



# **Using Credit Data to Help Build an Inclusive Financial System**

Aug 6, 2020

# About Us



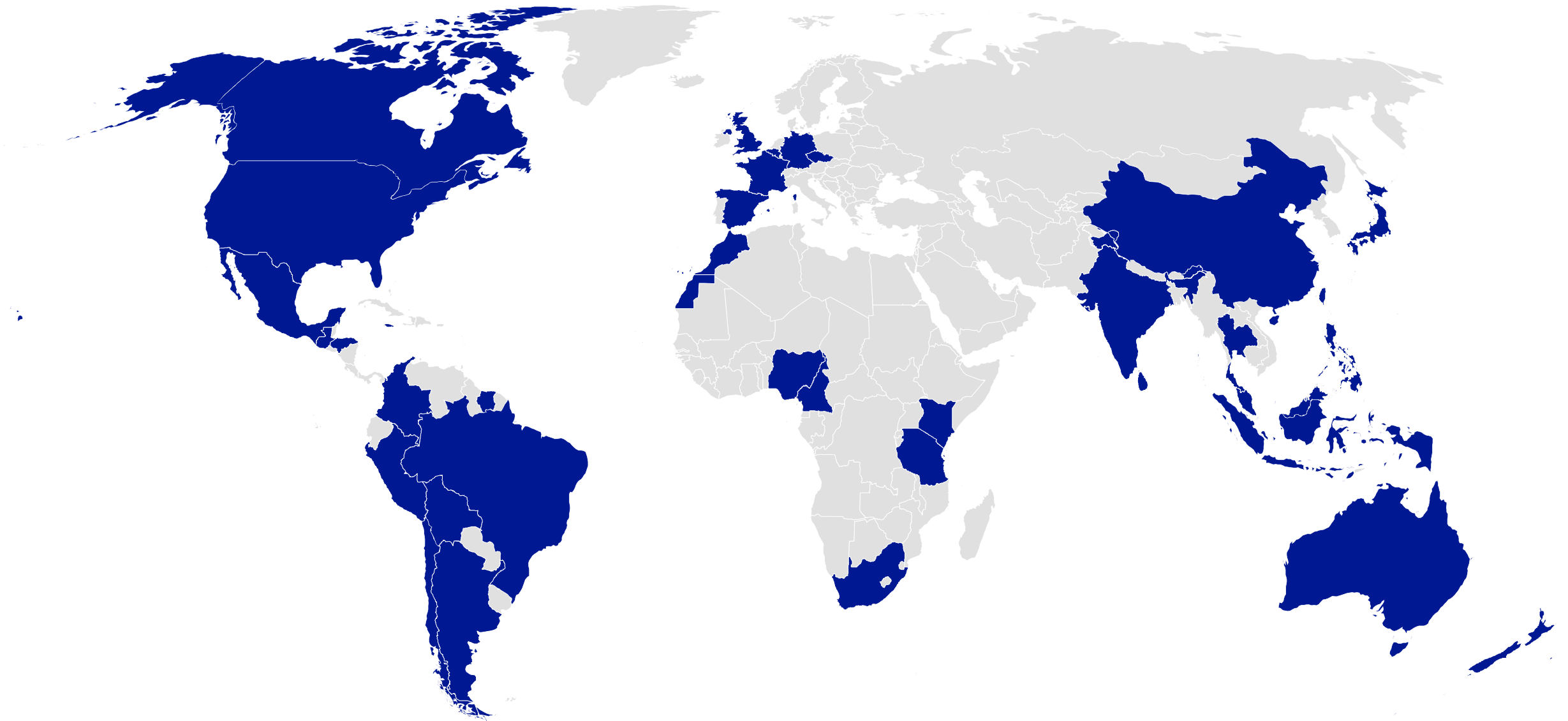
PERC is a non-profit, non-partisan policy research and development institution dedicating to increasing financial inclusion through information solutions

