

PERC Newsletter

SUMMER 2020

LETTER FROM THE PRESIDENT

Summer ends today at 9:30AM, so in this last hour of summer, we give you the PERC summer newsletter. How much the world has changed since the beginning of the year. Business travel has ground to a halt and important industry events have migrated online. Zoom is prominent in everyone's vocabulary and we no longer need to apologize for children making cameos on work video calls. Black Lives Matter and protesters across the country are demanding fair and equal treatment by law enforcement for black Americans and social justice more generally. Unemployment went from a near-historic low to a near-historic high almost overnight, and fear of a second wave of COVID-19 cases and double dip recession linger palpably in the air. All this set against the backdrop of a national election likely to be among the most contentious of the past 100 years.

PERC's focus has been redirected in response to these social and economic developments. PERC has been actively engaged in discussions with policymakers and thought leaders concerning the impacts of the pandemic on an individual's credit report and credit standing. Of course it strikes everyone as patently unfair that a person should be hit with derogatory payment information for 7 years for circumstances beyond their control.

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PERC
RESULTS AND SOLUTIONS



In the CARES Act, Congress instructed lenders to work with borrowers experiencing hardship due to the pandemic, and to not suppress late payment data on borrowers who contact them and indicate duress. This is largely done through some combination of account status and special comment codes indicating deferral, forbearance, or natural disaster. Data through July analyzed by the CFPB, Federal Reserve, and industry suggest this focused, rifle shot approach has worked, as average credit scores and derogatory rates have been stable or even improved.

It is an open question how long these trends will continue when federal benefits end or are substantially reduced. Then later, what will happen once the pandemic ends? Will banks seek immediate payment for the full amount deferred? Or will they negotiate loan modifications, extending loan terms by the period of the national emergency? Such decisions could have a huge impact on the financial security of millions of Americans. PERC created a [video](#) on this topic.

PERC believes that simply changing scores by suppressing accurate negative payment data or other simplistic approaches are unlikely to remediate root causes of disparity and inequity to begin with, and are more likely to harm the very persons proponents of such measures seek to help. Instead, PERC advocates that Congress consider immediately mandating the inclusion of positive non-financial payment data into consumer credit reports. Reporting timely payment data will help mitigate the damage done by the deluge of late payment data from the pandemic, and will help people rebuild and restore their good credit standing more quickly during the recovery period. The system becomes more inclusive, fairer, and more forgiving. These are all highly desirable outcomes in the context of the world in 2020.

Internationally, PERC released a study on credit reporting reform in Hong Kong. Sadly, an autonomous Hong Kong has become Camelot, and PERC's report and recommendations are too late and will likely fall on deaf ears in Hong Kong and Beijing. Having said that, PERC continues to engage APEC, ABAC, the APFF, FIDN, the IFC, the World Bank, and the International Committee on Credit Reporting (ICCR) on a broad range of credit reporting and scoring policy issues. PERC is also working on new reports on the appropriate relationship between public credit registries and private credit bureaus, as well as an analysis of the current state of credit information sharing in the Philippines (a joint-study with the Makati Business Club).

Lastly, for many of us, the pandemic has forced us to reassess our values and reconsider what really matters in life that is fragile and fleeting. Hug your family, keep your friends close, show charity and empathy, fight for justice and against injustice, take time to be good to yourself, appreciate nature, and fill a room with laughter every once and a while.



