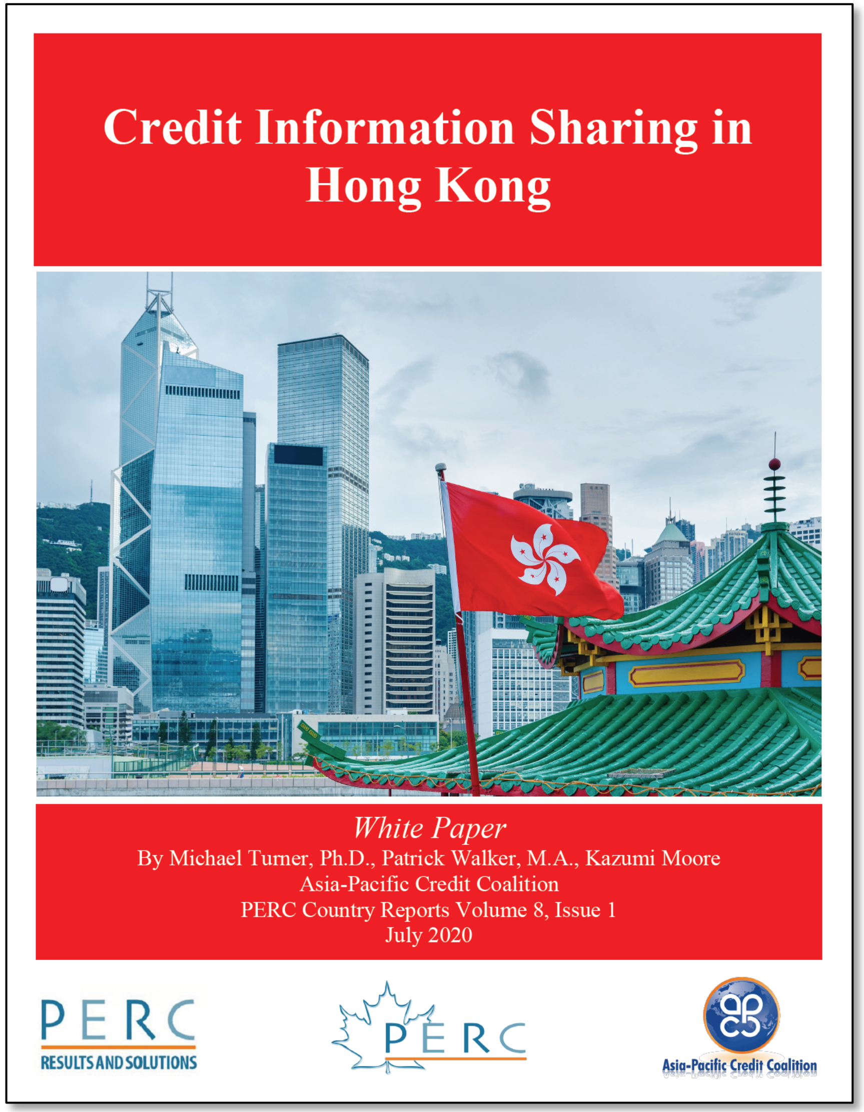
Recent Financial Infrastructure Reforms & Developments in the Region

Nov 26, 2020

Emergence of Expanded- and/or Super-PCRs

- PCRs in some countries are competing with PCBs & harming PCBs
- 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