# PERC Supporters

Foundations	NGOs	International	U.S.G.	Associations	Industry
    	     	    	   	   	       

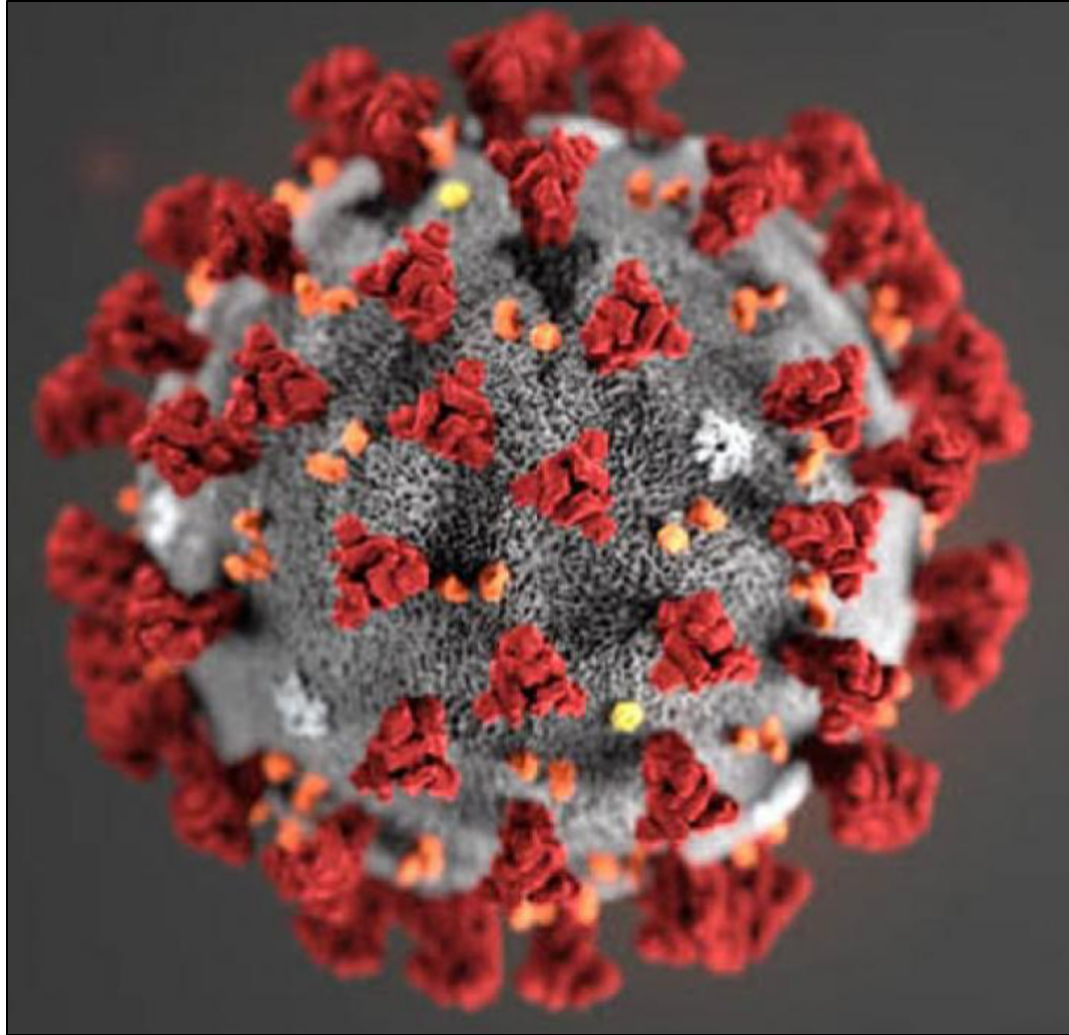
# Where We Work

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# Current Situation: Disconnect



- Shelter-in-place/other government action has led to surge in unemployment as whole industries shut down
- Some receiving benefits but many struggling to make ends meet
  - Less able to service existing credit obligations
  - Using available credit to smooth spending
  - How long can benefits be extended?
- Derogatories will begin entering credit bureaus
- Not normal business cycle that fits bureau models → can't predict risk during pandemic
- **The longer this goes on, the less bureau data will fit bureau models**

# Pandemic Collateral Damage

## Market Impacts

- With degraded data, lenders will make more mistakes
- Banks looking at 2<sup>nd</sup> & 3<sup>rd</sup> options for data
  - Visa acquisition of Plaid for \$5.5B
  - Mastercard acquisition of Finicity for \$1B
  - Disintermediation of credit bureaus
- Impose more stringent underwriting standards → minimum credit score cutoffs will be raised
- Increasing reliance on relationship lending
- **Emerging credit crunch**

