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# Live Q&A Session on Credit Data Suppression/Deletion during COVID

July 30, 2020

# About Us



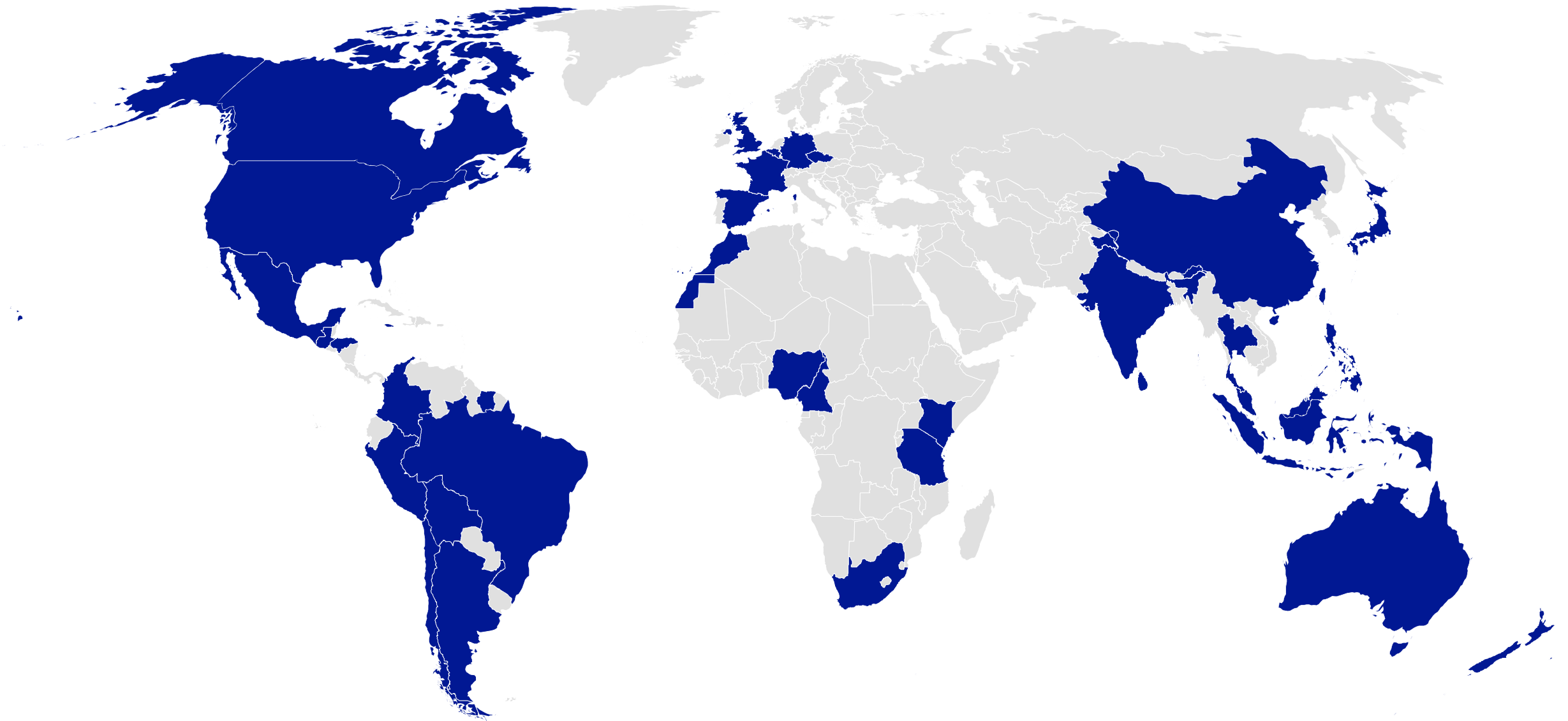
PERC is a non-profit, non-partisan policy research and development institution dedicating to increasing financial inclusion through information solutions

# PERC Supporters

Foundations	NGOs	International	U.S.G.	Associations	Industry
    	     	    	   	   	        

# Where We Work

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# Current Situation & Threats

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## Limitations of Status Quo