Hong Kong

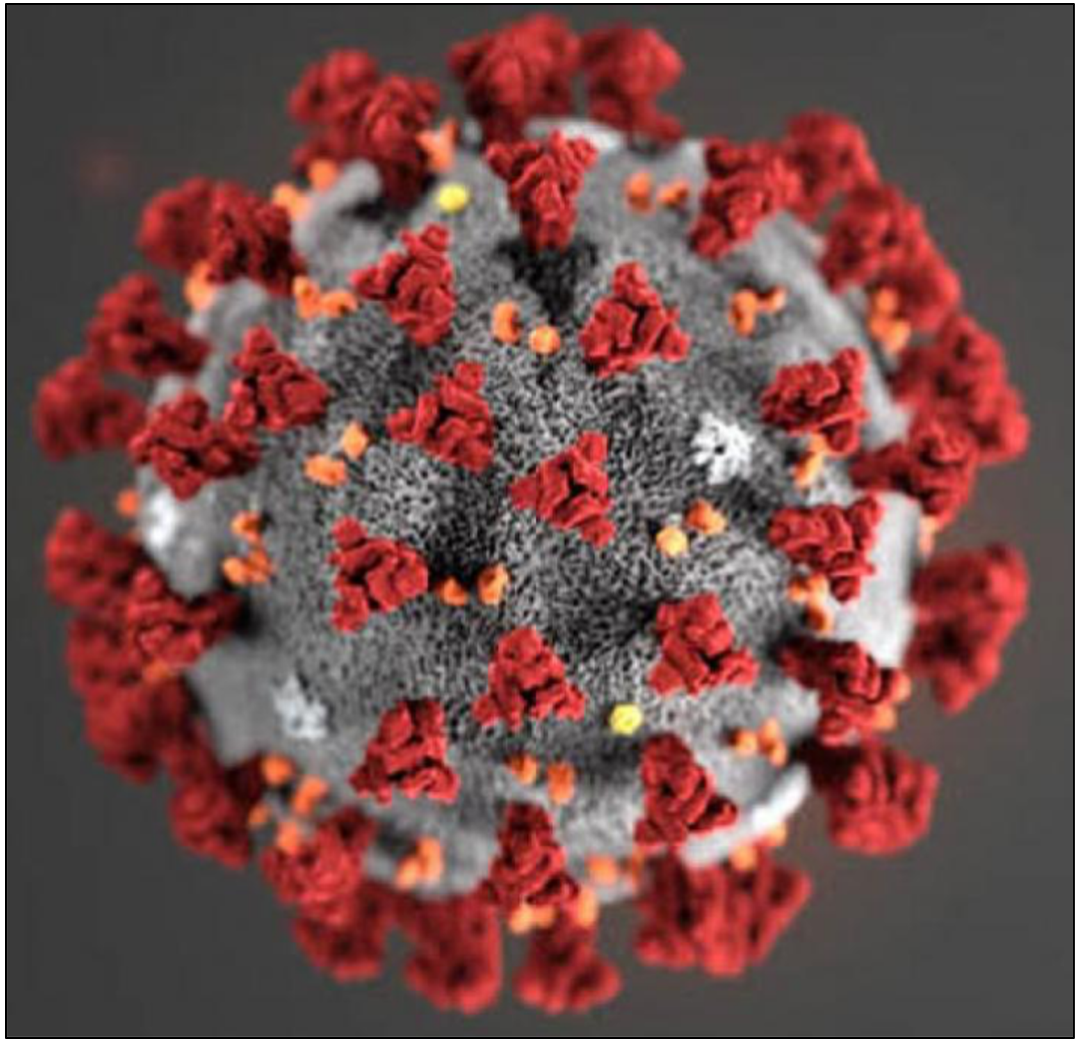


- Recommended updates to HK's credit information regulatory framework to facilitate competition & inclusion
- New entrant into HK credit bureau market → potential for fragmentation if not regulated on level playing field
- Data gaps: lack of positive mortgage data
  - Contributing to real estate bubble
  - Prevents lenders from assessing whether borrowers are over-extended

Philippines

- CISA (Credit Information System Act) of 2008: a legitimate government intervention to correct market failure
- CIC collects comprehensive credit data (from banks, insurance companies, financing companies, utilities)
- Issues:
  - CIC in dual role as regulator & competitor
  - Data quality
  - Enforcing compliance with regard to data being furnished
  - Conflict of interest with CRIF
- Recommends CIC focus on role/functions of traditional PCR, compliance & potential housing under central bank
- Underperforming credit information systems is costly to the economy

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?
    - Some credit payments are deferred
- Derogatories will eventually begin entering credit bureaus
- Not normal business cycle, data distorted → models/data potentially can't predict risk during pandemic as well
- **The longer this goes on, the more data/models will be impacted**

