged from 3.5% in February 2020 to 14.7% by the end of April.¹ Another 6 million workers dropped out of the labor force; who, if included, would unofficially raise the unemployment rate to 23%.²

Whichever unemployment figure one uses, the fact is that many Americans are struggling to ensure their basic needs are met, let alone pay existing credit obligations. Mortgage,³ auto,⁴ private student,⁵ and online personal loans,⁶ as well as credit card delinquency rates⁷ have all begun trending upward. At the same time, access to credit is tightening as lenders raise minimum credit score requirements,⁸ and the use of credit is declining to levels not seen since the first Reagan Administration.⁹ How this debt is managed will be consequential to the nation's economic recovery trajectory. Right now, a substantial credit crunch is prognosticated. However,

¹ Bureau of Labor Statistics. Downloaded at: <https://data.bls.gov/timeseries/LNS14000000>

² Santangelo, Giacomo. "Why the Unemployment Rate is Actually Even Worse." 13 May 2020. Downloaded at: <https://newyork.cbslocal.com/2020/05/13/unemployment-rate-worse-job-loss-coronavirus/>

³ The Mortgage Bankers Association reported that in February, 4.36% of all residential mortgage loans were 30-days late or later, up 59 basis points when counting forbearances as late payments. Delinquency rates for FHA guaranteed loans were up 113 basis points to 9.69%, and those for the Veterans' Administration were up 78 basis points to 4.65%. See Howley, Cathleen. "Mortgage delinquency rate jumps with forbearances tallied as overdue." *HousingWire.com*. 12 May 2020. Downloaded at: <https://www.housingwire.com/articles/mortgage-delinquency-rate-jumps-with-forbearances-tallied-as-overdue/>

⁴ At the end of 2019, outstanding balances on automobile loans and leases hit a record high of \$1.33 trillion, according to the New York Federal Reserve. Some \$66 billion, or 5% of the total outstanding value, are severely delinquent (above 90 days late). See Buchwald, Elisabeth. "Outstanding auto loan balances just hit a new record and delinquencies are on the rise—should you be concerned?" *MarketWatch*. 25 February 2020. Downloaded at: <https://www.marketwatch.com/story/outstanding-auto-loan-balances-just-hit-a-new-record-and-delinquencies-are-on-the-rise-should-you-be-concerned-2020-02-21>

⁵ Swaminathan, Aarthi. "Coronavirus shutdown: Consumer advocates worry about \$100 billion private student loan market." Yahoo Finance. 25 March 2020. Downloaded at: <https://ca.finance.yahoo.com/news/coronavirus-100-billion-private-student-loan-market-125356980.html>

⁶ For prime borrowers, loan impairment rates (missed or deferred payments) have tripled to 7.5%, and for subprime borrowers they has skyrocketed to nearly 20%. Kauflin, Jeff and Antoine Gara. "Exclusive: The Coming Default Crisis with Online Loans." *Forbes*. 16 April 2020. Downloaded at: <https://www.forbes.com/sites/jeffkauflin/2020/04/16/exclusive-early-data-shows-12-of-online-loans-in-trouble-double-just-weeks-ago/#190cad4f18c1>

⁷ Andriotis, Annamaria and Orla McCaffrey. "Millions of Credit-Card Customers Can't Pay Their Bills: Lenders Are Bracing for Impact." *The Wall Street Journal*. 25 April 2020. Downloaded at: <https://www.wsj.com/articles/millions-of-credit-card-customers-cant-pay-their-bills-lenders-are-bracing-for-impact-11587807001?mod=searchresults&page=1&pos=7>

⁸ Dunsmuir, Lindsay. "US banks tightened loans standards in first quarter as coronavirus took hold." *Reuters*. 4 May 2020. Downloaded at: <https://www.reuters.com/article/us-usa-fed-credit/u-s-banks-tightened-loan-standards-in-first-quarter-as-coronavirus-outbreak-took-hold-idUSKBN22G2FQ>

⁹ Egan, Matt. "New threat to the economy: Americans are saving like it's the 1980s." *CNNBusiness*. 12 May 2020. Downloaded at: <https://www.cnn.com/2020/05/12/investing/jobs-coronavirus-consumer-spending-debt/index.html>

a brick wall impeding the path to economic recovery could be just over the horizon if policymakers don't navigate this course well.¹⁰

While some measures have already been undertaken by lawmakers and industry—notably historical disaster relief measures under Metro 2 (the industry credit reporting format standard) and the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which requires lenders who grant a borrower a deferral or loan modification to preserve the pre-pandemic payment history and account status so long as borrowers are complying with the terms of the accommodation¹¹—as unemployment climbs and a non-trivial group of Americans struggle to make ends meet, some lawmakers seek to deploy a policy life-preserver to keep borrowers from drowning in a sea of debt.

Legislation proposed by Senators Brown and Schatz (S. 3508)¹² and Representatives Waters and Sherman (H.R. 6321),¹³ predating the CARES Act, contain outright prohibitions on reporting late payment data to nationwide consumer reporting agencies (NCRAs) for potentially a long period of time. These bills would apply both to the COVID-19 pandemic and all future declared natural or man-made disasters. The HEROES Act and Senators Warren and Brown's 6-point plan for economic relief to consumers contain or support these data suppression measures.¹⁴

Protecting the Integrity of the National Credit Reporting System

The problems associated with proposed suppression measures are well-documented.¹⁵ In short, credit bureaus and others (including PERC) argue that suppression measures, if implemented, must be a short-term stopgap measure until a broader credit relief plan is developed and implemented. Using suppression measures at all, but especially if over all people and for more than just several months, would most likely end up causing much more harm than benefit.

This is because such measures would degrade the integrity of credit file data rendering it more difficult for lenders to differentiate between high-risk and low-risk borrowers. The result would be banks either making more mistakes, or as rational actors anticipating the degraded data, adjusting score cut-offs. When that happens, banks lend less. Lenders will also raise prices on credit to reflect the changed risk premium. This is already happening due to the recession, and will only be exacerbated by proposed suppression legislation—which could, if enacted into law,

¹⁰ Farrer, Martin. “Coronavirus credit crunch could make 2008 look like child's play.” *The Guardian*. 20 March 2020. Downloaded at: <https://www.theguardian.com/world/2020/mar/20/coronavirus-crisis-could-lead-to-new-credit-crunch-as-companies-struggle-with-debt>

¹¹ Pub. L. 116-136, § 4021. 27 March 2020. Downloaded at: <https://congress.gov/bill/116th-congress/house-bill/748>

¹² Downloaded at: <https://www.congress.gov/bill/116th-congress/senate-bill/3508>

¹³ Downloaded at: <https://www.congress.gov/bill/116th-congress/house-bill/6321?q=%7B%22search%22%3A%5B%22hr+6321%22%5D%7D&s=1&r=1>

¹⁴ Senators Elizabeth Warren and Sherrod Brown. “Congress must provide immediate relief for consumers. Here's how.” Medium. 21 April 2020. Downloaded at: <https://medium.com/@SenWarren/congress-must-provide-immediate-relief-for-consumers-heres-how-2aeb99672ef9>

¹⁵ Turner, Michael and Patrick Walker. “COVID-19 and Credit Reporting: Suppression is Not the Solution.” 21 April 2020. Downloaded at: <https://www.perc.net/covid19-credit-reporting-no-suppression/>; See also: Julie Bykowicz and Ted Mann. “No Coronavirus Break for Consumer Credit Scores.” *The Wall Street Journal*. 31 March 2020. Downloaded at: <https://www.wsj.com/articles/no-coronavirus-break-for-consumer-credit-scores-11585668691?mod=searchresults>

result in a prohibition on reporting all late payment data for years to come. This “blind spot” would be fatal to traditional credit reporting.

In all likelihood, larger lenders will seek to weather this storm through a combination of alternative data (e.g. consumer permissioned data including cash flow information, income and employment data) and housefile data.¹⁶ Relationship banking will become a more prevalent practice. While suppression and deletion will be a bad outcome for borrowers, the economy (hard to grow during a credit crunch), and lenders, smaller lenders will be especially hard hit as they have fewer internal data resources to substitute for degraded credit file data and are less data adroit than much larger lenders.