## Consumer Impacts

- Cost of credit increases
- Available credit decreases → dramatic cuts in credit limits (which will have their own credit score impacts)
- Consumers will turn to predatory high-cost lenders (payday lenders, pawn shops) and get caught in debt traps
- Consumers without longstanding relationships with lenders (including under-served consumers) will be harmed

# Why Credit Matters for Financial Inclusion

- Smooths over spending
- Improves households' life quality/chances
- Enables productive investments like skills training/education
- Necessary for asset-building & generating wealth
- Credit invisibility rate of 45% in lowest-income census tracts (CFPB)

Table 9.  
Comparison of white and nonwhite household median net worth

	Median net worth	
	Amount (U.S. dollars)	Nonwhite household percentage of white household median net worth
White	247,500	100.0
U.S. Black	8	0.0***
Caribbean Black	12,000	4.8***
Cape Verdean <sup>b</sup>	—	—
Puerto Rican	3,020	1.2***
Dominican	0	0.0***
Other Hispanic	2,700	1.1***
NEC <sup>a</sup>	12,000	4.8***

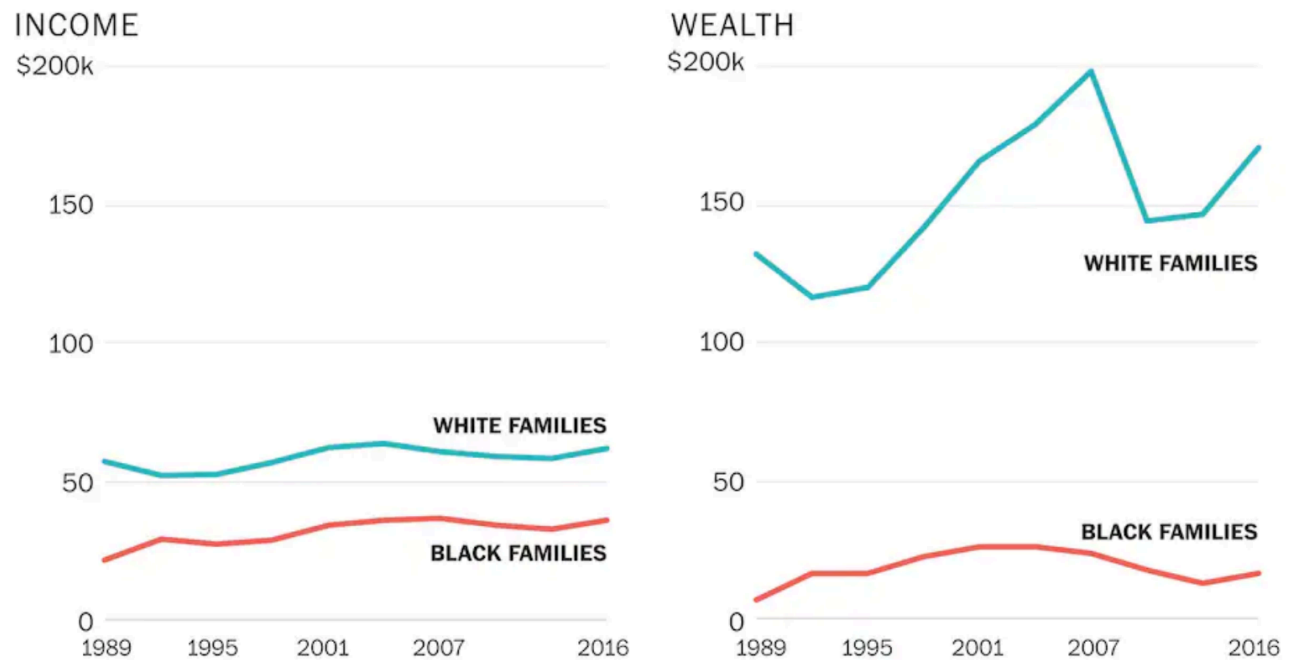
Boston data (*The Color of Wealth in Boston* by Boston Fed)

# Why Credit Matters for Financial Inclusion

- Home ownership & small business ownership still the 2 most important ways to build assets
- These take loans → credit bureaus critical financial infrastructure
- Credit invisibility rate of 45% in lowest-income census tracts (CFPB)
- Predatory lenders lure consumers into debt traps
- COVID will aggravate situation