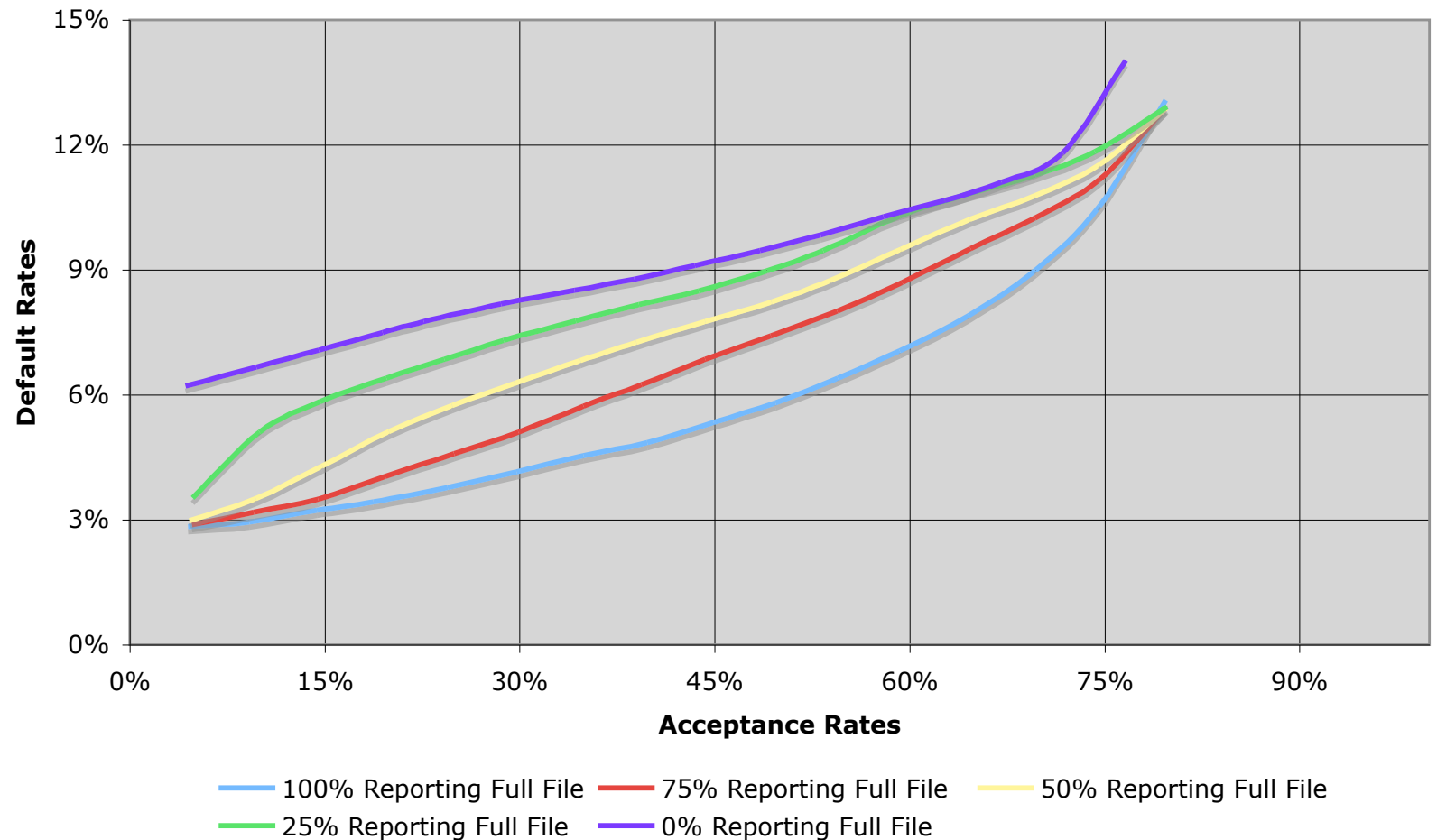
- Use of disaster codes & lender accommodations
- Puts burden on consumer
- Excludes consumers who were struggling prior to pandemic
- Perception that it does not do enough to protect consumers especially as economic fallout continues

## Risks of Suppression/Deletion

- Obscures safety and soundness of financial system
- Lenders become less able to differentiate between goods/bads → their profits decrease → interest rates increase, acceptance rates decrease
- Long-term economic recovery harmed, low-income households harmed