An Alternative Solution: Addition Instead of Subtraction

There are additional measures available to policymakers seeking to help borrowers weather the post-COVID economic storm. Among them, we favor that providers of broadband, content, and telecommunications services (BCT firms) begin reporting timely or positive payment data to NCRAs. Such firms already report very late or negative payment data, directly or indirectly through collections agencies. Further, these same firms use credit reports for eligibility determination, and some extend billions of dollars of credit to their customers to purchase hardware such as smartphones, satellite dishes, routers, modems, and television set top boxes. Under the Equal Credit Opportunity Act (ECOA) and the Fair and Accurate Transactions Act (FACT Act) such firms are classified as “creditors” and arguably should be fully reporting customer payment data to NCRAs.¹⁷ If the BCT firms continue to choose not to report the on-time data, then a mandate should be explored.

Instead of attempting to help borrowers by prohibiting accurate late payment data during the COVID-19 healthcare and economic crises—which would end up harming borrowers and small businesses rather than helping—should BCT firms add to the national credit reporting system positive timely payment data, borrowers would have a more complete credit report, and the positive data could act as a protective countervailing force during these difficult economic times.

Such an approach would have an immediate and enduring impact. Consumers already have their very late payments or unpaid debts to BCT firms reported on their credit reports. Reporting the on-time data would help make those accounts more full-file and be fairer to consumers.

¹⁶ Housefile data is a generic term for all the information a lender has on their customers. This includes application data, credit report data, loan performance data, and data on other interactions with customers. Larger lenders, on average, likely have broader relationships with customers and consequently have more data on a larger population than smaller lenders. As a result, they may be better positioned to deal with a degradation in traditional credit report data owing to COVID-19 measures.

¹⁷ For a definition of creditor, see: Equal Credit Opportunity Act. U.S. Code §1691a. For purposes of discrimination or discouragement, 12 CFR 1002.4(a) and (b), the term creditor also includes a person who, in the ordinary course of business, regularly refers applicants or prospective applicants to creditors, or selects or offers to select creditors to whom requests for credit may be made. This includes retailers—such as purveyors of smart phones, television hardware and other goods sold on credit by BCT firms. Downloaded at: <https://www.law.cornell.edu/uscode/text/15/1691> See also: Fair Credit Reporting Act. Pub. L. 108-159. Downloaded at: <https://www.govinfo.gov/content/pkg/PLAW-108publ159/pdf/PLAW-108publ159.pdf>

Lenders benefit from having more accurate and predictive data for use in credit eligibility determinations. Borrowers benefit from having a more accurate and reflective credit report, and having a more achievable path to rebuild and restore their good credit standing after the COVID-19 healthcare and economic crises pass. After all, when people start returning to work and getting back on their feet, they are most likely to pay their wireless phone bills, broadband, cable and satellite TV and other such media and telecoms services. By thickening consumer credit reports with positive non-financial payment data, consumers benefit without compromising the integrity of the national credit reporting system.

2. Impacts from Data Suppressions

2a. Impacts from Positive Data (or Full-File) Suppressions

Positive data in the credit system includes all data that does not indicate *severe* late payments, defaults, or collections, including account balances, credit limits, indications of on-time payment, account types, and age of accounts. Taking positive data out would turn the credit system into a blacklist or a negative-only system. Essentially, if a person applied for a loan, and the bank conducted a search to see if they showed up in the system, the person would not appear unless they had late payments or defaults. The bank in this case would not be able to tell whether this person has a pristine credit history and has never been late on any payments, or whether it is their first time applying for credit. Having no information on a potential borrower leads banks to treat them as high-risk. Borrowers naturally have more information on their willingness and ability to repay than the lender does, leading to an information asymmetry.

Barron and Staten modeled the impact of restricting credit reporting data to negative-only, taking U.S. credit files and stripping out all the positive data.¹⁸ They found that the inclusion of positive data improves model performance by every metric: increased acceptance rate by target default rate, decreased default rate by target acceptance rate, and decreased incidences of type I and type II errors (below). Type I errors happen when banks mistakenly believe that a person who would be a good credit risk (i.e. would pay back their loan) is a bad credit risk, and therefore does not lend them money, missing out on profits. Type II errors are the reverse, when banks mistake a bad credit risk for a good risk, lending to a person who does not repay them and losing money.

Table 1: Effects on Default Rates of Adopting Negative-Only Credit Scoring Model for Various Target Approval Rates

Target Approval Rate	Default Rate (Holdout Sample)		
	Full Model	Negative-only Model	% Increase in Default Rate
40%	1.15%	2.91%	153.0%
60%	1.95%	3.36%	72.3%
75%	3.09%	4.10%	32.7%
100%	9.38%	9.38%	0.0%

Source: Barron & Staten

¹⁸ John Barron & Michael Staten, "The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience," 273-310, in Margaret M. Miller ed., *Credit Reporting Systems and the International Economy*. Cambridge: The MIT Press. 2003.

Banks use models to predict applicant risk for approvals, pricing, and risk management. The results clearly show that models are less predictive without positive data. As default rates increase, banks lose more money, which would lead them to decrease approval rates (restricting access to credit), or raising the price of credit (interest rates).

Table 1 shows that Barron and Staten estimated a portfolio approving 60% of applicants with full-file data (both positive and negative data) would have a 1.95% default rate. However, a model using only negative data (in which the positive data was removed), would have a 3.36% default rate. Table 2 then shows the reverse of this chart, in which a lender with a targeted portfolio default rate of 4% would only be able to approve 73.7% of applicants for a loan with negative-only data compared to 82.9% with full-file data. That is, the number of approvals dropped 11.1% with the removal of the positive data.

Table 2: Effects on Credit Availability of Adopting Negative-Only Credit Scoring Model for Various Target Default Rates

Target Default Rate	% of Consumers Who Obtain Loan (Holdout Sample)		
	Full Model	Negative-only Model	% Decrease in Approval Rate
3%	74.3%	39.0%	47.5%
4%	82.9%	73.7%	11.1%
5%	88.9%	84.2%	5.3%
6%	92.8%	90.6%	2.4%
7%	95.6%	94.6%	1.0%

Source: Barron & Staten

Table 3: Effects on Type I & Type II Errors of Adopting Negative-Only Credit Scoring Model for Various Approval Rates

Type I Errors		% of Good Risks Who Do Not Receive Loan (Holdout Sample)		
Target Approval Rate	Full Model	Negative-only Model	% Increase in Type I Error	
40%	56.1%	56.9%	1.4%	
60%	34.7%	35.8%	3.2%	
75%	19.5%	20.4%	4.6%	
100%	0.0%	0.0%	0.0%	
Type II Errors		% of Bad Risks Who Receive Loan (Holdout Sample)		
Target Approval Rate	Full Model	Negative-only Model	% Increase in Type II Error	
40%	4.9%	12.5%	155.1%	
60%	12.5%	21.6%	72.8%	
75%	24.8%	32.9%	32.7%	
100%	100.0%	100.0%	0.0%	

Source: Barron & Staten

Table 3 describes *why* the removal of the positive data lowers the approval rate and increases the default rate. In short, underwriting is degraded with the removal of key data (positive data in this case). Both type I and type II errors rise when the hypothetical lender is forced to shift from the full data to the negative-only data-scoring model. Ultimately, though, it is the consumers/applicants who are impacted. The lender, needing to maintain a reasonable portfolio default rate

will raise lending standards and cut back on approvals (or raise prices). The idea that information asymmetries in lending result in rationing is well understood. Excluding key information increases the rationing. This is understood both theoretically¹⁹ and empirically.²⁰ In addition, PERC's empirical research has shown that increasing useful information to lenders typically increases credit access disproportionately for those on the credit margins, such as the young, the lower-income, and members of minority communities. For instance, this has been shown in cases adding full-file utility and telecom payment data to U.S. credit files,²¹ greater full-file credit reporting in Latin America,²² creating a less fragmented credit reporting system in Japan,²³ and shifting Australia from a negative-only system to a full-file one with telecom data.^{24,25}

2b. Impacts from Negative Data Redactions

As was shown in the previous section, the removal/suppression and addition of data elements in credit reporting have been tested with simulations. These were often carried out to test the potential impact of public policy, such as adding utility payment data or positive payment data to consumer credit reports. What has been less tested is the removal *en masse* of negative payment data. In some ways this data is the core of credit reporting. Credit reporting began as lists of customers who did not pay. Credit bureaus often started as such negative-only repositories. A number of countries around the world are still negative-only. In systems with only negative data, a type of inference occurs. Lenders infer that consumers *not* on the negative list are lower risk. It

¹⁹ For example, see Joseph Stiglitz & Andrew Weiss, "Credit Rationing in Markets with Imperfect Information." *The American Economic Review* 71 (3), June 1981: 393-410. Retrieved from <http://www.jstor.org/stable/1802787>; see also Marco Pagano & Tullio Jappelli, "Information Sharing in Credit Markets." *The Journal of Finance* 48 (5), December 1993: 1693-1718. Retrieved from <http://www.jstor.org/stable/2329064>; see also Dwight Jaffee & Thomas Russell, "Imperfect Information, Uncertainty, and Credit Rationing." *The Quarterly Journal of Economics* 90 (4), November 1976: 651-666. Retrieved from <https://www.jstor.org/stable/1885327>.