## Racial income and wealth gaps

Median income and wealth of black and white families over time, in 2016 dollars



Sources: Survey of Consumer Finances

THE WASHINGTON POST

# Limitations of Status Quo

## Systemic Importance of Credit Bureaus

- National credit reporting system integral to safety/soundness of financial sector & **post-pandemic economic recovery**
- These will be harmed without data → credit reporting system must be safeguarded
- Small businesses create 70% of new jobs & are the engine of economic growth
  - Business owner personal credit information is predictive
  - Small & micro loans need robust consumer information sharing environment
- Increased cost of credit will attract riskier ventures for higher rate of return

## What's Already Been Done

- Use of disaster codes & lender accommodations
  - Puts burden on consumer
  - Excludes consumers who were struggling prior to pandemic
  - Exacerbates disconnect between bureau data/prediction models
  - Temporary solution
- Perception that it does not do enough to protect consumers especially as economic fallout continues → suppression/deletion will gain traction
- Broader solution should include bank leniency/clemency & government assistance



# Populist Measures



## Credit Data Suppression/Deletion

- Warren, Brown, Schatz/Kennedy proposal
- HEROES Act
- Disaster Protection for Workers Credit Act
- Biden's public credit registry proposal
- No one thinks it's fair to penalize people for circumstances outside of their control
- Tension between populist measures/economic reality (will exacerbate effects of COVID)