Pandemic Collateral Damage

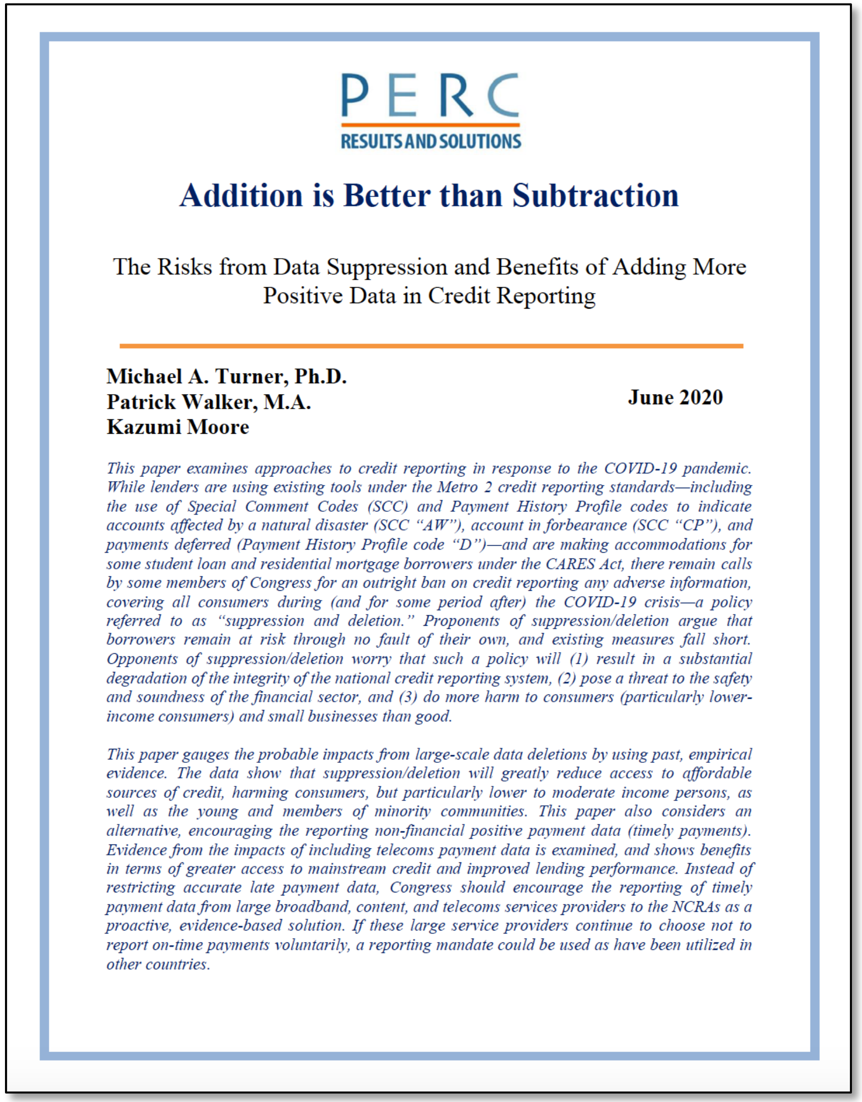
Market Impacts

- 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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RESULTS AND SOLUTIONS

