PERC

RESULTS AND SOLUTIONS

Ecosystem for Credit Reporting Service Providers

Oct 21, 2020

About Us

PERC

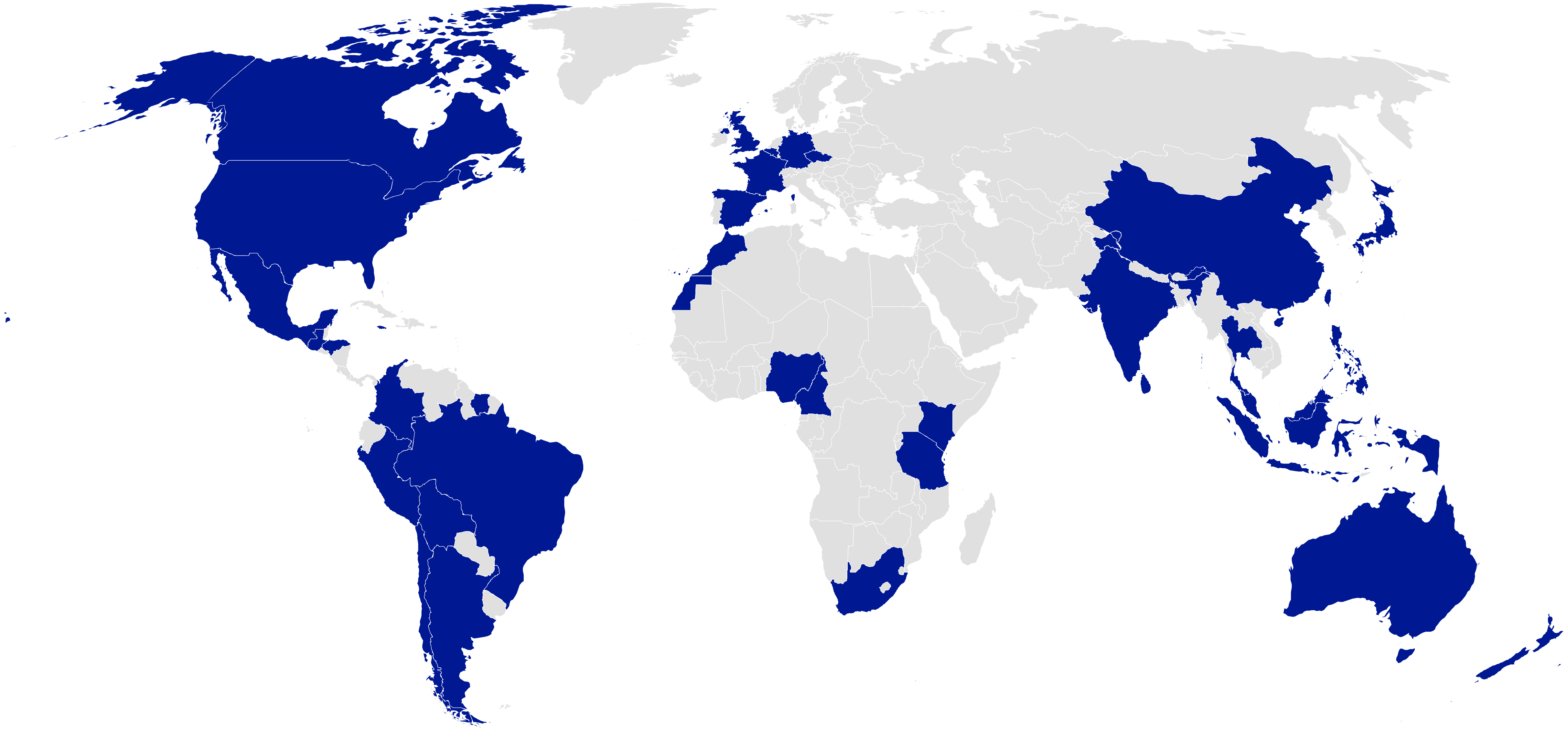
RESULTS AND SOLUTIONS

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

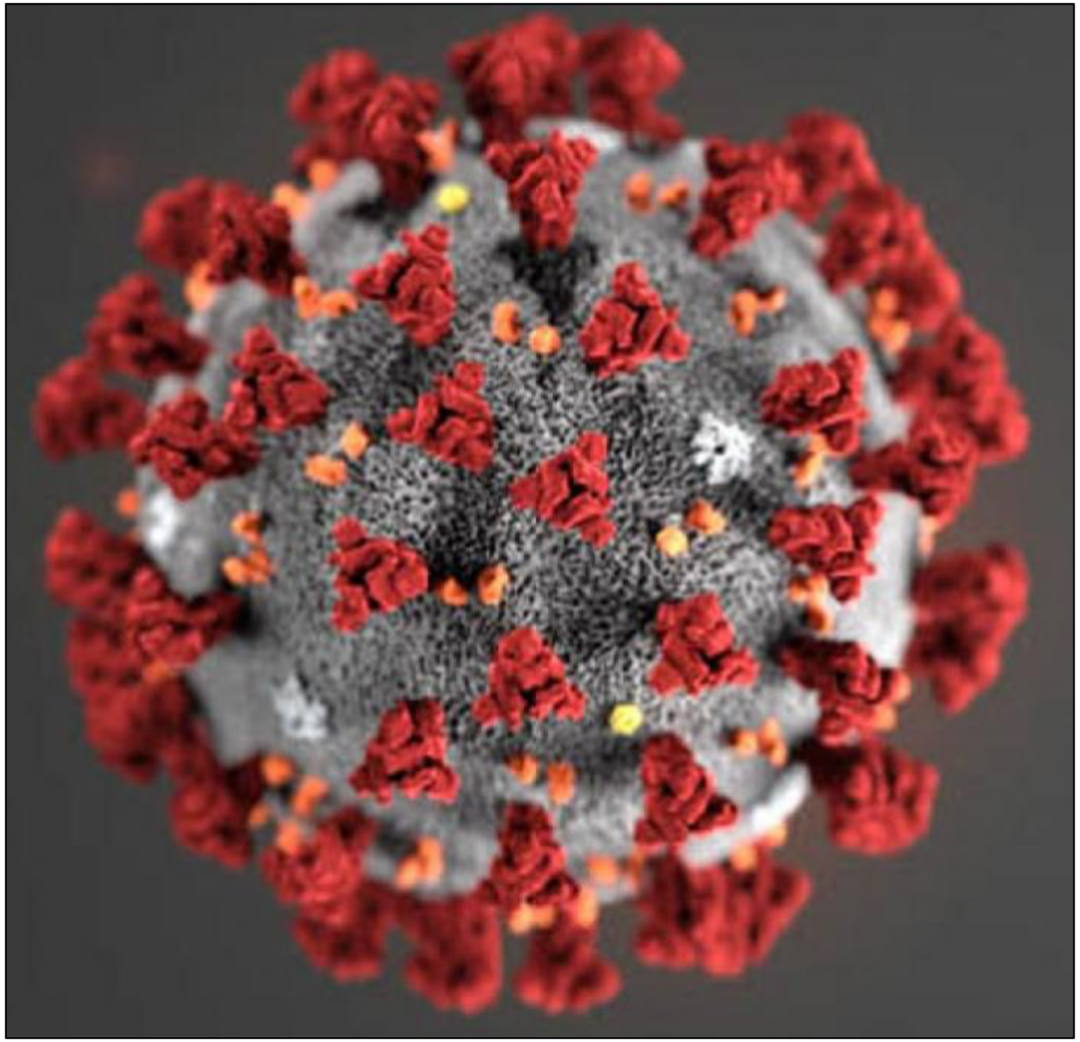
PERC Supporters

Foundations	NGOs	International	U.S.G.	Associations	Industry
The Rockefeller Foundation	IFC	Banki Kuu ya Kenya	The Department of the Treasury 1789	FSR Financial Services Roundtable	experian
The Tony Elumelu Foundation	World Bank	NCR National Credit Regulator	U.S. Department of Housing and Urban Development	CDIA Consumer Data Industry Association	tu