²⁰ Empirical work includes Barron & Staten, "The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience"; Giovanni Majnoni, Margaret Miller, Nataliya Mylenko and Andrew Powell, "Improving Credit Information, Bank Regulation and Supervision." World Bank Policy Research Working Paper Series, No. 3443, and various PERC work described in the text that follows.

²¹ Michael Turner et al., *A New Pathway to Financial Inclusion: Alternative Data, Credit Building, and Responsible Lending in the Wake of the Great Recession*. Chapel Hill: Policy & Economic Research Council (PERC), June 2012, available at <http://www.perc.net/wp-content/uploads/2013/09/WEB-file-AD15-layout1.pdf>

²² Michael Turner & Robin Varghese, *Economic Impacts of Payment Reporting Impacts in Latin America*. Chapel Hill: Political and Economic Research Council (PERC) & Center for Competitive Credit, May 2007, available at http://www.perc.net/wp-content/uploads/2013/09/Latin_America.pdf

²³ Turner, Varghese, and Walker, *On the Impact of Credit Payment Reporting on the Financial Sector and Overall Economic Performance in Japan*. New York: The Information Policy Institute, March 2007, available at <http://www.perc.net/wp-content/uploads/2013/09/Japan.pdf>

²⁴ Turner, Varghese, Walker, Duncan, and Chaudhuri. *Credit Impacts of More Comprehensive Credit Reporting in Australia and New Zealand*, 2012, available at: <http://www.perc.net/wp-content/uploads/2013/09/PERC-Report-Final.pdf>

²⁵ A relatively narrow exception is found in the CFPB's 2014 "Report on the use of remittance histories in credit scoring," which found that adding positive remittance data actually lowered the credit scores (and credit access) of those who were scoreable and had a remittance history (though it would not have lowered access for the entire population). This was due to remitters being a higher risk group with this "information" not already being captured in traditional credit data. So, the data acted more as a signal of being in this higher risk group and less as a signal of being in a solid financial position to make be able to make such transfers. This, however, is not relevant to the discussion of much broader data deletions/additions

(https://files.consumerfinance.gov/f/201407_cfpb_report_remittance-history-and-credit-scoring.pdf).

is not clear how a positive-only system would work—would lenders make the reverse inference that consumers are high risk if they don't have sufficient positive data or have gaps in their positive data? Generic credit scores, such as those offered by FICO or VantageScore are built to predict negative events, such as a consumer being 90+ days past due. Without the negative data in credit reports, such scores could not be built. As such, it is difficult to understand how a credit reporting system or ecosystem would function without negative data.

Federal Reserve and NCAP

There are a few examples where negative data suppression has been tested. Avery, Calem, and Canner (2003) published results in a Federal Reserve Bulletin on the impacts of removing some negative data elements.²⁶ Their work aimed to quantify the impacts of removing potentially inaccurate negative data. For instance, in Table 3 of that report, they show that 15.5% of their sample had medical collection accounts. Removing these accounts has no score impact for 11.8% of consumers and actually lowers the credit score for 6.9%. Policymakers should note this last point. Seemingly negative data, like collections, may actually raise a credit score by shifting a consumer to a different score card (a technical scoring issue) or by indicating a longer credit history, thicker credit file, or other such characteristic. In the same way, a seemingly positive account may lower a credit score (for instance by showing a larger credit balance). But, nonetheless, 81.2% of consumers with medical collections in that study saw a score rise when the collections were removed. The average score increase for this group was 11.2 points. However, the shortcoming of this analysis for our current purposes is that it conducts very narrow data deletions (such as medical collections) and these consumers may have other negative accounts, such as non-medical collections. This work also only looks at score changes and not the impact on actual score performance and default rates by score value (what is of interest to lenders).

Prior to the initiation of the National Consumer Assistance Plan (NCAP), FICO carried out analyses to determine how the removal of judgments and tax liens by NCAP would impact FICO scores and their performance.²⁷ Results from that work showed that 6 to 7% of the FICO scoreable population would be impacted from the removal of the judgments and tax liens. It is estimated that the majority of these consumers would see a credit score rise, but three-quarters of the rises would be in the 1 to 19 point range. As with the Federal Reserve work, a small portion of consumers would see a credit score fall as a result of the removal of the public records. The typical score increase is about 10 points for the affected population. Among the affected population, the share with scores over 640 only rises by less than 5 percentage points. FICO also finds no material score performance impact from the data removal. Why such small impacts? First, the median pre-NCAP FICO Score 9 for the affected population is 565. So, a small credit score rise would likely have little real, material impacts in the lending marketplace. Second, many of the affected population with judgments and liens also had other types of negative/derogatory data (such as late payments, collections, bankruptcies) in their credit reports. So, the removal of one or even two types of negative data had little impact.

²⁶ Robert Avery, Paul Calem, & Glenn Canner, "Credit Report Accuracy and Access to Credit." Federal Reserve Bulletin, Summer 2004: 297-322. Accessed at:

https://www.federalreserve.gov/pubs/bulletin/2004/summer04_credit.pdf

²⁷ Tommy Lee, "NCAP Public Record Removals Have Little Impact to FICO Scores." *FICO Blog*. 17 May 2017, available at <https://www.fico.com/blogs/ncap-public-record-removals-have-little-impact-fico-scores>

Unlike these examples, the proposed data suppression for COVID-19 is extensive and over an indeterminate period of time. As such, simulations of limited negative data being removed (marginal data removals) likely don't provide ideal examples.

2003 FCRA Report

The 2003 report by the Information Policy Institute (the predecessor organization of PERC) titled “The Fair Credit Reporting Act: Access, Efficiency & Opportunity,” has a simulation of a more dramatic removal of negative data that can act as a useful example. Scenario “D” in that report carried out four deletions shown in Table 4.²⁸

Table 4: Scenario “D” Negative Data Suppression

<i>Delinquent Accounts</i>	Purge accounts with 30-, 60-, or 90-day delinquencies
<i>Paid Public Record Items</i>	Purge when paid
<i>All Adverse Information</i>	Purge all adverse information at 4 years
<i>Use of Inquiries in Models</i>	Purge all but one inquiry less than 60 days (clustering)

Of the four types of deletions carried out in Scenario “D,” two likely would have relatively minor impacts. The consolidation or clustering of inquiries to just one in the past 60 days would likely have a minor impact. Such clustering, in fact, is now part of many scoring models. Second, the removal of paid public records, is also likely to have limited impacts for the reasons seen with the FICO NCAP analysis. On the other hand, the other two, removing all adverse information after 4 years and removing accounts with 30, 60, or 90-day delinquencies would likely have larger impacts.

How comparable is this to the negative credit data suppression proposed by the Disaster Protection for Workers’ Credit Act of 2020 (DPWCA 2020) and now part of the HEROES Act? The DPWCA 2020 has a moratorium on reporting adverse information for a period that extends 270 days beyond 120 days after the lifting of a state of emergency. This could be years. The DPWCA 2020 moratorium includes all adverse information. In reality, while some information is “clearly” adverse, such as a bankruptcy or a payment listed as 120 days late, there is other information, such as credit inquiries, credit card balances, credit limits, number of accounts open, types of accounts, age of oldest credit (or average age), that may not seem clearly adverse (or beneficial) but can lower or raise credit scores. Nonetheless, we will assume that adverse means just the obviously adverse data, such as late payments or collections.