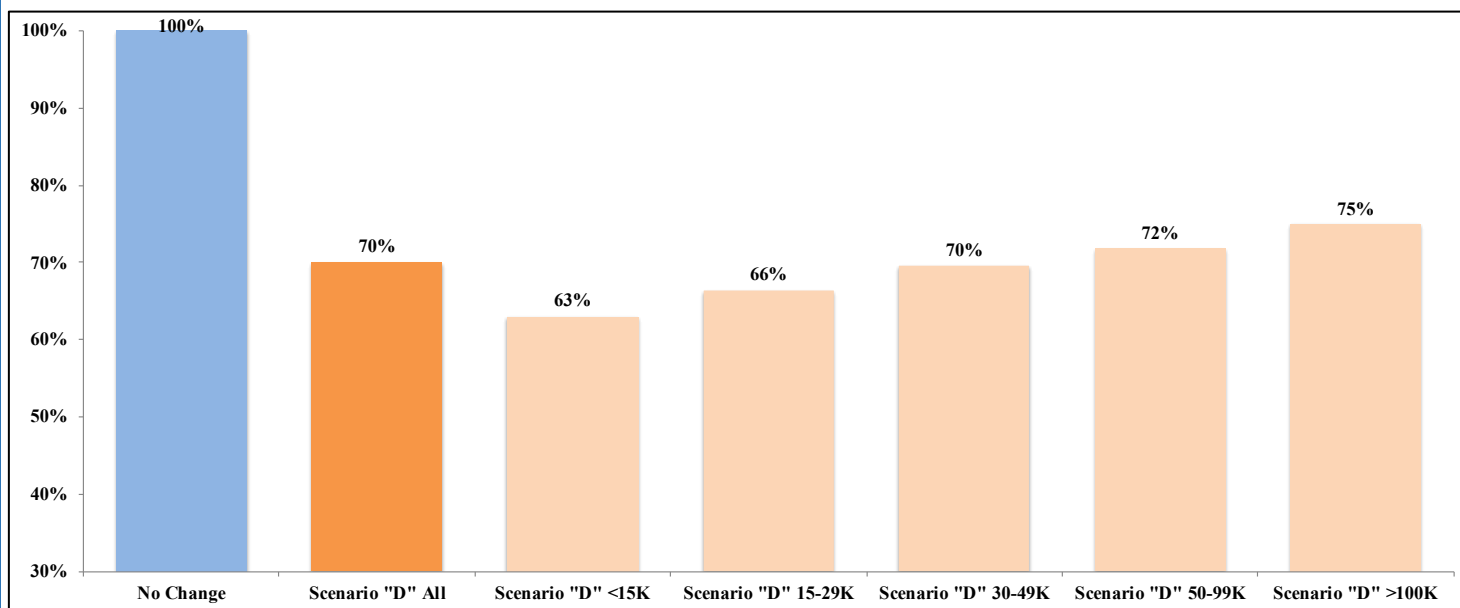
Sincerely,

A handwritten signature in black ink that reads "Michael A. Turner". The signature is written in a cursive, flowing style.

Michael A. Turner, Ph.D.

DOMESTIC

ADDITION IS BETTER THAN SUBTRACTION



Decline in Approval Rate for Negative Data Suppression Scenario "D" by Applicant Household Income (for a 3% target default rate)

In order to address the economic fallout of the COVID-19 crisis, some legislators have proposed the suppression or deletion of negative credit data during the pandemic. No one thinks punishing borrowers for a virus outside of their control is fair. [*Addition is Better than Subtraction: The Risks from Data Suppression and Benefits of Adding More Positive Data in Credit Reporting*](#) summarized past PERC [research](#) on the effects of data suppression/deletion, which shows that data deletions are actually harmful to borrowers because they degrade the value of data. Lenders find it more difficult to distinguish between good and bad credit risks, and impose more stringent underwriting standards (like higher minimum credit score requirements) to avoid making costly mistakes. This actually hurts low-income and minority borrowers the most: credit approvals fell 37% for the lowest-income consumers. It's important to note that negative data may not be *shared* but it will still be *collected*, giving an advantage to larger banks with larger customer databases. Consumers without long bank relationships (including under-served consumers) will suffer.

PERC's [solution](#) is to credit report positive telecommunications data. Telecommunications companies already report negative data, and CFPB [data](#) shows that 22% of consumers had a telecoms collection, and 59% of subprime consumers had one over the study's observation period. Reporting positive data would make the credit reporting system fairer, more forgiving, and more inclusive. In contrast to suppression/deletion, reporting positive data [resulted](#) in an increase in approvals for the lowest-income population by 21%. We presented this at a [live event](#) with the Consumer Data Industry Association, you can check out our [slides](#).

Relatedly, we've written about [lessons learned](#) on economic recovery after natural disasters, applying our years of research on Hurricane Katrina to the coronavirus pandemic, and specifically to the [Paycheck Protection Program](#).