Addition is Better than Subtraction

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

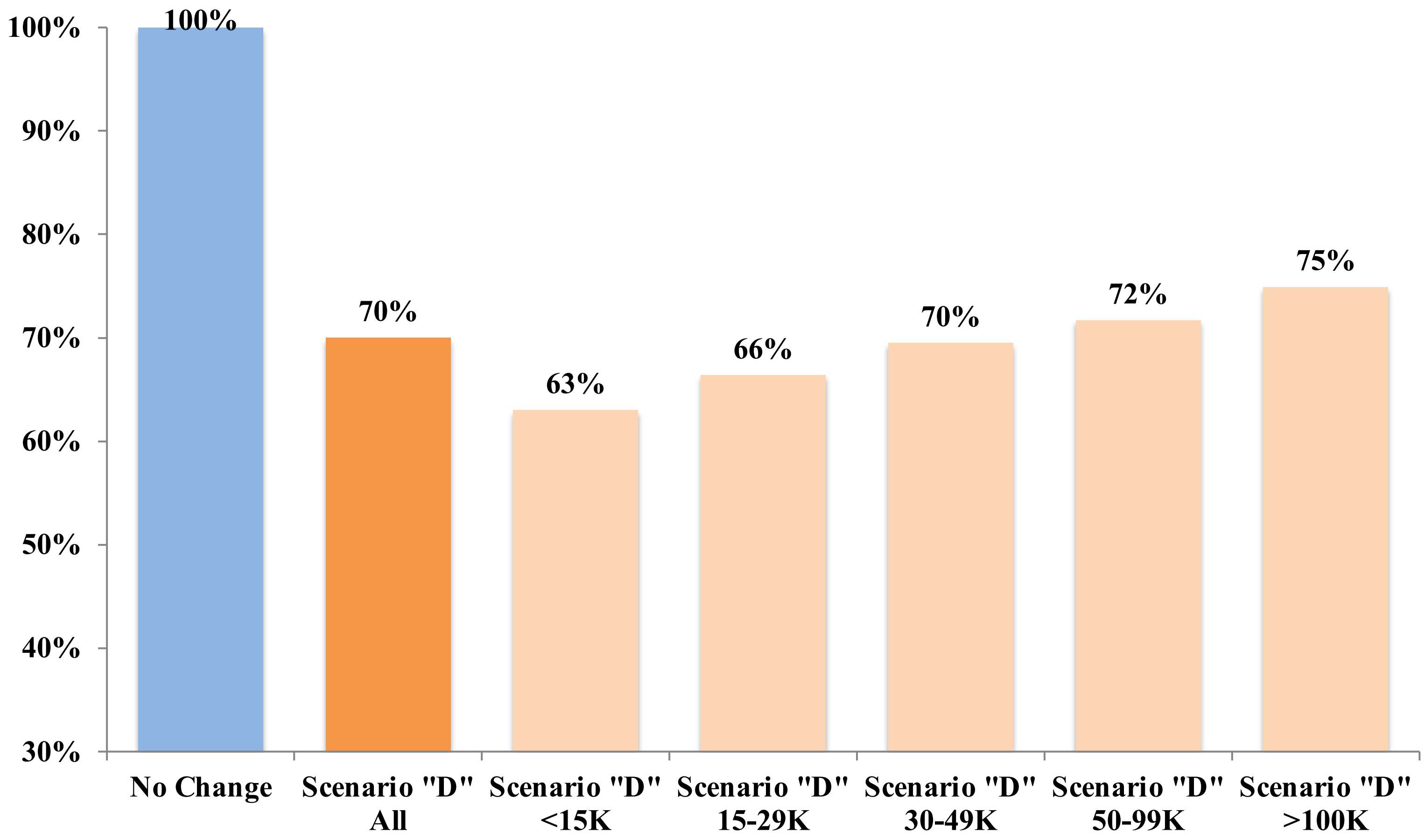
Michael A. Turner, Ph.D.
Patrick Walker, M.A.
Kazumi Moore

June 2020

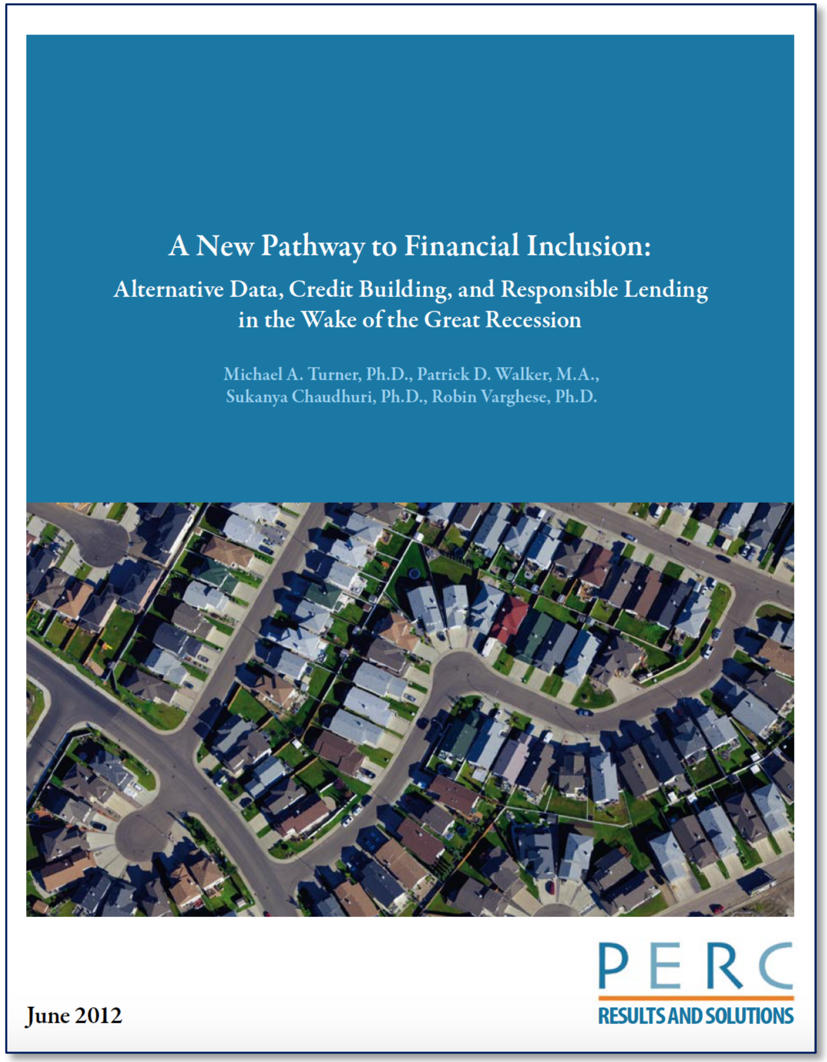
This paper examines approaches to credit reporting in response to the COVID-19 pandemic. While lenders are using existing tools under the Metro 2 credit reporting standards—including the use of Special Comment Codes (SCC) and Payment History Profile codes to indicate accounts affected by a natural disaster (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.