# PERC Research on Suppression/Deletion



## Addition is Better than Subtraction

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

Michael A. Turner, Ph.D.  
Patrick Walker, M.A.  
Kazumi Moore

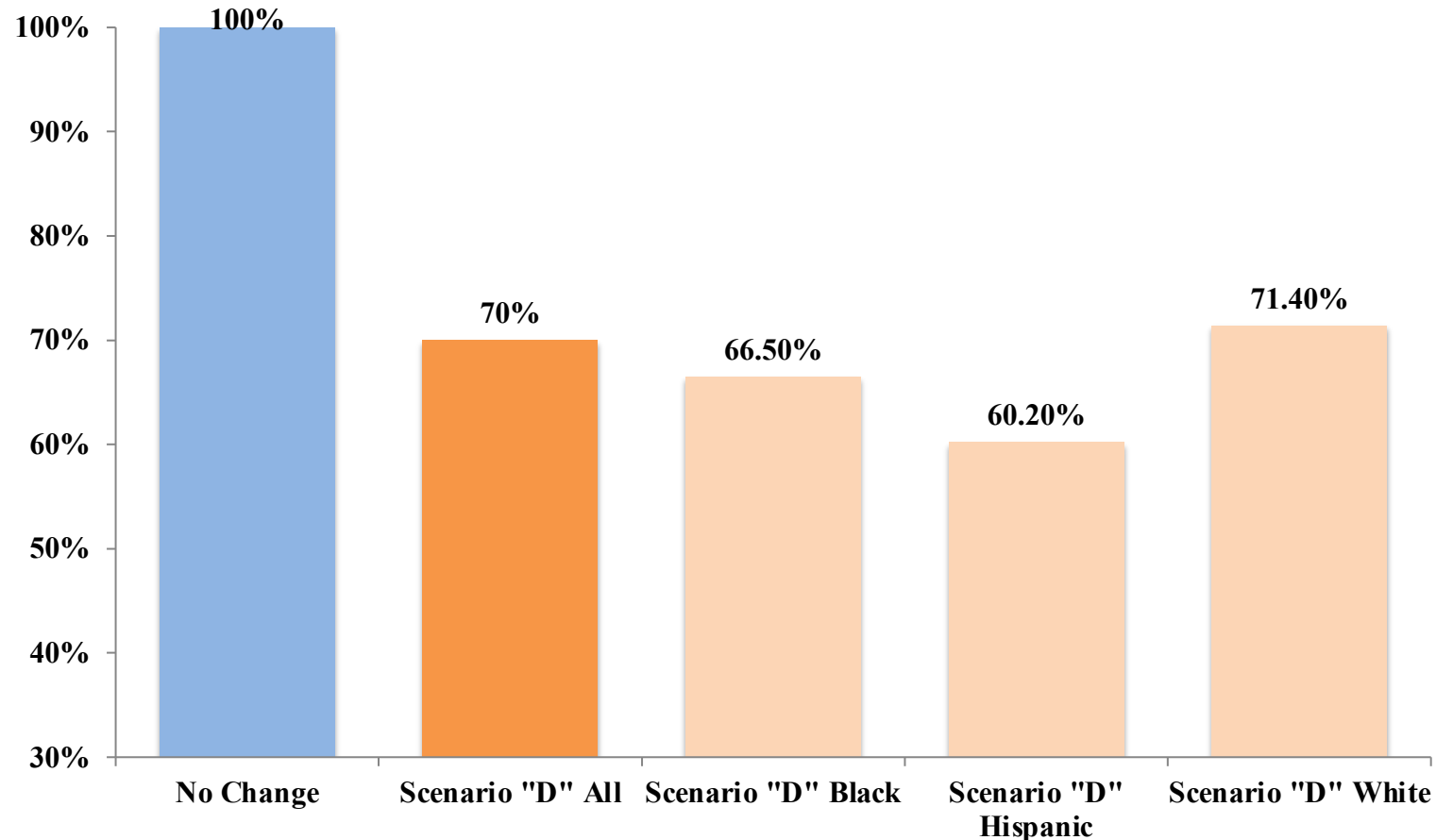
June 2020

*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.*