USCC Foundation	CGAP	APEC	cfpb	The Spirit of Enterprise U.S. Chamber of Commerce	RELX Group
Ewing Marion Kauffman Foundation	fsd Kenya	ACCJ	Federal Housing Finance Agency FHFA		J.P.Morgan
	The Brookings Institute	ABAC APEC Business Advisory Council			IBM
	IDB				VISA
					Bank of America
					intel
					citi
					LiveRamp

Where We Work



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

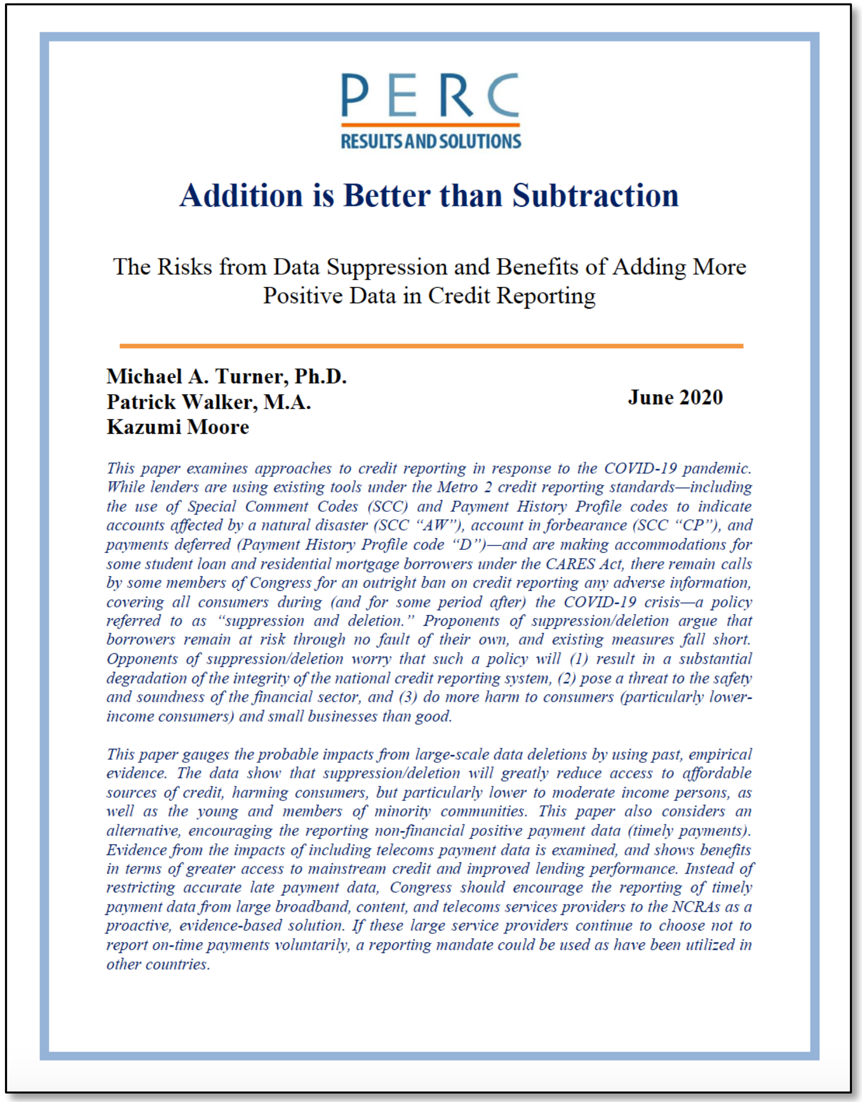
Market Impacts

- With degraded data, lenders will make more mistakes
- Banks looking at 2nd & 3rd 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