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



Promise of Proven Payment Data



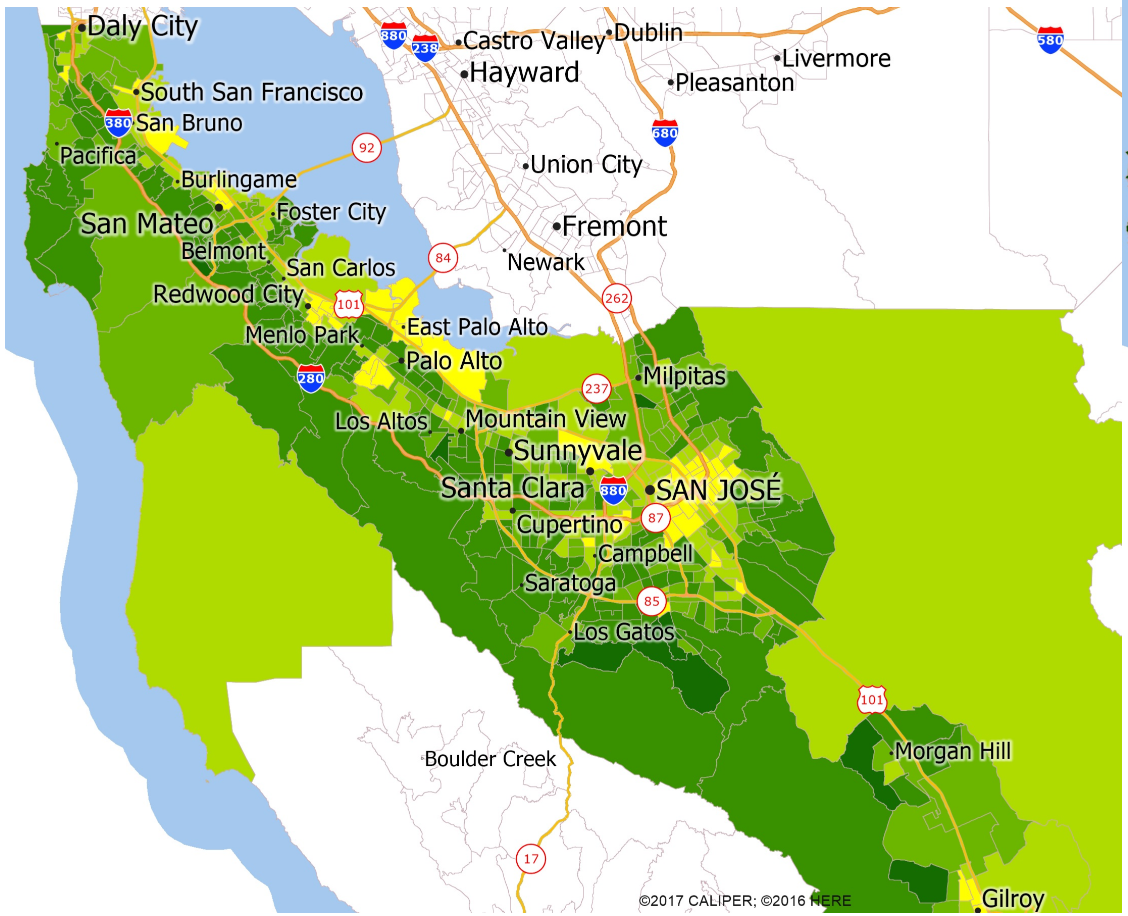
Increase in Approval Rates by Adding Full-File Telecom/Utility Data, by Household Income (assuming a 3% portfolio default rate)