Scenario “D” purges all adverse information after 4 years, so, mostly for years 5, 6 and 7, as most adverse data already falls off at 7 years. Since more recent data is of most interest to lenders and is weighed more heavily in credit scores, removing the oldest 3 years of adverse data would likely have a much smaller impact than removing the most recent 1 or 2 years. Lenders are much more concerned about an applicant’s payment history in the most recent year than what it was 7 years ago. On this measure, Scenario “D” is much less severe than the DPWCA 2020. Scenario “D” also removes all accounts (regardless of age) with 30-, 60-, or 90-day delinquencies. But DPWCA 2020 removes *all* delinquencies for the most recent 1- or 2-year

²⁸ Michael Turner et al., *The Fair Credit Reporting Act: Access, Efficiency and Opportunity*. Washington, DC: The National Chamber Foundation, June 2003, available at http://www.perc.net/wp-content/uploads/2013/09/fcra_report.pdf

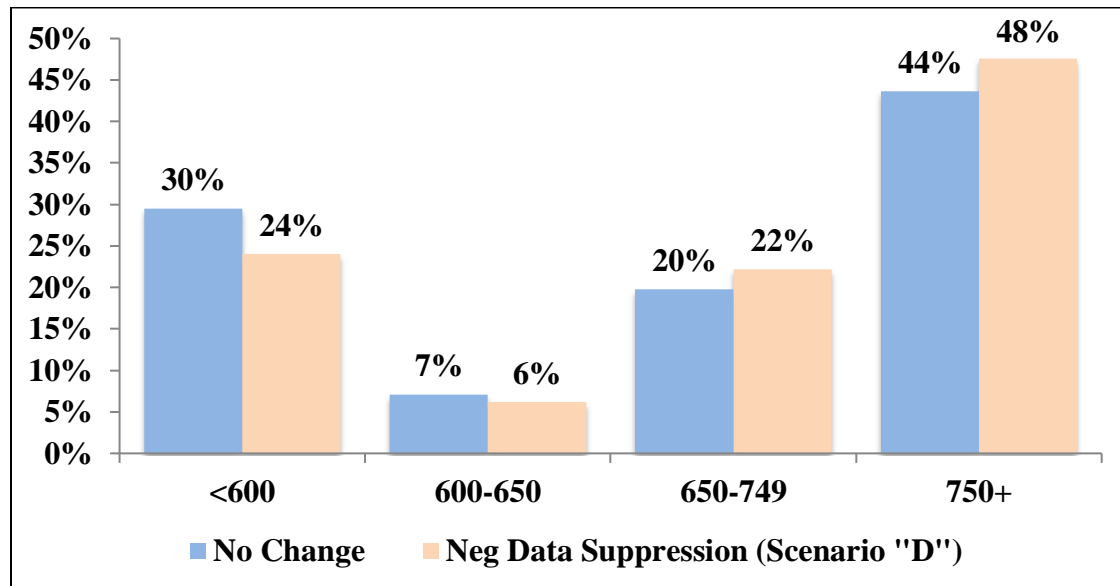
period. From these comparisons it is difficult to determine with any precision which is more “severe” and the exact impacts of DPWCA 2020. That would take specialized simulations of the exact criteria of DPWCA 2020 to determine. However, it would be difficult to see how the DPWCA 2020 would not be more severe if it lasted a very long time, such as 1, 2, or more years. Imagine not knowing whether an applicant had any adverse credit event during the past year or two. It is reasonable to say that the impacts of DPWCA 2020 could be on the same order of magnitude of Scenario “D,” and much closer to Scenario “D” than other more limited simulations of data redactions.

Impacts of the Scenario “D” Negative Data Suppression

(1) Credit Scores Go Up

As with the previously discussed simulations where negative credit data is removed, with Scenario “D” credit scores rise. For instance, the share of consumers with credit scores over 650 rises by over 6 percentage points with Commercial Model #1 from that report.²⁹ The fact that credit scores would rise with a dramatic removal of negative data should not be surprising. In this case, score movement is greater than was seen with the NCAP analysis.

Figure 1: Credit Score Distribution with Scenario “D”

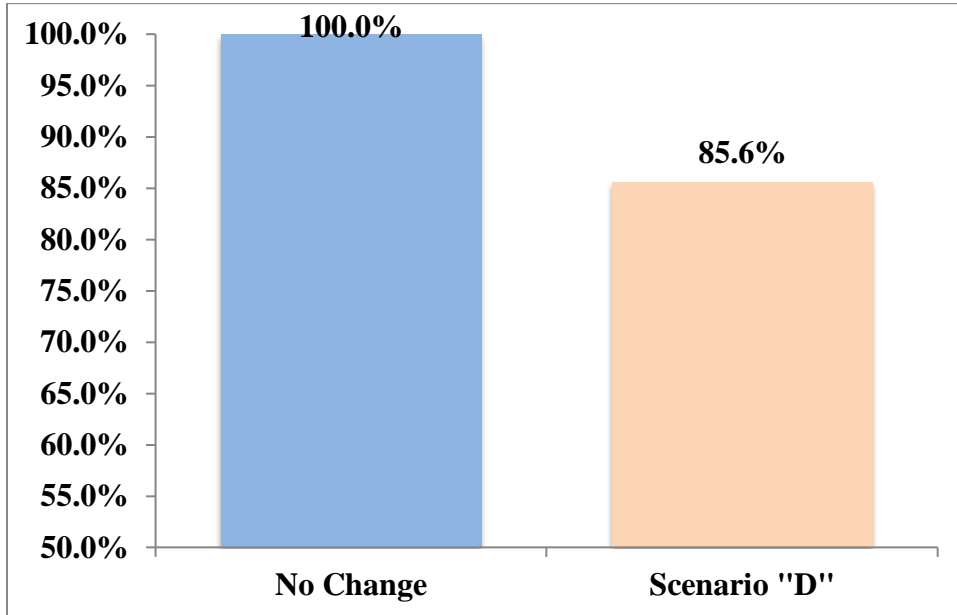


(2) But Scoring Model Performance is Degraded

The exclusion of useful data harms the performance of the credit scoring model, in this case much more than the NCAP analysis (which was a much more limited data suppression).

²⁹ Although a number of models are used in the FCRA report, we focus on Commercial Model #1 results that are shown in the body of that report and have socioeconomic segmentations. The other models show similar directional/qualitative impacts but do differ in the exact quantitative findings. Note that Table 9 of that report shows that Commercial Model #1 was the most degraded by the data removal of the six models considered.

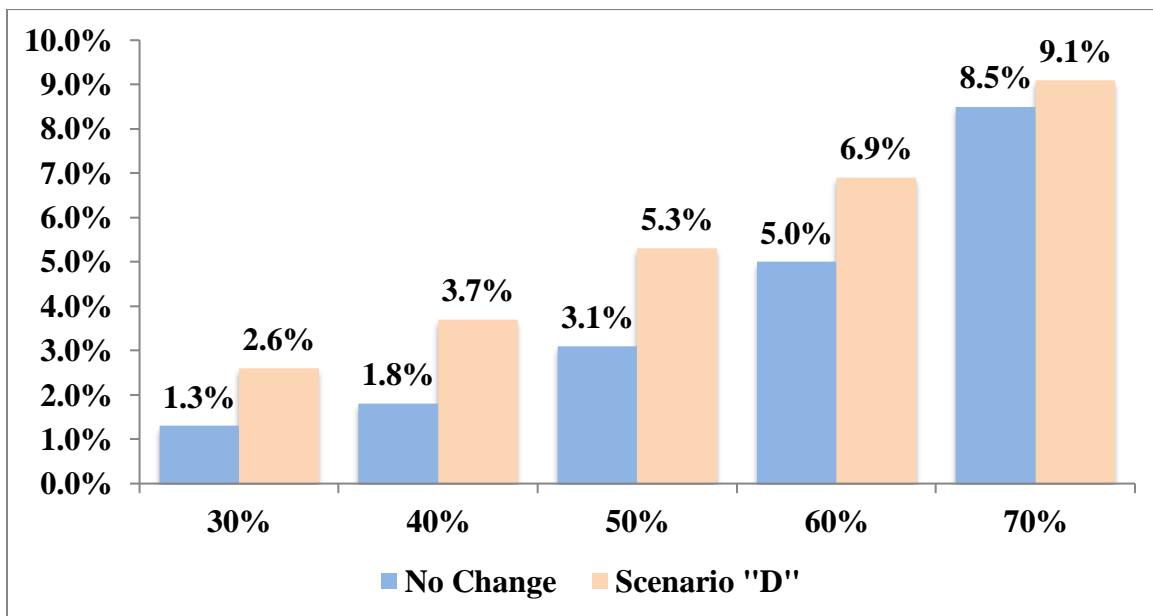
Figure 2: Credit Score Model Performance (Relative K-S Measure)



(3) Delinquency Rates Rise for Portfolios, holding the Approval Rate Constant

The degraded credit scoring model means that for every chosen portfolio size or approval rate, the default rate is higher. That is, lenders, using a degraded model, make poorer lending decisions.