PERC Research on Suppression/Deletion



PERC
RESULTS AND SOLUTIONS

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

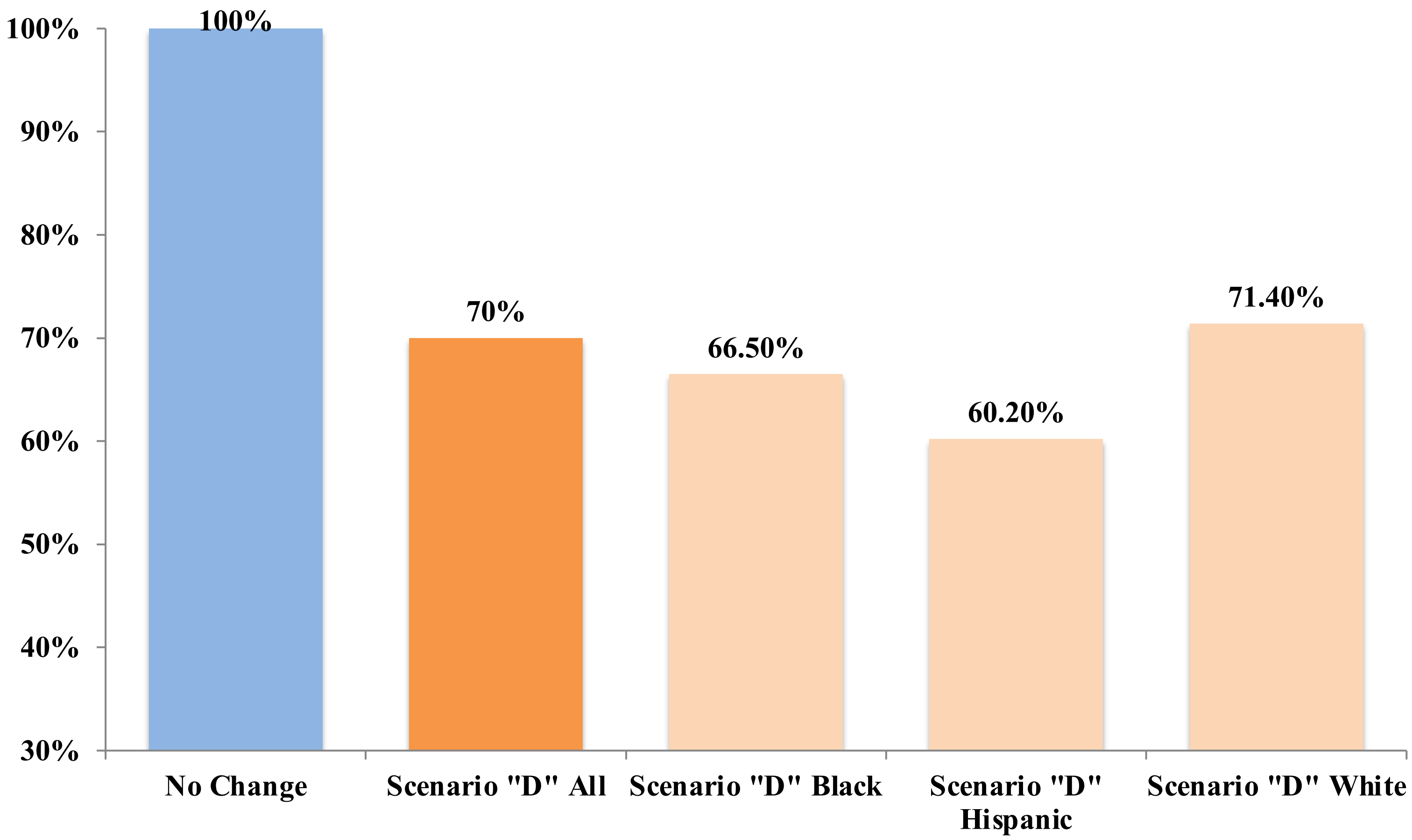
June 2020

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.