# PERC Research

## Acceptance-Default Tradeoffs from Participation in Full-File Reporting (Colombia)

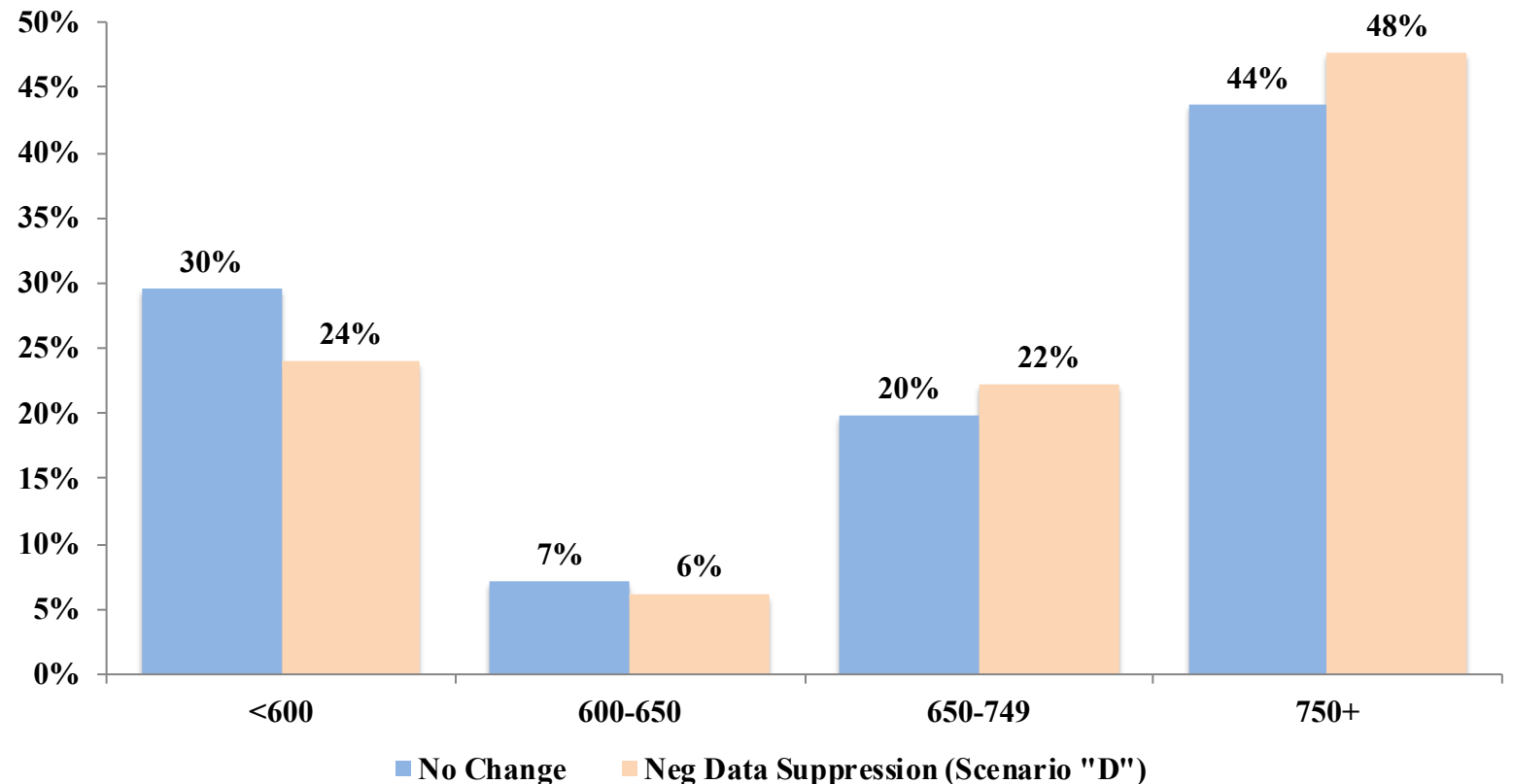


# Negative Data Suppression

**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)

**Credit Scores Go Up...** (intended effect of those advocating for suppression/deletion)



**THE FAIR CREDIT REPORTING ACT:**  
**ACCESS, EFFICIENCY & OPPORTUNITY**  
**THE ECONOMIC IMPORTANCE OF**  
**FAIR CREDIT REAUTHORIZATION**

Prepared by the Information Policy Institute with the support of the National Chamber Foundation of the U.S. Chamber of Commerce