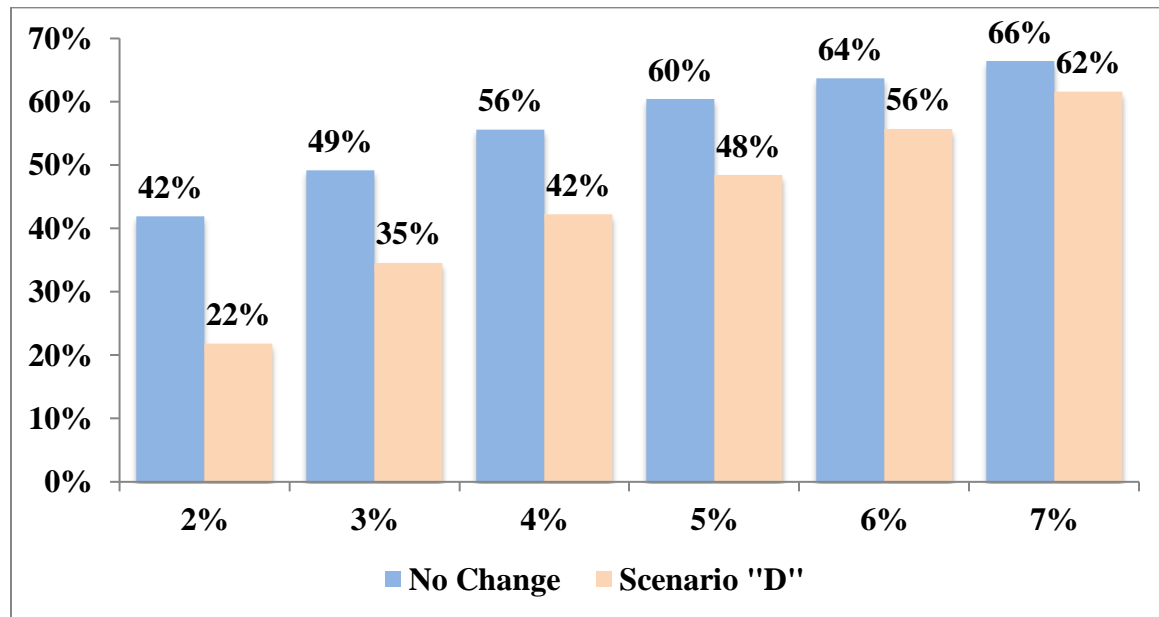
Figure 3: Default Rates for Target Approval Rates



(4) For a Given Default Rate, the Number of Borrowers that can be Approved Falls

The flip side of the previous figure is that for any given target default rate, lenders would approve fewer applicants. This would occur in practice by lenders raising the score cut-offs for approval and pricing. This will occur because lenders would understand that applicants are now riskier at every score level and the scores are less precise. This is how lenders would respond in the real world. Lenders are concerned with the actual risk of applicants, not numerical score values.

Figure 4: Approval Rates for Targeted Portfolio Default Rates with Scenario “D”

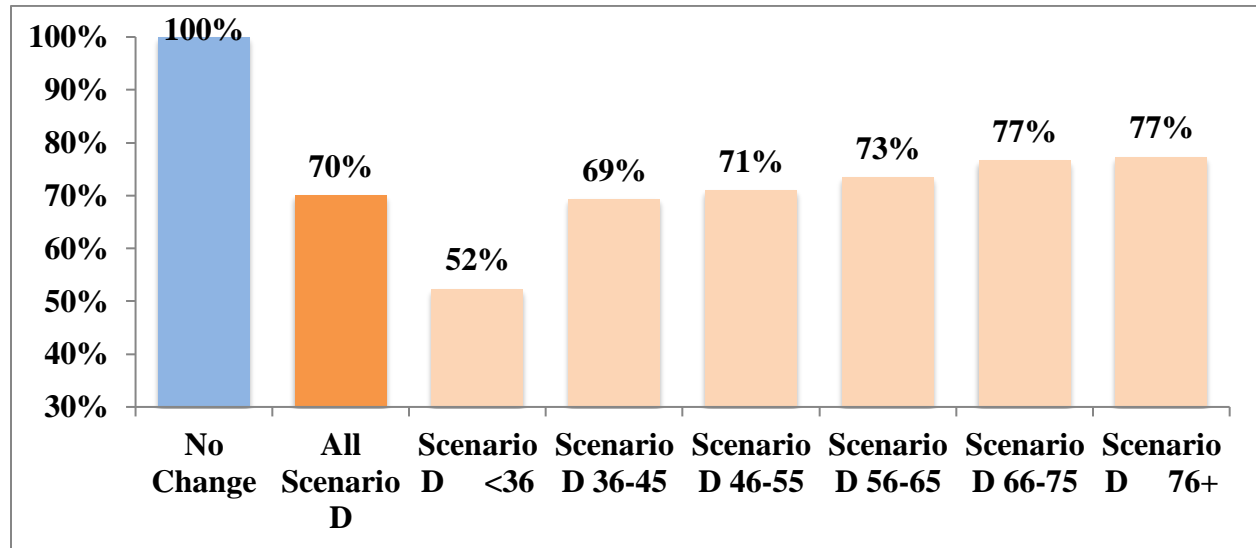


(5) With a 3% Default Rate, Approvals Fall 30%, to just 70% of the “No Change” Scenario – The Fall in Approvals is Much Worse for Young Borrowers

If we consider the 3% target default rate example from Figure 4, we see that the approval rate would fall from 49% of the applicants to 35%. That is, approvals fall 30% to a new level that is 70% of the base or “No Change” scenario.

Again, this occurs with the lender raising the score cut-off to match the risk level of consumers and to account for a less predictive model. As it happens, younger consumers have lower credit scores (on average), so the raising of the cut-off will reduce their credit access (approvals) more than average.

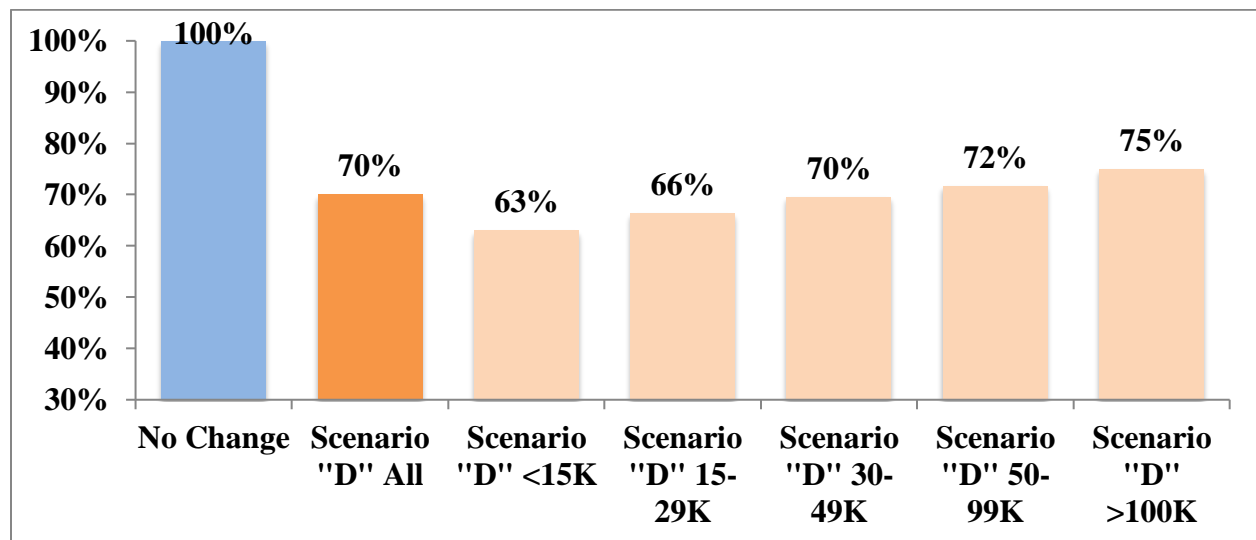
Figure 5: Decline in Approval Rate for Scenario “D” by Applicant Age (for a 3% target default rate)



(6) The Fall in Approvals is Also Worse for Lower-Income Borrowers...

The same is seen for members of lower-income households. This may seem like a paradox. Policymakers and advocates could argue that since members of lower-income households disproportionately have derogatory information on their credit files, they would benefit from its removal. But this is not the case. Members of lower-income households, who tend to have lower credit scores (on average), would be hurt more when lenders adjust their behavior and raise approval and pricing score cut-offs.