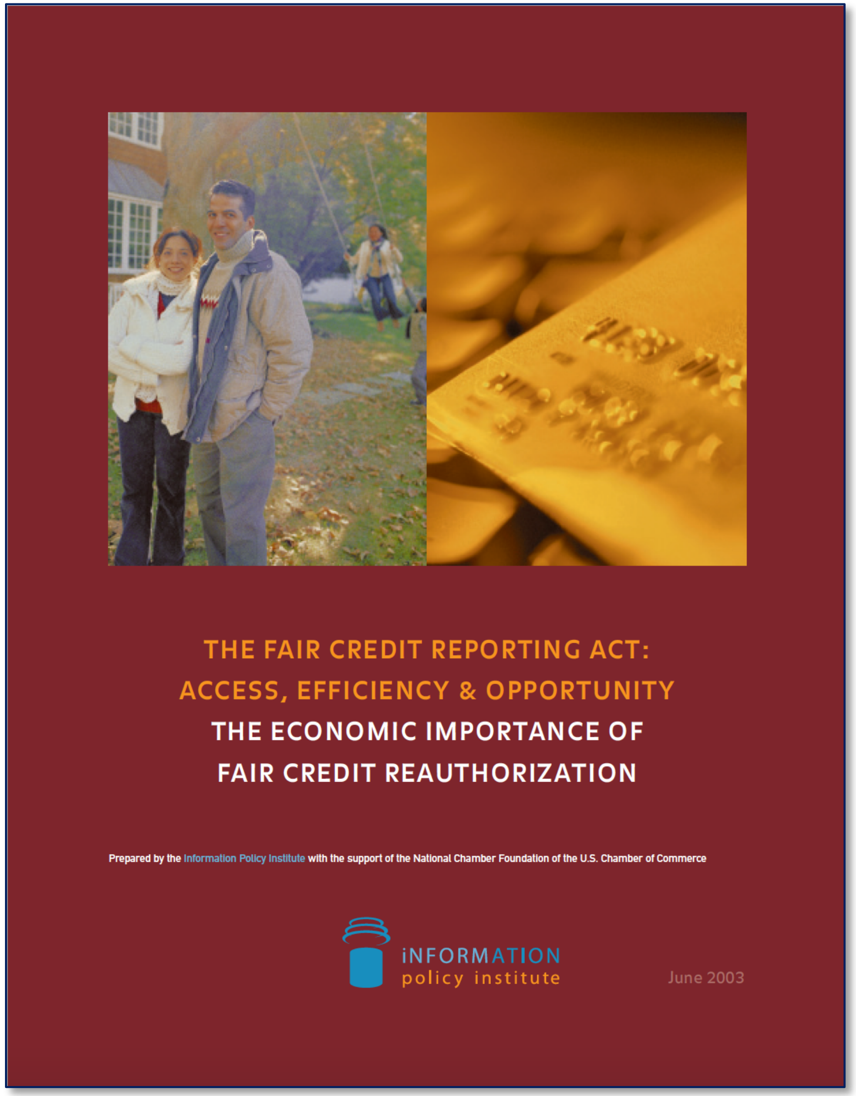
This paper gauges the probable impacts from large-scale data deletions by using past, empirical evidence. The data show that suppression/deletion will greatly reduce access to affordable sources of credit, harming consumers, but particularly lower to moderate income persons, as well as the young and 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

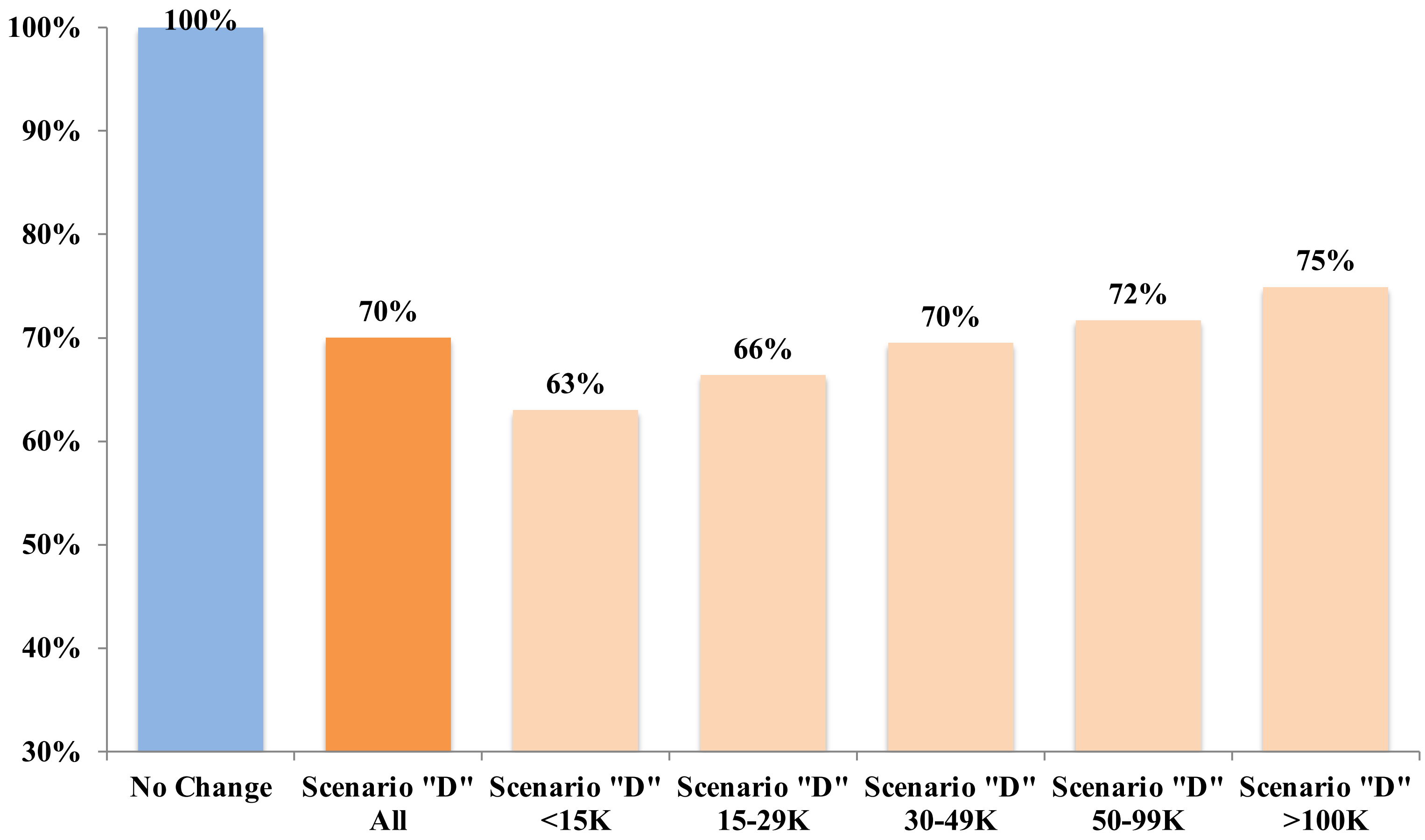
Decline in Approval Rate by Applicant Race/Ethnicity