Credit access decreases for everyone but those we most want to help are most harmed

## Decline in Approval Rate by Applicant Race/Ethnicity



# PERC Research on Suppression/Deletion



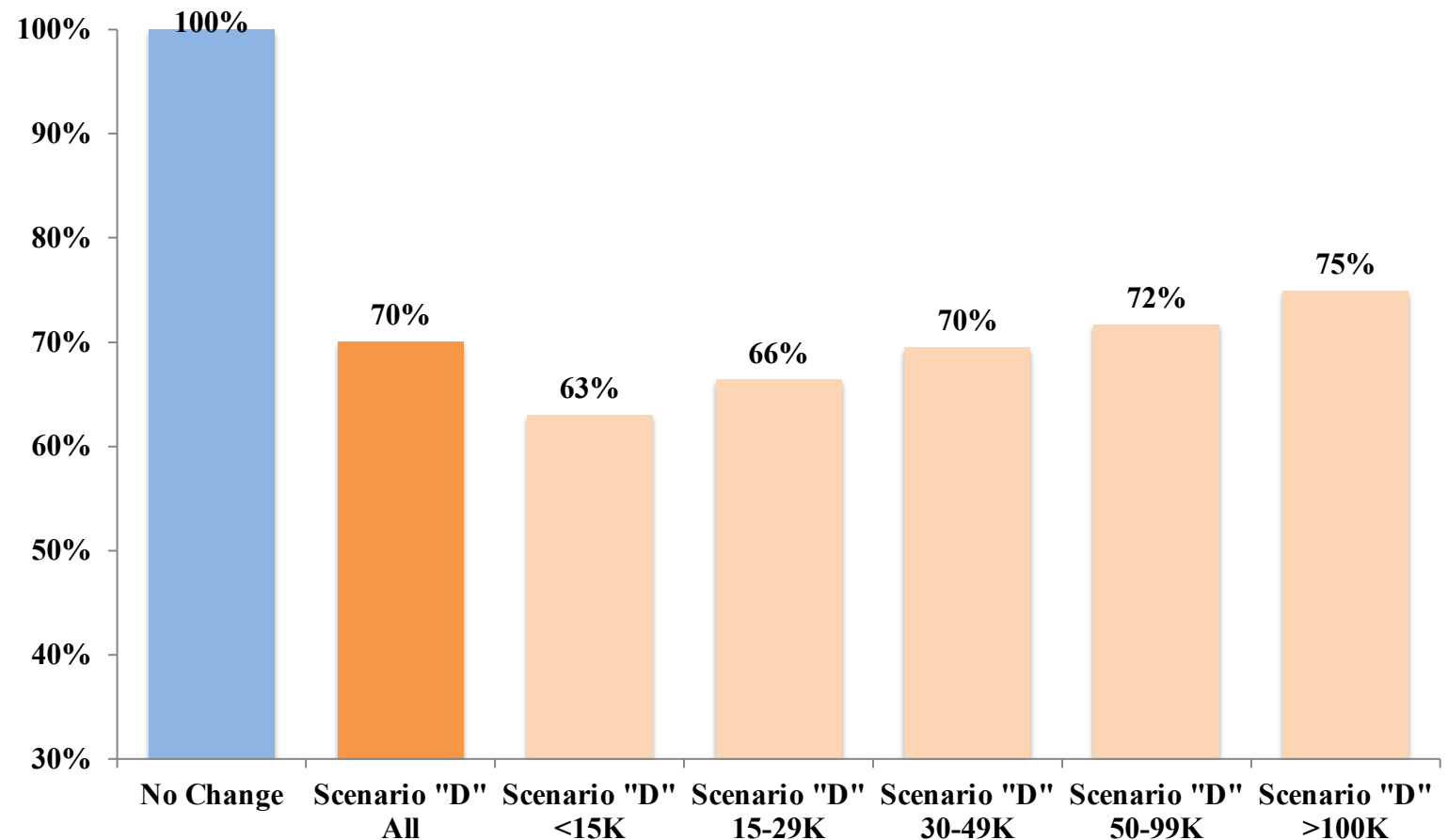
**THE FAIR CREDIT REPORTING ACT:  
ACCESS, EFFICIENCY & OPPORTUNITY  
THE ECONOMIC IMPORTANCE OF  
FAIR CREDIT REAUTHORIZATION**