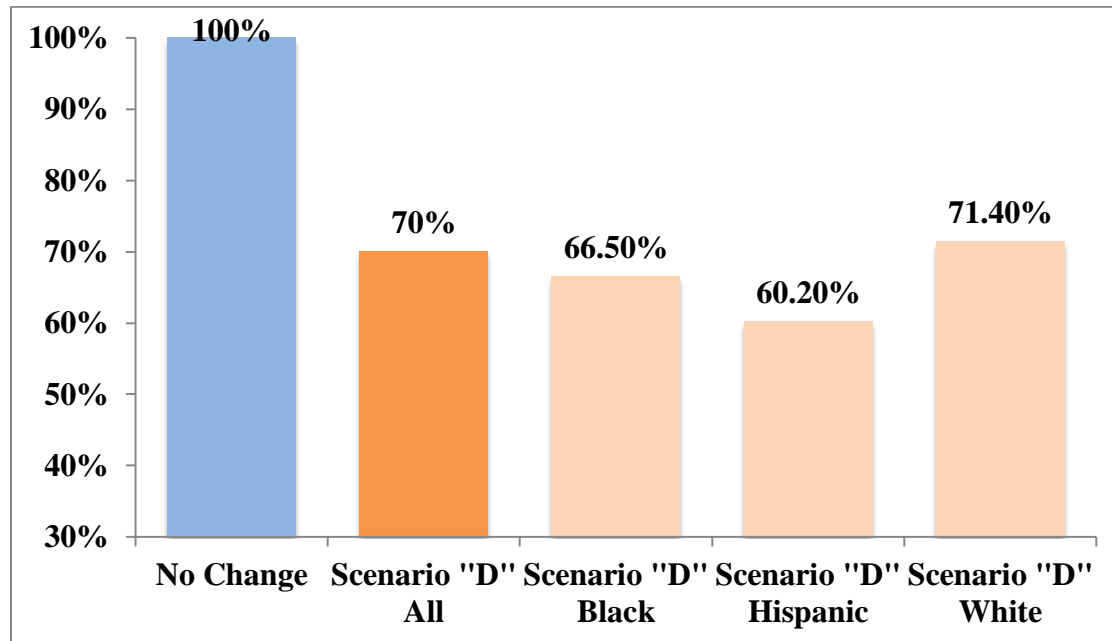
Figure 6: Decline in Approval Rate for Scenario “D” by Applicant Household Income (for a 3% target default rate)



(7) And the Decrease in Approvals is Also Worse for Members of Racial and Ethnic Minority Groups...

The same is true of members of racial and ethnic minority groups. They also are relatively worse off with the removal of the negative data in Scenario “D.”

Figure 7: Decline in Approval Rate for Scenario “D” by Applicant Race and Ethnicity (for a 3% target default rate)



These results may *seem* completely counter-intuitive, specifically that removing negative information, resulting in credit score increases, would lower credit access, particularly for members of lower-income households. But the removal of the negative data is artificial; it is not because the applicants actually had fewer “negative” events or were lower-risk. As such, lenders being rational would simply adjust their score cut-offs by raising them. The scores will not just be made artificially higher, they are *also* made less predictive and reliable. As such, the lenders would need to raise the cut-offs even more. This results in reduced credit access, particularly for members of lower-income households. This is similar to an employer or college accepting only students with a GPA of 3.0 or greater. If, because of grade inflation everyone’s GPA rises by half a point, then the employer or college would act rationally and change their criteria to 3.5. On top of this, if the GPA was not just raised uniformly, but also became less reliable, then the employer or college may decide to raise the cut-off to 3.65, to ensure the same quality of applicant as before the change. This would necessarily reduce the number of applicants who could qualify.

2c. Other Considerations Regarding Data Suppressions

It is completely predictable that lenders will simply raise credit score thresholds if credit scores rise as a result of negative data suppression. The “artificially” higher scores would also be less predictive. This would result in a further raising of the credit thresholds. These would be on top

of already rising thresholds due to the economic downturn and the ensuing rising default rates. However, modifying credit data will add another layer of uncertainty of not knowing exactly (1) how much scores have been degraded and (2) how risk levels have been impacted. Risk-averse lenders will likely respond by erring on the side of caution, raising lending standards and reducing credit access more than they would need (until they can analyze the data over a period of time). Lending is in a very turbulent state now, and adding noise to a key underwriting tool will have negative consequences for applicants.

While data suppression is aimed at aiding those who have lost work from the crisis, the consequences of a suppression will impact everyone. There will, no doubt, be *some* members of low-income households who have lost work who would have greater credit access as a result of negative data deletion. But many more members of low-income households will be hurt.

Beyond just raising credit score thresholds, lenders would also respond to a degraded underwriting tool by relying more on other data or underwriting methods (substitutes). It is unclear what these would be or what the impacts of their use would be. For instance, maybe instead of pulling a credit report for a credit line increase, a lender would now want to verify that a person had not lost their job. This substitution could be worse for those impacted by a job loss. Or maybe lenders would rely more on whether someone has assets or collateral. This could be worse for members of lower-income or wealth households.

This gets to one of the best attributes of credit reports and credit scores, namely that they act as reputational collateral. This reputational collateral can substitute for financial and property collateral or personal relationships with lenders. Those who are not connected, who have few assets, little wealth or no collateral can get credit using credit reports and scores (in part). As such, it would be a terrible idea to short-circuit these credit reputation-based tools. If credit reports, credit bureaus, and credit scores were to go away, those who own sufficient property, have sufficient assets, and have the right connections will do fine, or at least better than those without substitutes for their credit reputation.

The prospect of unintended consequences should not be ignored as a remote possibility. Consider bans on employment background checks that utilize credit reports. A pair of studies have found that such bans sometimes had the opposite impact as intended for key groups that were expected to gain from the change, such as worse employment outcomes for those under 22 years old and for black applicants.³⁰ What was not taken account of was how employers would actually respond to the loss of an employment-screening tool.

What also seems to get little attention from those advocating for largescale data suppression is that they are only advocating for suppression of the *sharing* of the adverse data. Lenders will still have that data on their own clients. Large lenders that bank or otherwise service a large segment

³⁰ Robert Clifford & Daniel Shoag, “‘No More Credit Score’ Employer Credit Check Bans and Signal Substitutions,” *Federal Reserve Board Working Paper No.16-10*, Sept 2016, available at: https://scholar.harvard.edu/files/shoag/files/no_more_credit_score_employer_credit_check_bans_and_signal_sub.pdf; and Jennifer L. Doleac & Benjamin Hansen, “The unintended consequences of ‘ban the box’: Statistical discrimination and employment outcomes when criminal histories are hidden.” *Journal of Labor Economics* 38(2), 2018: 321-374. Accessed at: <https://www.journals.uchicago.edu/doi/abs/10.1086/705880?af=R&mobileUi=0&>

of the population will retain adverse information on their customers. When it comes to building internal models and adjusting lending decisions, these larger lenders (with a fuller picture) would have an advantage over smaller lenders that are more reliant on third-party credit data and credit scores. With a loss of key external data, it is also possible that larger lenders would begin to concentrate more on their own already-booked customers, who they have full data on, thereby reducing competition between banks. Consumers who don't have strong, established relationships with banks may find it more difficult to borrow, as lenders become wary of lending to new customers for whom they have unclear risk profiles. Again, this should not be seen as a remote possibility. In economies with less advanced or little information sharing, there is often less competition between lenders for borrowers because it is more difficult for borrowers to easily move from one lender with whom the consumer has an established record with to another.³¹

Finally, it is unclear whether advocates of largescale data suppression believe that adverse data now is *not* indicative of higher credit risk. If it is (and it is unclear why it wouldn't), then suppression carries with it the potential of serious safety and soundness problems, unless lenders adjust their lending standards appropriately to the change in data. Therefore, advocates of largescale data suppressions must be assuming that (1) adverse information now is very different and not indicative of higher credit risk and (2) lenders will not adjust lending criteria in response to a major change to credit reports and scores. These seem like unreasonable assumptions.