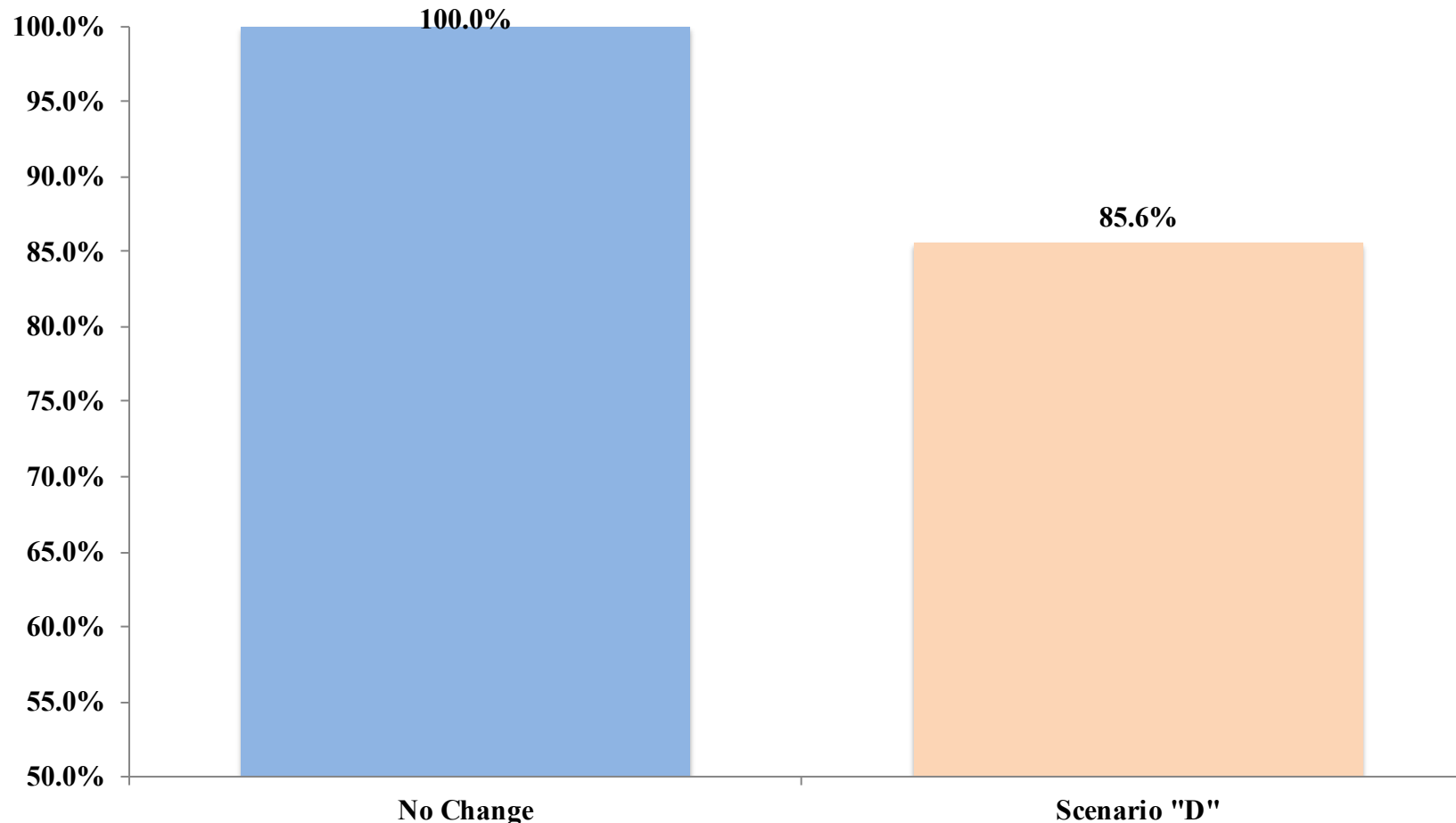


June 2003

# Scenario “D” Negative Data Suppression

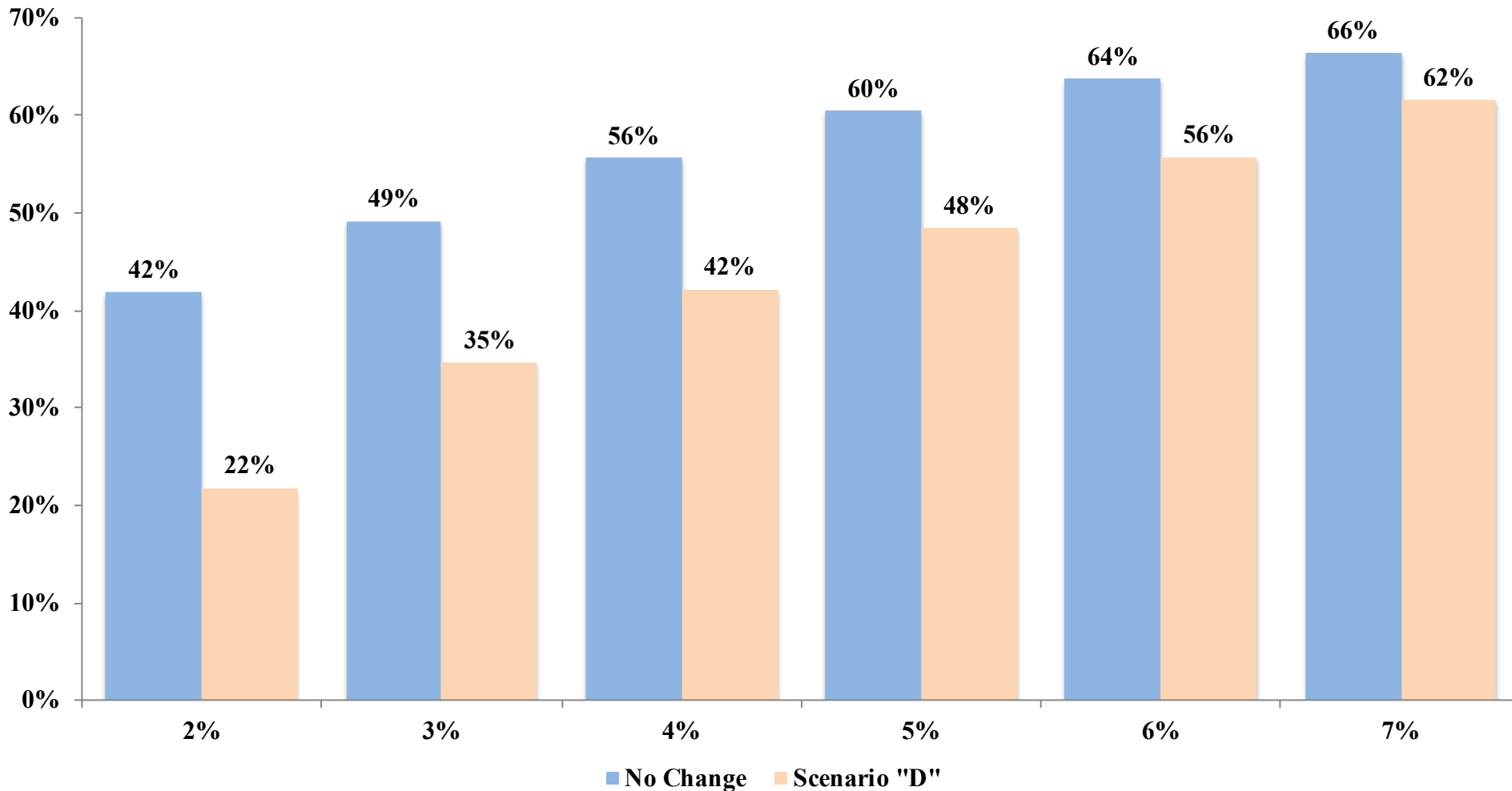
**... But Scoring Model Performance (Relative K-S Measure) Goes Down**

This means banks have a harder time distinguishing between good/bad credit risks, so they will restrict credit access to avoid making costly mistakes