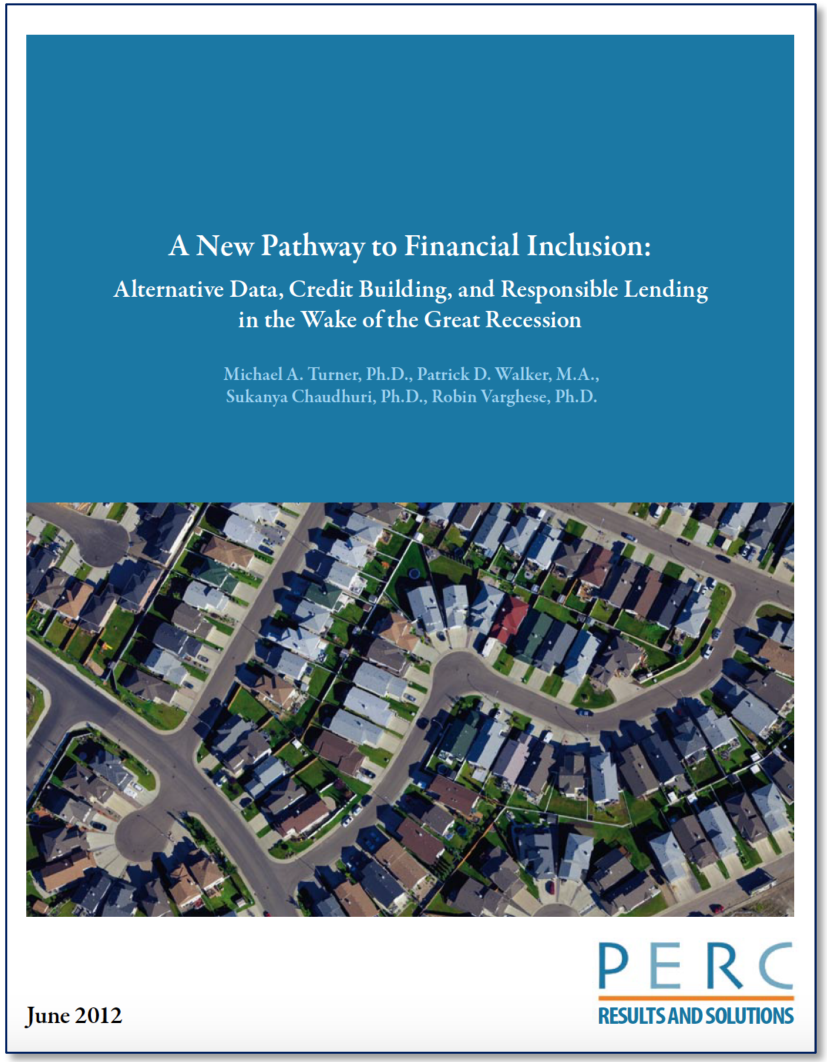
PERC Research on Suppression/Deletion



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



Promise of Proven Payment Data



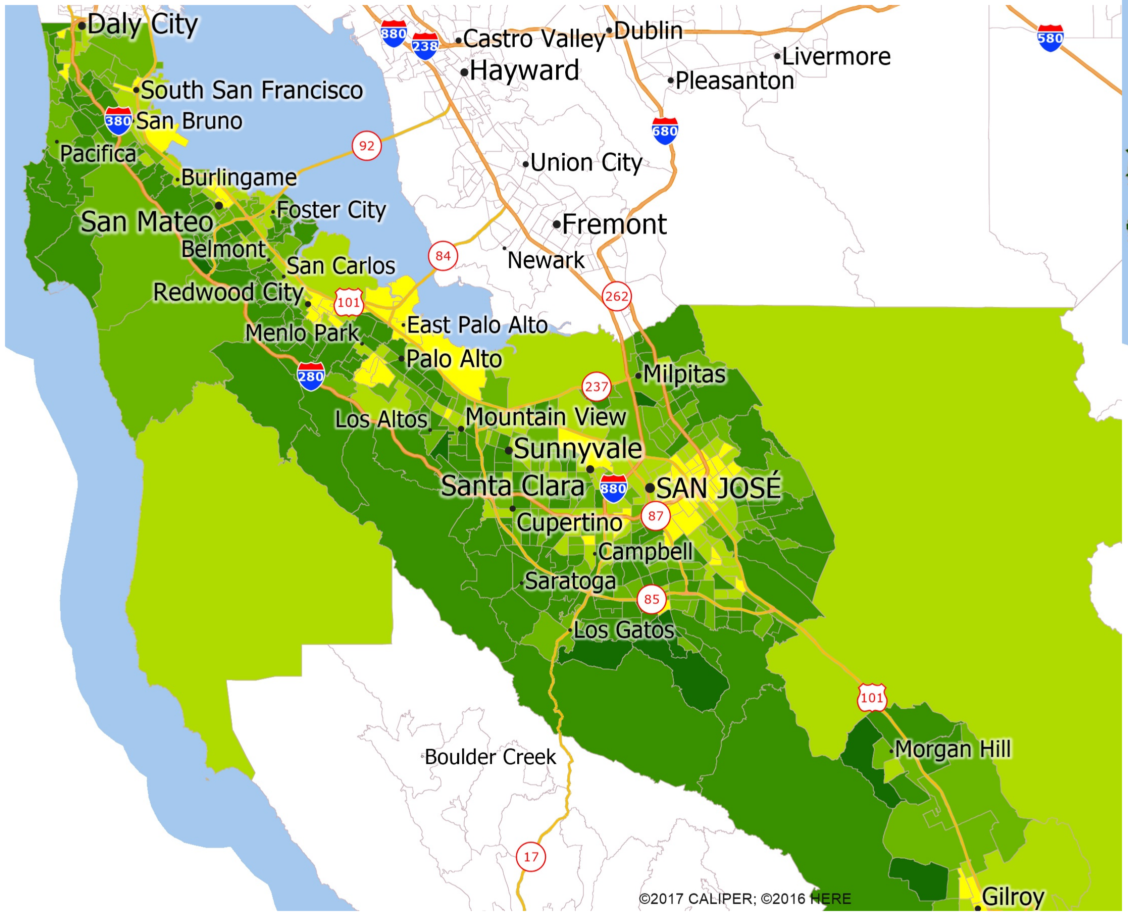
Increase in Approval Rates by Adding Full-File