3. Reporting Positive Payment Data: Telecoms Evidence

Unlike typical banking data, the U.S. credit reporting system is mostly negative-only when it comes to telecom accounts. None of the major telecom service providers report positive, on-time data, but instead flood the consumer credit reporting system with very negative payment data (such as collections). So if a consumer wants to build or improve their credit profile, they cannot do that with a telecom service account. But if they are very late in paying their telecom service account, they may find a collection on their credit report, likely lowering their credit score. The large telecom companies could report positive data to the CRAs but choose not to. Unfortunately, there are many consumers who are customers of the telecom companies with little financial credit data on their credit reports who would benefit from such a practice.

Why don't telecom companies report? One theory is that it is for competitive reasons. That is, telecom companies don't want to send "a list" of their on-time customers to the consumer credit bureaus for fear that competitors could market to them. One solution to this would be for the CRAs to agree not to provide such detailed information on competitors to telecoms companies (which CRAs would likely agree to). What makes the non-reporting even more surprising is that the telecoms companies rely on the CRAs for determining customer/applicant eligibility. They take from the system but do not give to it (at least not full-file, positive data).

³¹ See Michael Turner et al., *The Impacts of Information Sharing on Competition in Lending Markets*. Chapel Hill: Policy & Economic Research Council (PERC), October 2014, available at http://www.perc.net/wp-content/uploads/2014/10/FF_Impacts.pdf which finds that although movement to full-file credit reporting is not associated with less banking concentration, it is associated with greater lending, suggest more competition and better credit access for consumers.

How bad is the situation? An August 2018 Quarterly Consumer Trends publication titled “Collection of Telecommunication Debt,” provides some useful statistics.³² That report showed that between mid-2013 and the beginning of 2018 approximately between 2 and 4 million new distinct telecom collections per quarter were reported to the CRAs.

Table 5: Share of Consumers with a Telecom Collection (between Q3 2013 and Q1 2018)

All Consumers	22%
Subprime	59%
Near Prime	22%
Prime	5%
Super Prime	1%

Table 5 shows that between Q3 2013 and Q1 2018, 22% of all consumers had one or more telecoms collections. The majority, 59%, of consumer with a subprime credit score had a telecom collection. Clearly, the negative telecom reporting is not a minor issue. It is truly a negative-only reporting industry.

On the other hand, PERC has shown that reporting full-file (positive and negative data) of telecom payment data can assist telecom customers, particularly those with little traditional credit information in their credit files (thin-files and no-files).

In the 2006 joint PERC-Brookings report “Give Credit where Credit is Due,” it was found that 14% of consumers with a telecom account reported to a CRA had no traditional accounts on their credit file.³³ The CFPB found that overall, 19% of consumers were unscorable by traditional credit scores due to insufficient data. In the lowest-income census tracts, this figure was found to be an astonishing 45%.³⁴ So telecom customers, particularly lower-income consumers, need this data reported.

In a 2012 PERC report, “A New Pathway to Financial Inclusion,” it was found that adding a telecom or utility full-file account to credit reports could increase access to credit.³⁵ It did so, first by adding accounts to those who had no or very few traditional financial accounts and, second by improving the scoring model performance by adding new data. That is, the accounts made more consumers credit visible to scorers and improved score performance. As seen in the previous section, members of lower-income households benefited the most (Table 6).

³² Brian Bucks, Susan Singer, & Nicholas Tremper, *Collection of Telecommunication Debt*. Washington D.C.: Consumer Financial Protection Bureau, Quarterly Consumer Credit Trends, August 2018, available at https://files.consumerfinance.gov/f/documents/bcfc_consumer-credit-trends_collection-telecommunications-debt_082018.pdf

³³ Michael Turner & Alyssa Lee, *Give Credit Where Credit is Due: Increasing Access to Affordable Mainstream Credit Using Alternative Data*. Washington, DC: The Brookings Institution, December 2006, available at http://www.perc.net/wp-content/uploads/2013/09/alt_data.pdf

³⁴ Kenneth Brevoort, Philipp Grimm, & Michelle Kambara, *Data Point: Credit Invisibles*. Washington D.C.: Consumer Financial Protection Bureau, May 2015, available at https://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf

³⁵ Michael Turner et al., *A New Pathway to Financial Inclusion*.

Table 6: Increase in Approval Rates by Adding Telecom/Utility Data, by Household Income (assuming a 3% portfolio default rate)

Household Income	Increase in Approvals
All	8%
< \$20K	21%
\$20-\$29K	14%
\$30-\$49	10%
\$50-\$99	7%
\$100K+	4%

As Table 6 shows, while members of the highest income households see little impact from the addition of full-file utility and telecom account data, members of the lowest-income households see large, meaningful benefits.

What this study also showed was that the vast majority of consumers who are already scoreable and had many accounts reported in their credit files would see little impact from adding one more account. The addition of data from utility and telecom accounts tends to have the largest impacts for those on the credit data margins, that is the no-file, thin-file and otherwise unscorable consumers. And just as an account reported with a late payment can raise a credit score, those with on-time payments can lower a credit score in some cases. This has been seen in some of PERC's analysis.³⁶

The addition of new data (as with the deletion of existing data) will cause lenders to test and modify lending criteria, and the updated models will become ever more optimized for the new data. But the difference is that adding new types of data cannot degrade models that are built to use it and can only improve their performance. The adjustment is part of how benefits of new data will be realized. For instance, in the PERC utility and telecom analysis, score cut-offs were moved down to lower score values to account for lower default rates with higher and middle-level scores.³⁷

Since negative telecom data is already very widely reported to the CRAs, what is really most lacking is the positive, on-time data. As Table 6 shows, low-income households could greatly benefit from telecoms reporting on-time payment data. This would also help "balance out" the negative reporting. As policymakers are looking for solutions in this time of crisis, instead of suppressing true but negative data, consumers could benefit by the promotion of reporting of true, positive telecom data. This could also include utility data or rental payment data. PERC recently released a joint report with HUD that found material credit score rises and large

³⁶ For example, see Michael Turner and Patrick Walker, *Potential Impacts of Credit Reporting Public Housing Rental Payment Data*. Washington DC: Department of Housing & Urban Development, Office of Policy Department & Research, February 2020, available at: <https://www.perc.net/publications/credit-reporting-public-housing-rental-payment-data-impacts/>

³⁷ It should also be easier to demonstrate to lenders how adding positive telecom data would impact scores, since this can be done now with retrospective data analysis. On the other hand, demonstrating how not reporting negative data during the current unprecedented crisis and economic downturn would be a much more challenging exercise until data on actual consumer and loan outcomes are gathered over the next couple of years.

reductions in Credit Invisibility with the reporting of on-time HUD Public Housing Agency rental payment data.³⁸

The large telecom companies should volunteer to do this to aid their customers. If there is no forward movement in this regard, policymakers, as they have done in other markets, could move to mandate the reporting. At a minimum, on-time payments to large telecoms that utilize credit reporting and/or report negative data to the system (either directly or indirectly) should be reported to the NCRAs.

4. Consumer Protections under the FCRA

To be clear, consumer protection is not the primary, direct function of a national credit reporting system. Rather, credit payment data is shared by lenders with credit bureaus to reduce information asymmetries between borrowers and lenders in order to facilitate responsible lending through the use of sound risk management tools and practices. Credit payment data is further shared by lenders and credit bureaus with regulators for purposes of micro- and macro-prudential oversight to help ensure the ongoing safety and soundness of the nation's financial sector. It is the increase in access to credit and improved safety and soundness that benefits consumers.

That said, consumers are afforded rights and protections within the context of the governance framework for credit information sharing—the FCRA legislation of 1970. These roughly accord to the 1980 Fair Information Principles of the Organization for Economic Cooperation and Development (OECD), the bedrock foundation for most national privacy laws around the world for the past 40 years. Used primarily in the context of data privacy policy, a subset of the OECD principles have become widely and globally accepted consumer protections, including:

- *notice/awareness* (providing data subject with clear information about the need to access past payment data and the fact that payment data will be shared with credit bureaus);
- *choice/consent* (data subject must give prior uncoerced affirmative consent to enable access to their credit report by a third party);
- *access/participation* (data subject may access information about them maintained by credit bureaus, with the right to dispute any information they perceive to be inaccurate);
- *integrity/security* (credit bureaus and data furnishers must implement reasonable measures to ensure the data is accurate and secure from unauthorized access and use);
- *enforcement/redress* (a protection is only meaningful if there are enforcement mechanisms in place, including administrative enforcement actions, private right of action, and class action lawsuits).³⁹

The credit reporting industry has proactively taken steps to guarantee and enhance these consumer rights and protections. For instance, the three NCRAs offer all persons free weekly

³⁸ Turner & Walker, *Potential Impacts of Credit Reporting Public Housing Rental Payment Data*.