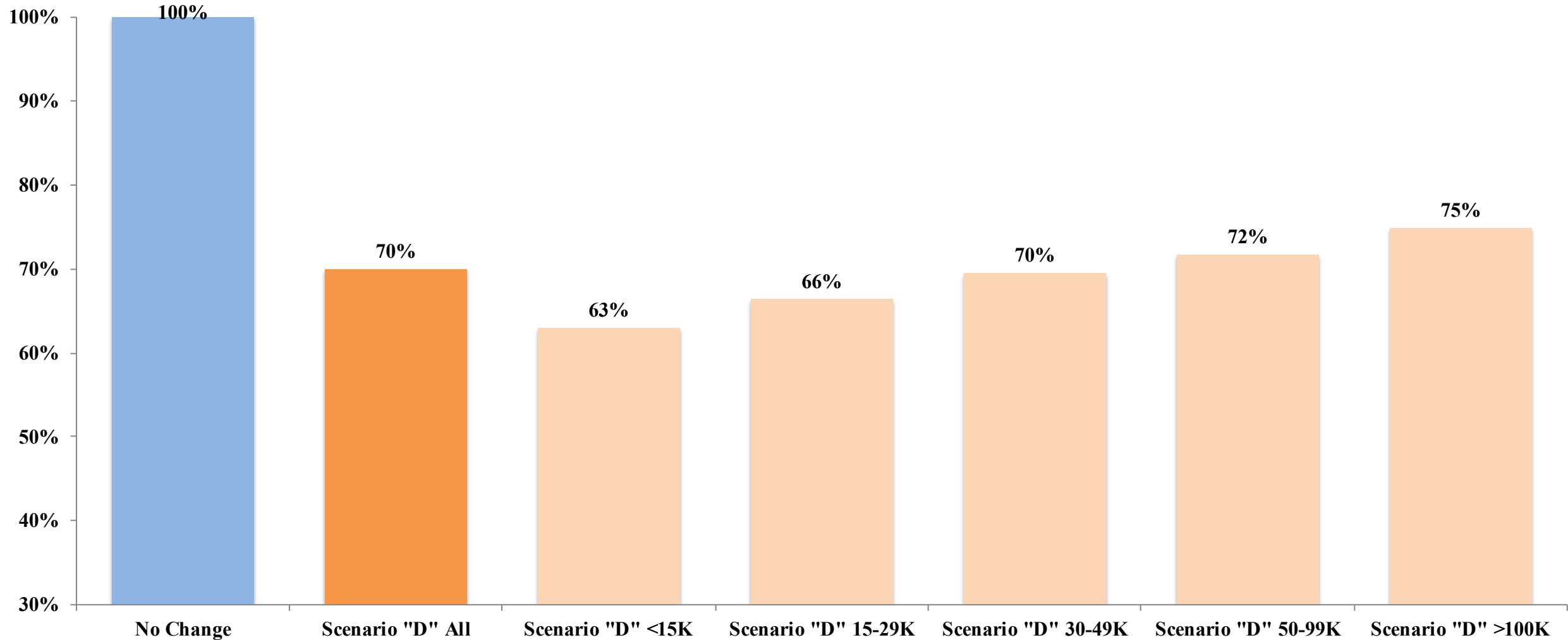
# Scenario “D” Negative Data Suppression

Approval Rates for Targeted Portfolio Default Rates with Scenario “D” Decrease Across the Board



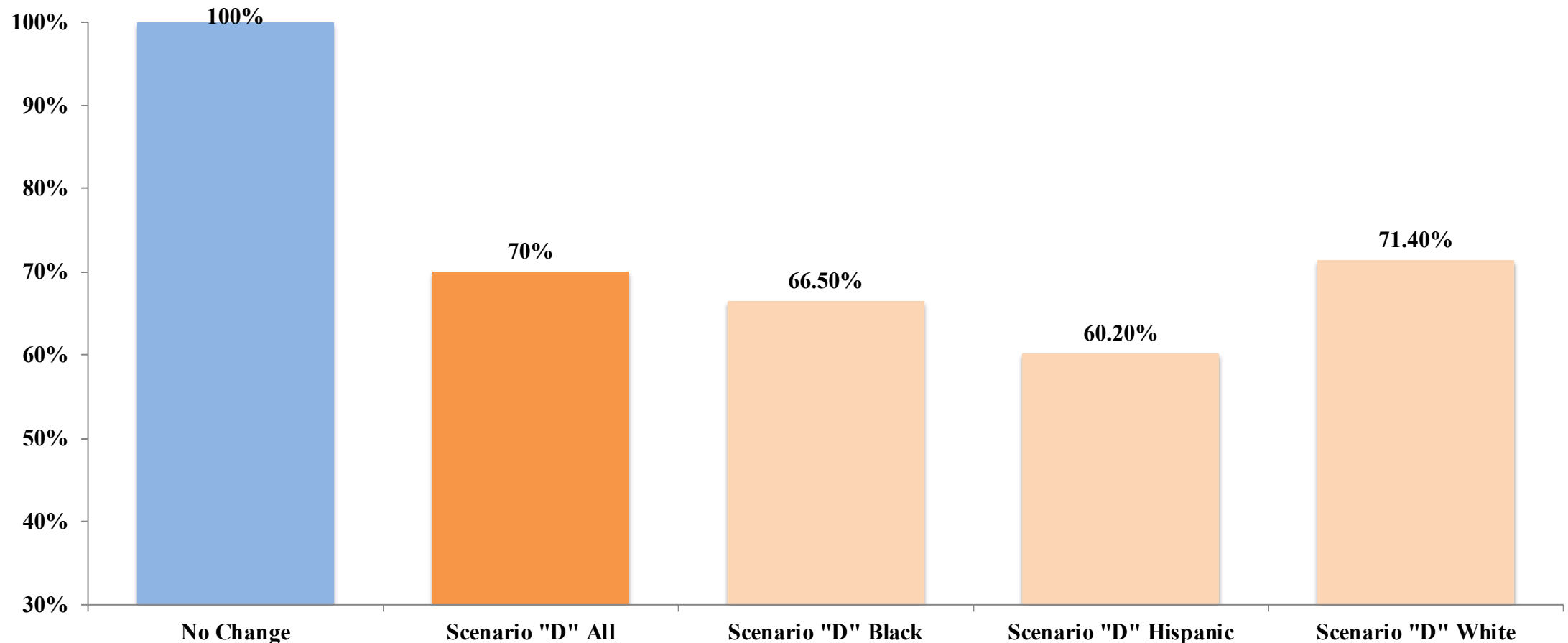
# Scenario “D” Negative Data Suppression