Telecom/Utility Data, by Household Income (assuming a 3% portfolio default rate)

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

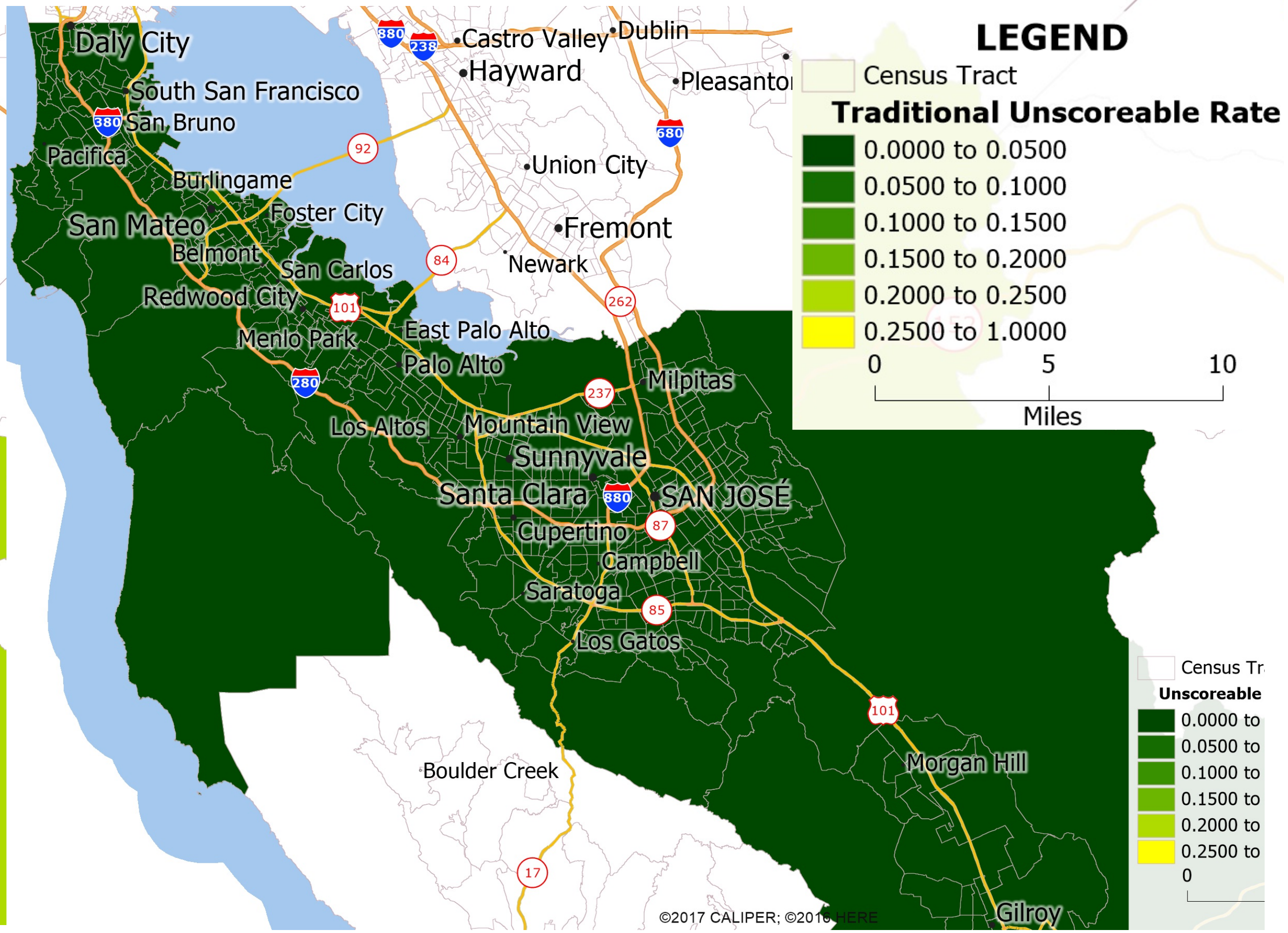
Governments may need to intervene to **mandate** inclusion of proven payment data