INTERNATIONAL

CREDIT INFORMATION SHARING IN HONG KONG



“I have the highest respect and regard for the entire PERC team. For years, PERC has published breakthrough qualitative and quantitative analytics. Its expertise includes consumer credit, macroeconomics, and banking. PERC works with governments, institutions, and the private sector. It is one of the few policy research institutions that is recognized by the World Bank. The firm has an impeccable international reputation; renowned for its influential studies on credit markets in over a dozen countries. Its landmark work has had an indelible impact on the global regulatory landscape. I highly recommend working with this organization.” - Anonymous

Share your story with us [here](#).

The long-awaited Asia-Pacific Credit Coalition (APCC) and PERC [report](#) on the Hong Kong credit information sharing market was also recently published. In 2018, a new entrant entered Hong Kong’s credit bureau market after three decades of being served by a single private credit bureau. *Credit Information Sharing in Hong Kong* recommends regulations be updated to reflect multiple credit bureaus, facilitate competition, and ensure a level playing field. Transborder data access rights should be uniform across bureaus, particularly if one bureau begins serving the multi-jurisdictional Greater Bay Area. This will prevent [fragmentation](#) of the credit information sharing system. Developments in China’s credit information system, discussed in the report, have a high likelihood of influencing Hong Kong.

The report also surveyed the data gaps in Hong Kong’s credit reporting system, incongruous with its position as a global financial services hub. The lack of positive mortgage payment data exacerbates the real estate bubble. The report concludes fully reporting non-financial payment data could dramatically increase financial inclusion by allowing lenders to evaluate borrowers on proven metrics, and decrease the number of borrowers who rely on usurious fringe financial institutions. Again, an expansion of data collected and used should be applied equally to both bureaus. The report is part of the Asia-Pacific Financial Forum’s (APFF) efforts to develop a roadmap for an optimal financial data ecosystem within the Asia-Pacific Economic Cooperation (APEC) member economies and will be presented at the next Asia-Pacific Financial Forum conference.

ON THE HORIZON



VIRTUAL EVENTS

TREATMENT OF CREDIT DATA IN A CRISIS ON APRIL 30

The PERC team attended this online webinar on credit reporting policy issues surrounding the COVID-19 pandemic, hosted by the International Finance Corporation and the International Committee on Credit Reporting. Several industry experts shared the approaches their countries were taking, as well as their thoughts on the International Committee for Credit Reporting's (ICCR) [guidance](#) on this issue.

ACCELERATING POST-COVID RECOVERY ON MAY 20

Dr. Turner participated in this videoconference hosted by the Asia-Pacific Financial Forum and Thai Bankers' Association. He discussed policy and regulatory measures to support MSMEs, and specifically how policies governing credit reporting should be handled under the present circumstances. Read PERC's research on small business recovery from disasters [here](#), and our discussion of credit reporting issues during the pandemic [here](#).

APFF 2020 PROGRESS REPORT DRAFTING SESSION ON JULY 9

Dr. Turner participated in the Asia-Pacific Financial Forum's Progress Report drafting session, which saw Sherpas from various work streams come together to give updates on accomplishments, activities, and next steps. Dr. Turner presented on the credit information sharing work stream. The report was finalized in July and can be downloaded [here](#). It will be discussed at the APEC Finance Ministers' meeting on September 25th.

ICCR RESCHEDULED SPRING MEETING ON JULY 23

Dr. Turner attended the International Committee for Credit Reporting meeting, which was rescheduled from the Spring. The ICCR has produced a tremendous guidance on COVID-19 and credit reporting that has proven useful to regulators and policymakers around the world.

RISKS OF DATA SUPPRESSION HOSTED BY CDIA ON JULY 30

Dr. Turner & Patrick Walker participated in this live Q&A event hosted by the Consumer Data Industry Association, which presented our white paper on proposals to address the economic fallout of COVID-19 (*Addition is Better than Subtraction*). Our research shows suppression/deletion of credit data is more likely to harm borrowers than help them. Click [here](#) to see our slides.

▷ STAY TUNED FOR:

- Our panel on CDIA's Law & Industry conference on September 22nd
- Virtual fall ICCR meeting
- Our report on the credit information sharing system in the Philippines coming November 25th
- A quantitative paper simulating the effects of the proposed suppression/deletion measures on credit data
- A report on public credit registries around the globe
- Results from our APEC survey
- A paper on beneficial uses of data and tech during COVID-19

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