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



# Scenario “D” Negative Data Suppression

**Decline in Approval Rate for Scenario “D” by Applicant Race/Ethnicity (for a 3% target default rate)**



# Additional Considerations

- If credit data is suppressed/deleted → lenders will look for **data substitutions** (e.g. consumer-permissioned data: Visa acquired Plaid for \$5.5 b, and MasterCard acquired Finicity for approx. \$1 b).
- Credit reports/scores act as **reputational collateral**
  - Adverse data **may not be shared** but it will still be **collected** → larger lenders, with their larger customer databases, will have an advantage compared to smaller lenders
  - Consumers without longstanding relationships with lenders (including underserved consumers) will be harmed
- National credit reporting system is integral to the safety/soundness of the financial sector & to **post-pandemic economic recovery**

# Promise of Alternative Data



## Our proposed solution: reporting positive data

- Floods system with positive data at a time it is being overwhelmed with negative data
- Makes system fairer and more forgiving
- *22% of consumers have a telecommunications collection, 59% of subprime consumers do, and 94.7% of telecoms data in the system is reported by collections agencies or debt buyers (CFPB)*
- Includes bills consumers are most likely to start paying first once they get back on their feet

# Promise of Alternative Data

## Increase in Approval Rates by Adding Full-File Telecom/Utility Data, by Household Income (assuming a 3% portfolio default rate)

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

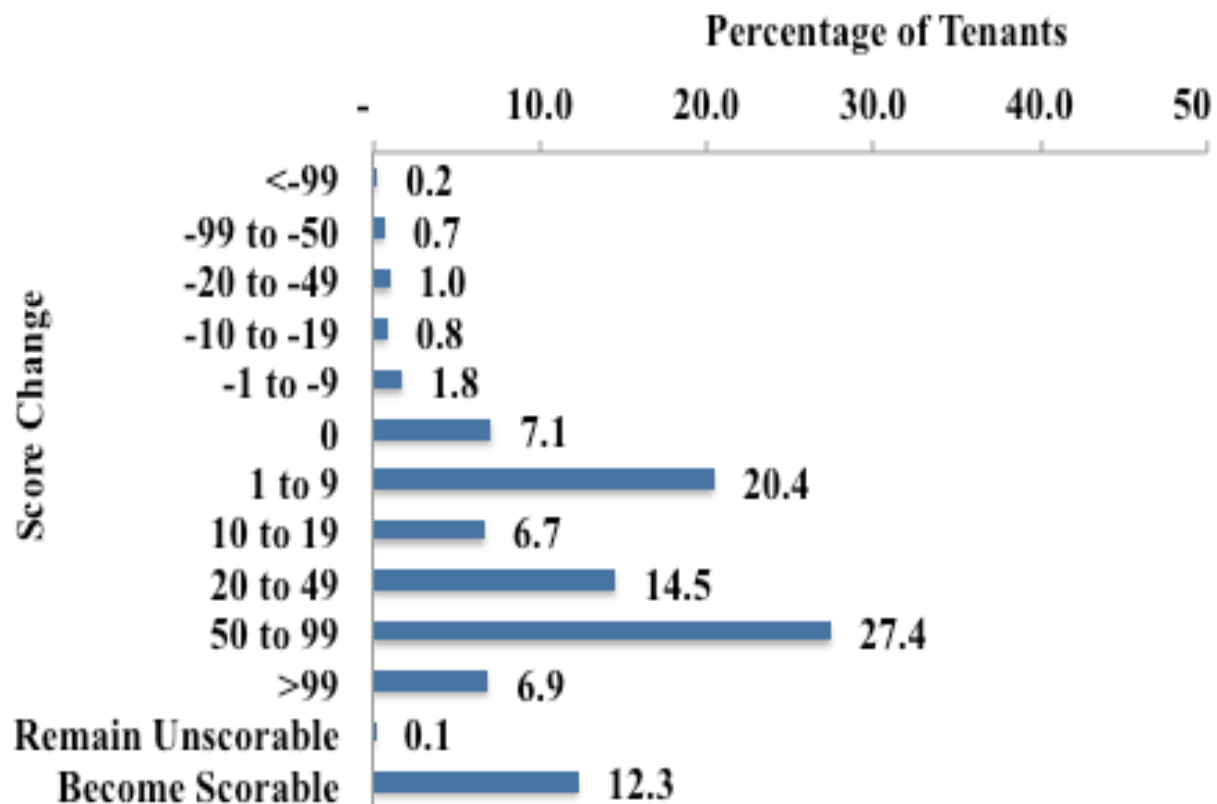
A New Pathway to Financial Inclusion:  
Alternative Data, Credit Building, and Responsible Lending  
in the Wake of the Great Recession