Credit Deserts in Silicon Valley

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



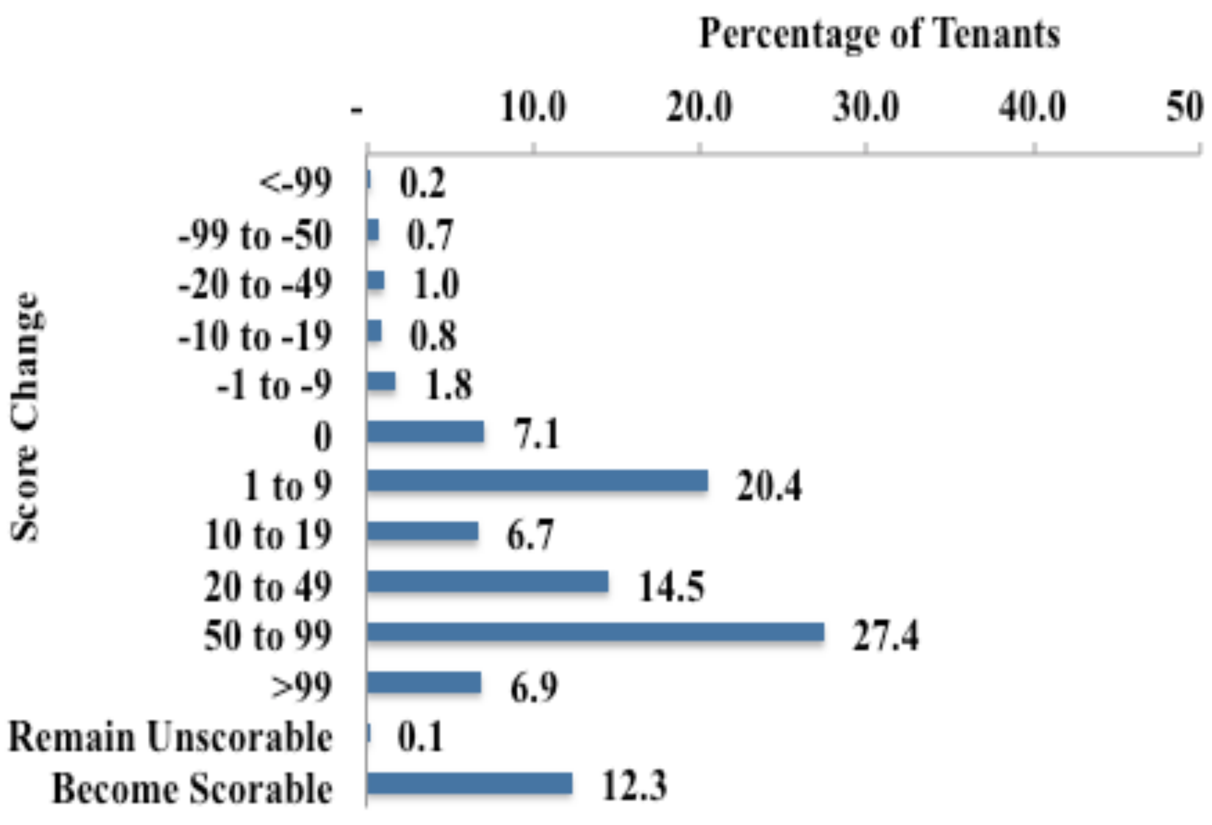
Unscoreable Rate **With** Alt Credit Score/Data