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



June 2003

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



# Our Solution: National Mandate



## Mandate Positive Telecommunication Payment Data Reporting

- Taking on big telcos that are controlling access to customer data to reduce competition
- Floods system with positive data at a time it is being overwhelmed with negative data
- Telcos are major lenders & already report 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.



June 2012

**PERC**  
RESULTS AND SOLUTIONS

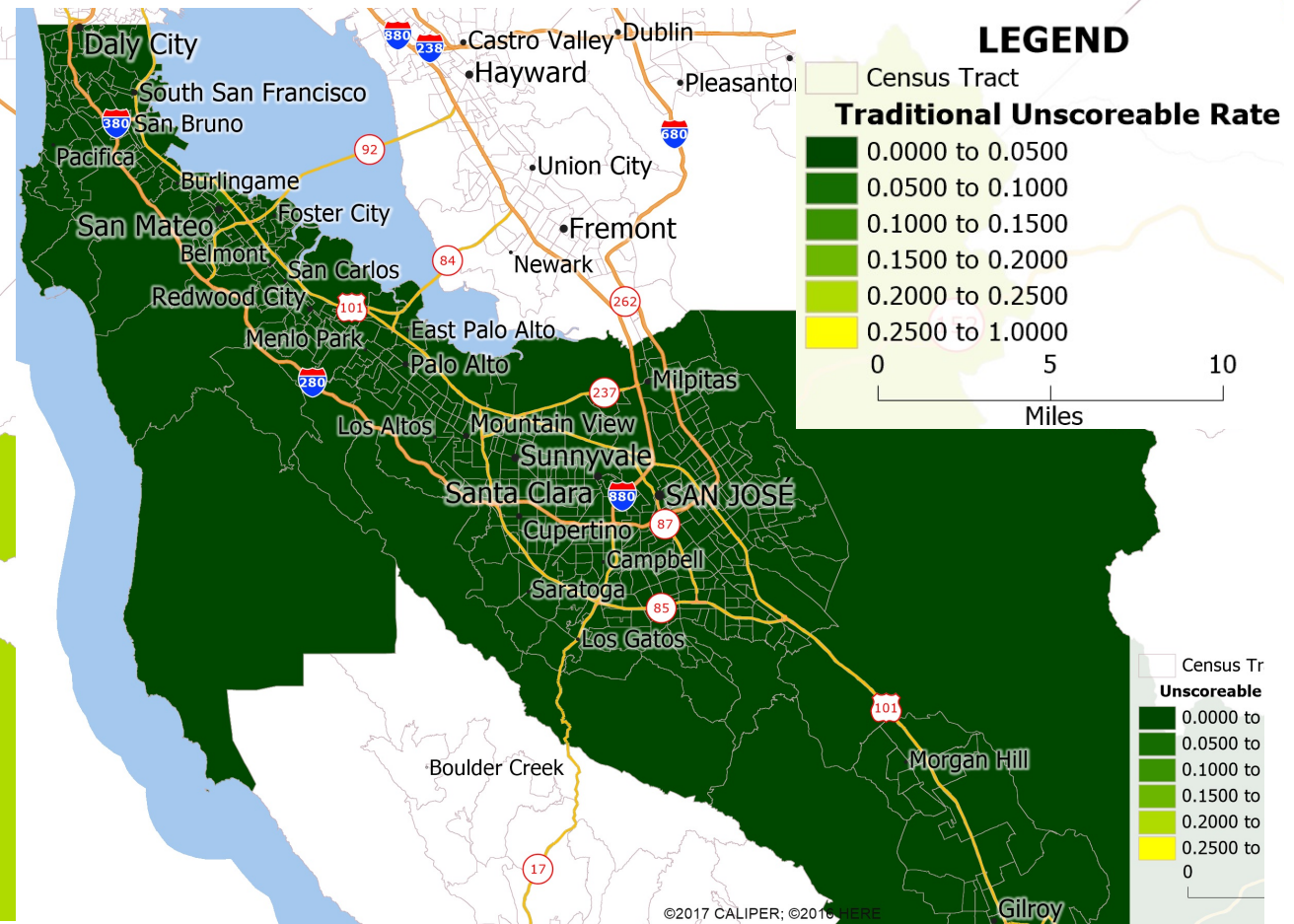


# Credit Deserts in Silicon Valley

Unscoreable Rate **Without** Alt Credit Score/Data



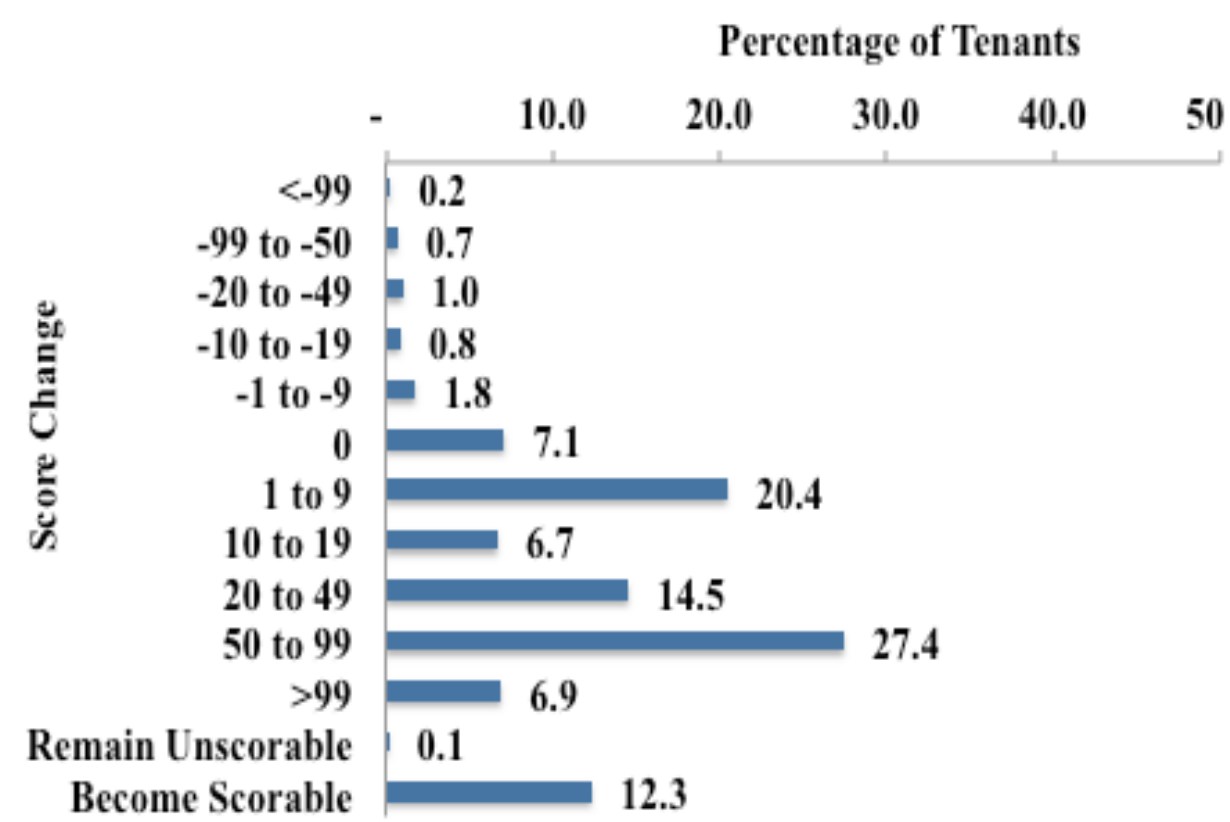
Unscoreable Rate **With** Alt Credit Score/Data