Michael A. Turner, Ph.D., Patrick D. Walker, M.A.,  
Sukanya Chaudhuri, Ph.D., Robin Varghese, Ph.D.

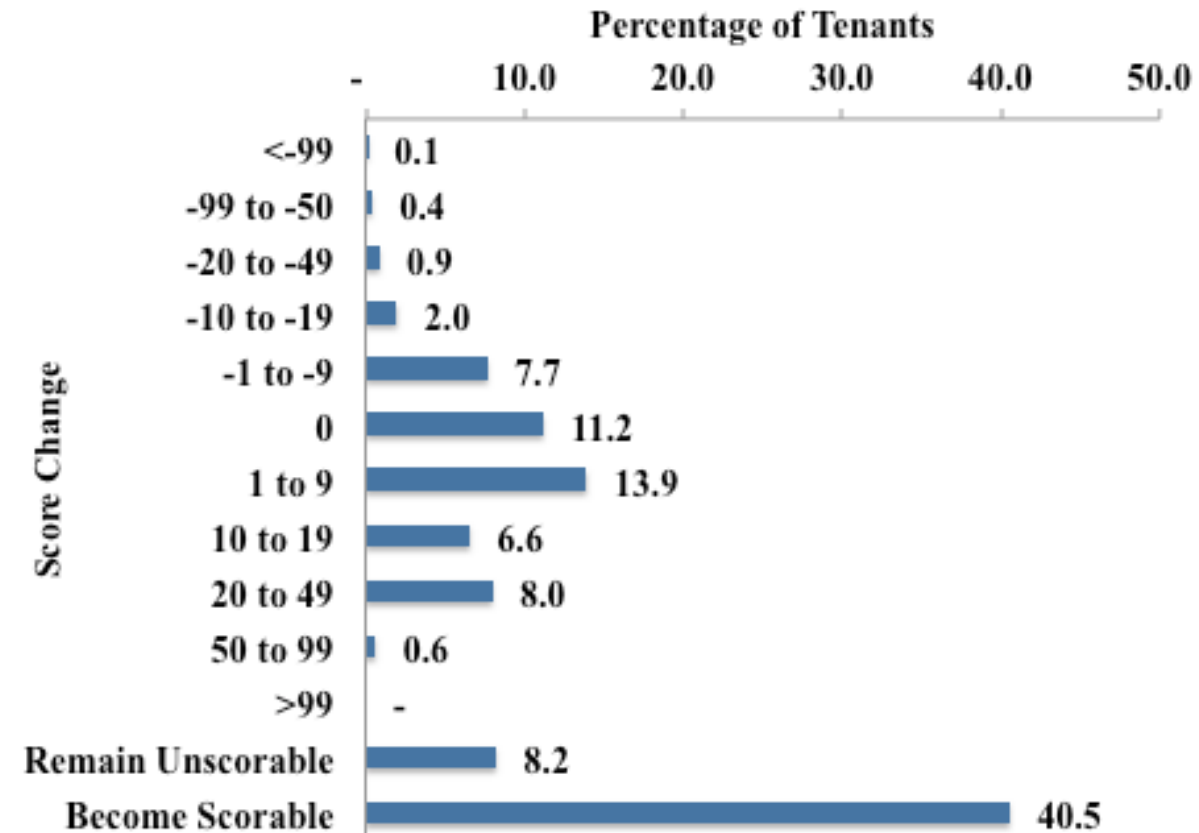


# HUD-PERC PHA Rental Payment Data Study

Credit Score Changes From Adding Positive Only PHA Rental Data (2014 Positive Only Sample, Model A)



Credit Score Changes From Adding Positive Only PHA Rental Data (2014 Positive Only Sample, Model B)



# Thank You!



**Policy & Economic Research Council**

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