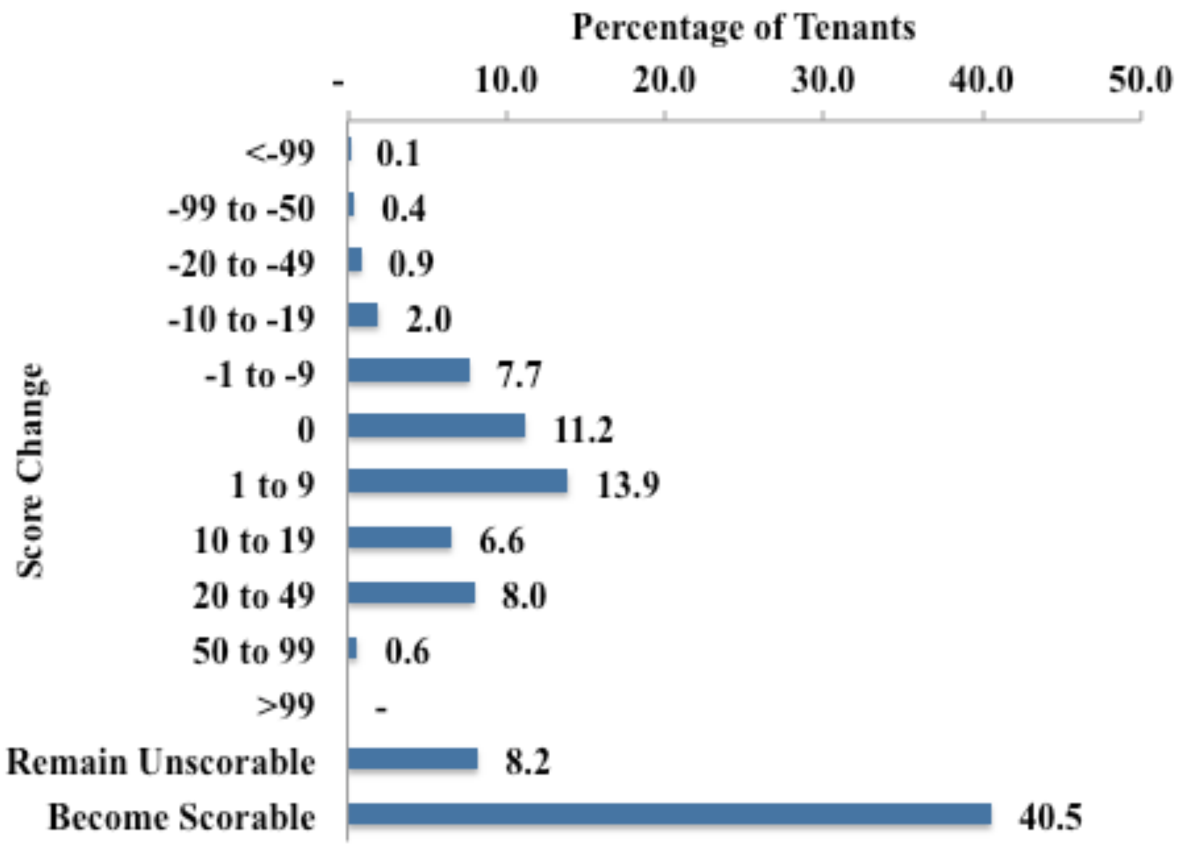
Credit deserts virtually **eliminated** with use of alternative data & score

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)



ICCR Leadership on These Issues

ICCR
INTERNATIONAL COMMITTEE ON CREDIT REPORTING

Treatment of Credit Data in Credit Information Systems in the context of the COVID-19 pandemic
International Committee on Credit Reporting (ICCR)
April 6, 2020

1. Problem Statement

The treatment of credit data during a crisis has potential impact on the integrity of the credit reporting system and ultimately the financial markets. Inadequate and untimely data reduces the reliance placed by credit providers on the credit reporting system and can lead to credit rationing, increase in the cost of credit and exclusion of borrowers. A crisis such as the COVID 19 impacts on good performing borrowers' ability to meet their scheduled payments relegating them to the same level with existing non-performing borrowers. This brings to the fore the discussion on how missed or delayed payments associated with vis major should be treated in the credit reporting system, particularly on whether payment delays caused as a result of the vis major should be reported and if so, what weighting it should have on a borrower's credit history and credit risk score.

2. Treatment of credit data during a crisis

There is consensus that credit providers (CPs) should continue sharing positive payment data with the credit reporting service providers (CRSPs) during the crisis as with normal times. There are, however, two main opposing views on the treatment of payment delays due to a crisis, these are: suppression and reporting of this data with the necessary safeguards.

The proponents of suppression or non-submission of payment delays due to a crisis argue that such delays are not a result of the borrower's own choice hence that information should not be reflected on their records. They suggest a time period within which the non-submission should exist. Such a suppression of data however could be more detrimental to consumers as a gap in reporting could more negatively impact a consumer's credit score than reporting with safeguards.

The other view is that data on payment delays, created under forbearance or deferred payment arrangements due to a crisis, should be submitted with the necessary safeguards to ensure minimal or no effect on a good borrower's credit report and score. The proponents of this view argue that at all times credit reporting systems should reflect the accurate and true position of the individual, albeit, necessary measures should be put in place to protect genuine borrowers in a crisis. Some countries have developed such measures in the past in response to crises (for example the US, UK and Italy) and a number are considering implementing such measures in the current crisis.

Cross-Border Data Flows

- ICCR Cross-Border Working Group: Thanks to APEC for your participation!
- Digital finance being sped up
- Emerging FinTech: Nova Credit
- Open Banking initiatives, PSD2 in Europe
- Consumer-permissioned data
- **Data localization requirements remain a challenge**
- Focus in emerging markets has to be **data quality + digitization**

Emergence of Super-PCRs

- PCRs introduced in some countries are competing with PCBs & driving them out of the market
- Djankov, McLiesh, Shliefer (2007) found PCBs increased annual lending to private sector by 21% of GDP, whereas PCRS only increased lending by 7%
  - Only lower-income economies: same trend with PCBs leading to increase of 14.5% & PCRs only increasing lending by 10.3%
- PERC research found that every 10% rise in coverage of a nation's population in a full-file PCB is associated with a 6% increase in private sector lending as a share of GDP
- Keeping PCRs focused on their core functions:
  - Macro/micro-prudential regulation & oversight
  - Statistics for macroeconomic policy

Forthcoming Reports

Quantifying Impacts of Suppression/Deletion

- Simulating impacts of proposed credit data suppression/ deletion legislation + our solution (positive telecoms data reporting mandate)
- National credit reporting system integral to safety/soundness of financial sector & **post-pandemic economic recovery**

Optimal Balance of PCR/PCBs

- Analysis of markets where PCRs introduced after PCBs are already established
- World Bank recommendations & case studies on PCR overreach
- Effects of activist PCRs on:
  - Consumers
  - Lenders
  - PCBs
  - Economy