³⁹ Paraphrased summary of positions offered in: *Privacy Online: A Report to Congress*. Federal Trade Commission. June 1998. Downloaded at: <https://www.ftc.gov/sites/default/files/documents/reports/privacy-online-report-congress/priv-23a.pdf>

consumer disclosures until April 2021.⁴⁰ Credit bureaus have also created highly visible and user-friendly consumer education resources to help consumers with COVID-19.⁴¹

In addition, the Consumer Financial Protection Bureau (CFPB) issued guidance on credit reporting during the COVID-19 pandemic to ensure consumer rights and protections did not slip through the cracks.⁴² The CFPB letter did recognize the challenges confronting NCRAs that are operating with skeletal crews at facilities and confronting a surge of disputes relating to the coronavirus. In this statement, the CFPB marginally relaxed the timeframe for resolving consumer disputes—from 30 days to 45 days—insofar as data furnishers and NCRAs could demonstrate they were acting in good faith on disputes not resolved in 30 days or less.

In response to the CFPB's pragmatic approach in recognition of the extenuating circumstances, a coalition of States Attorneys' Generals requested the CFPB Director Kranninger withdraw the guidance on credit reporting and COVID-19.⁴³ The group of AGs indicated they would ignore the CFPB's guidance and together with the Trial Bar would strictly enforce the consumer dispute obligations under the FCRA.⁴⁴

In short, consumer rights and protections under the FCRA have been enhanced and are being strictly enforced. What is lost among proponents of suppression/deletion is that such a measure violates the widely recognized consumer protection of data accuracy—which is also an obligation for data furnishers and NCRAs under the FCRA. This requirement protects the integrity of the nation's credit reporting databases to prevent undue and potentially damaging harm to the safety and soundness of the entire financial sector.

Put differently, ensuring the integrity of consumer credit payment data protects consumers from credit rationing, more subjective and possibly discriminatory means of assessing creditworthiness, much higher prices for credit, and greatly reduced choice of lenders—all likely results from a prolonged (e.g. more than 90 days) policy of suppression/deletion which must cause a substantial degradation in the integrity of the nation's credit information sharing system.

It is paramount that legislators and regulators take steps to protect citizens from enduring damage to their creditworthiness resulting from the pandemic. This is both just and fair. However, attempting to do so through a policy of suppression/deletion will result in massive harm to the very populations lawmakers are seeking to protect, and will further act as a powerful headwind against efforts to stimulate economic growth and recovery.

⁴⁰ Traub, Amy. "Your credit score shouldn't drop because of coronavirus." *CNN Business*. 18 May 2020. Downloaded at: <https://www.cnn.com/2020/05/18/perspectives/credit-score-coronavirus/index.html>

⁴¹ For example, see: <https://www.experian.com/blogs/ask-experian/coronavirus-and-your-credit-report/>

⁴² "Statement on Supervisory and Enforcement Practices Regarding the Fair Credit Reporting Act and Regulation V in Light of the CARES Act. Bureau of Consumer Financial Protection. 1 April 2020. Downloaded at: <https://www.consumerfinance.gov/about-us/newsroom/cfpb-issues-credit-reporting-guidance-during-covid-19-pandemic/>

⁴³ Phan, Kim and Stefanie Jackman. "State AGs ask Director Kraninger to Withdraw CFPB COVID-19 Credit Reporting Guidance." Ballard Spahr, Consumer Finance Monitor. 16 April 2020. Downloaded at: <https://www.consumerfinancemonitor.com/2020/04/16/state-ags-ask-director-kraninger-to-withdraw-cfpb-covid-19-credit-reporting-guidance/>

⁴⁴ *Ibid.*

Every effort should be made to steadfastly and strenuously oppose this well-intended but ill-conceived policy. It is akin to attempting to fix well-documented problems with the nation's public education system by giving all students straight As on their report cards. Changing the data does nothing to change the underlying reality on the ground. Just as giving every student all A+ grades may seem helpful in the short-run, it takes little imagination to see how the very same students will suffer over the medium- and long-term.

Credit crises are solved with broad credit programs such as HAMP, HARP, and TARP during the previous financial crisis, and not simply by changing data. If Congress and/or the Administration are serious about protecting borrowers, then there are abundant policy tools available to help stave off another financial and economic crisis.

5. Conclusion

Data suppression is worse than papering over a problem, because it actually harms the credit reporting system, which will degrade lending tools. This will ultimately reduce access to credit, particularly for lower-income households. There is no doubting the good intentions behind the Disaster Protection for Workers' Credit Act of 2020 or the HEROES Act. The current crisis needs to be addressed in bold ways. Consumers, workers, and small businesses need aid and support. But the largescale credit data removals contemplated in the DPWCA 2020 and HEROES Act will reduce access to credit, particularly for members of lower-income households, just as a strong recovery is needed. This is the case since the logical response to a largescale data removal would be for lenders to adjust their underwriting. A 640 credit score will no longer be a 640 credit score. Further, this will not solve the fact that the removal of the data did not simply shift some scores up but also made the scores less predictive of credit risk. The scores would be noisier and less accurate. This will result in a further increase of lending thresholds and reduced access to credit. It is similar to adding 20 points to all credit scores and then adding a mean zero random number to it as well. This will in no way improve lending or make consumers less risky, it will only make credit accessibility worse, again, particularly for lower-income households. Lower-income households need trusted credit reports and scores, since they have fewer assets and collateral. Degrading these underwriting tools will not benefit them. Past empirical work highlighted in this report clearly shows that large, negative data deletions does indeed result in sizeable reductions in credit access, and especially for members of lower-income households.

On the other hand, positive, currently unreported data could be *added* to the credit data system. Telecom companies typically only report negative data, such as collection accounts. In fact, the CFPB found that between Q3 2013 and Q1 2018, 22% of credit reports had such a collection (59% of subprime consumers had a telecom collection). But, shockingly, telecoms typically do not report on-time payments to the credit bureaus, though they *do* use them for eligibility determination. And with the growing cost of smartphones, telecoms companies are becoming large lenders. Past empirical evidence presented in this report shows that adding telecom payment data to credit reports would increase access to credit, especially for members of lower-income households. This is in part driven by the fact that so many Americans are credit invisible. The CFPB found that nearly 1 in 5 Americans have insufficient information in their credit files to

generate a traditional credit score. This figure rises to an astonishing 45% in the lowest-income census tracts. The Credit Invisible need this data. And as opposed to removing data, adding useful information would improve underwriting. In this case, addition is better than subtraction.

The large telecom companies are providing extremely valuable services now, as so many are relying on their services to work remotely. These companies should begin voluntary reporting of on-time payments, to balance out their current and past negative-only (collections) reporting practices. This will further help their customers and the economy, just when help is needed. Congress can encourage this by underscoring that reporting full-file telecom customer payment data (positive in addition to negative) is permitted in our current voluntary system, such as with the bi-partisan Credit Access and Inclusion Act (CAIA).⁴⁵ If there is no movement towards voluntary reporting, policymakers could then explore mandating such reporting for large service providers, as has been done in other countries. For instance, the Australian Privacy Act of 1988 was revised in 2013 to permit on-time, and positive data reporting more generally, in credit reporting.⁴⁶ However, large lenders did not avail themselves of the opportunity to more fully report, likely out of concerns such reporting would increase competition. Beginning in 2017, the Australian government responded by enacting a series of measures to mandate fuller reporting by the large lending institutions. This can act as a blueprint for action in the US with large telecom service providers. The US Congress and regulators should make it clear that fuller, fairer credit reporting is not only permitted but also encouraged and, ultimately, expected. If sufficient movement to fuller reporting is not taken, then mandates should be utilized.

At a minimum, we should all expect that large telecom companies that already use the credit reporting system for eligibility determination and/or to report late payments and collections either directly or indirectly should also help their customers by reporting on-time payments.

⁴⁵ In 2019 Senators Scott and Manchin introduced the CAIA in the Senate and previously a version of the bill sponsored by Keith Ellison was passed in the US House. See <https://www.scott.senate.gov/imo/media/doc/SIL19696.pdf>

⁴⁶ See Michael Turner & Patrick Walker, *Fostering Competition Among Lenders: Proposed Light-Touch Mandatory CCR Unlikely to Work*. Durham: Policy & Economic Research Council (PERC), April 2018, available at <http://www.perc.net/wp-content/uploads/2018/04/Australia.pdf>