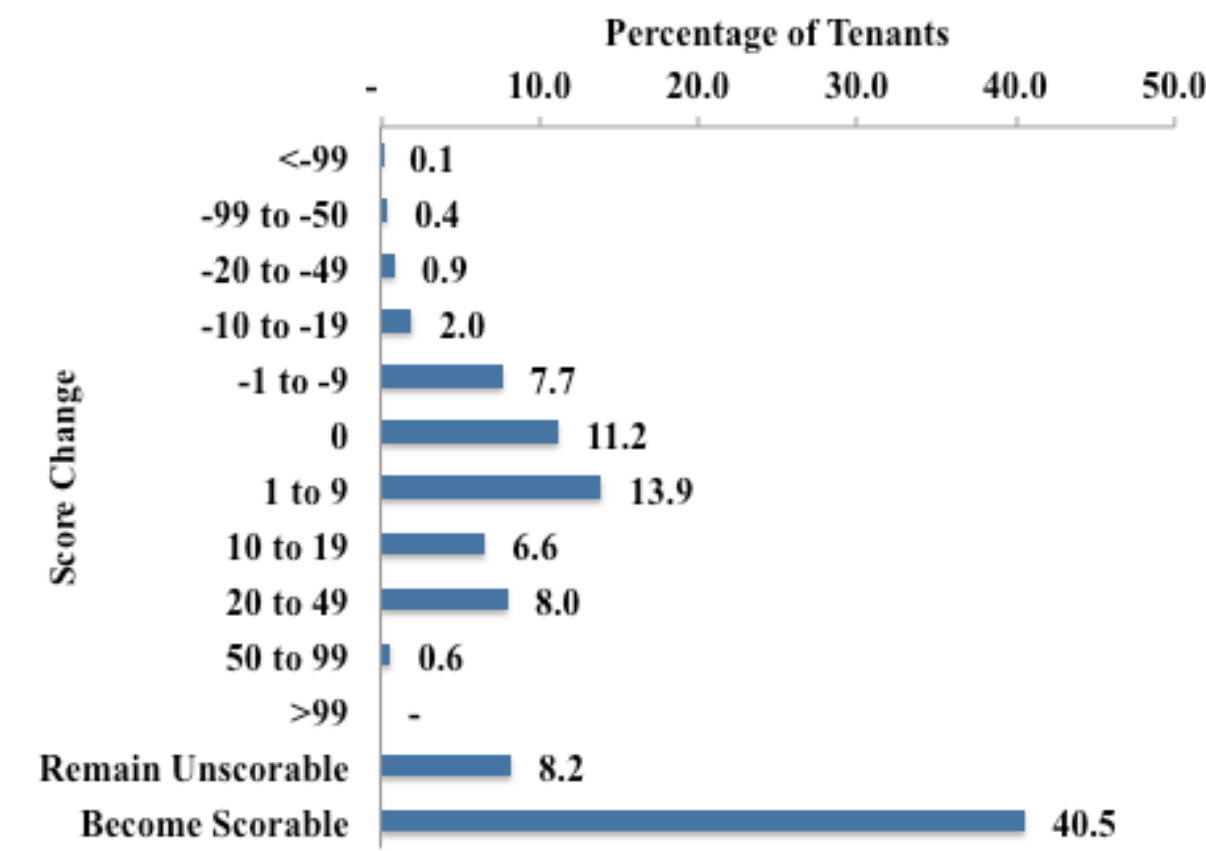
*Credit deserts virtually **eliminated** with use of alternative data & score*

# 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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