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

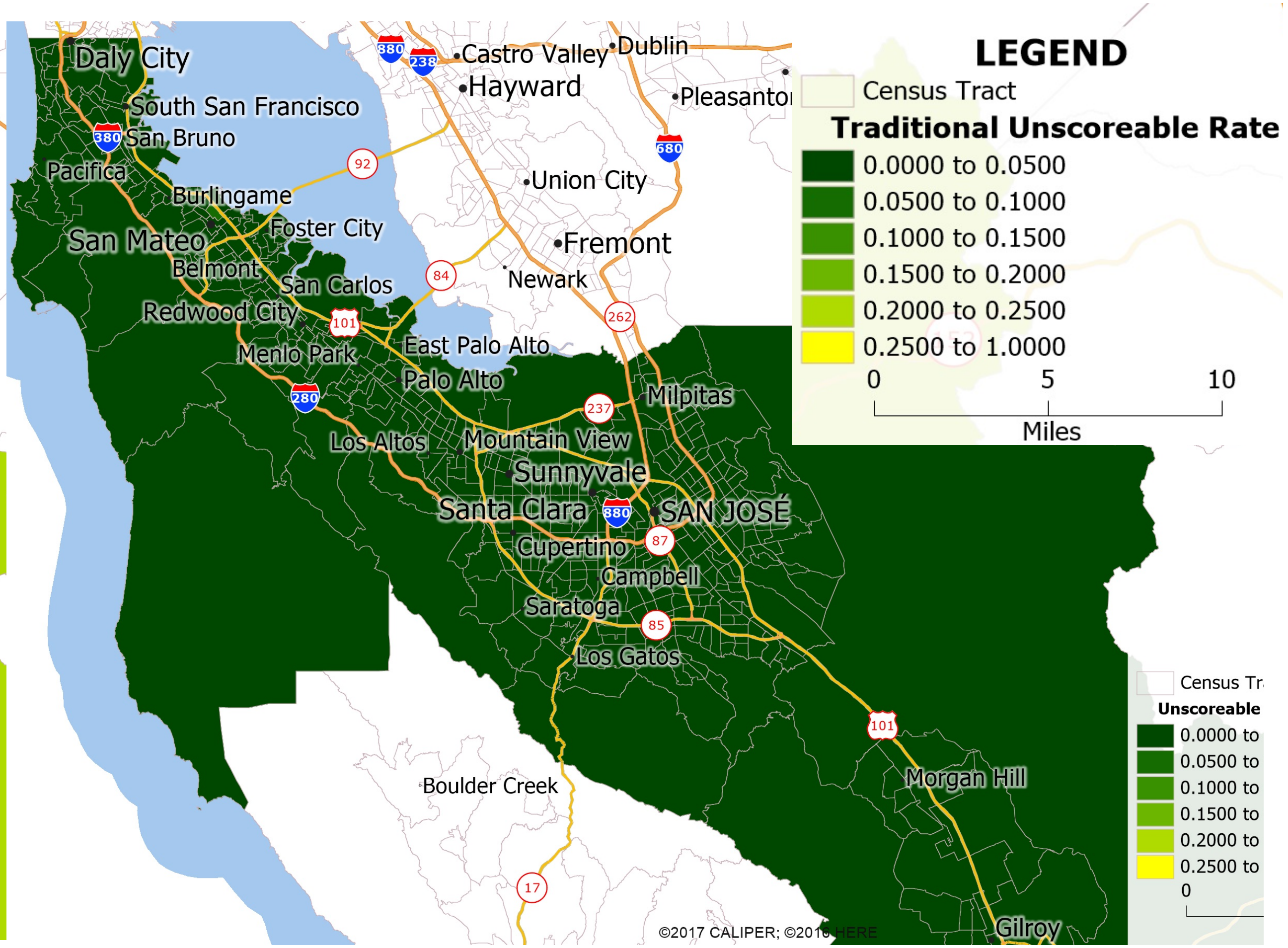
Governments may need to intervene to **mandate** inclusion of proven payment data

Credit Deserts in Silicon Valley

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



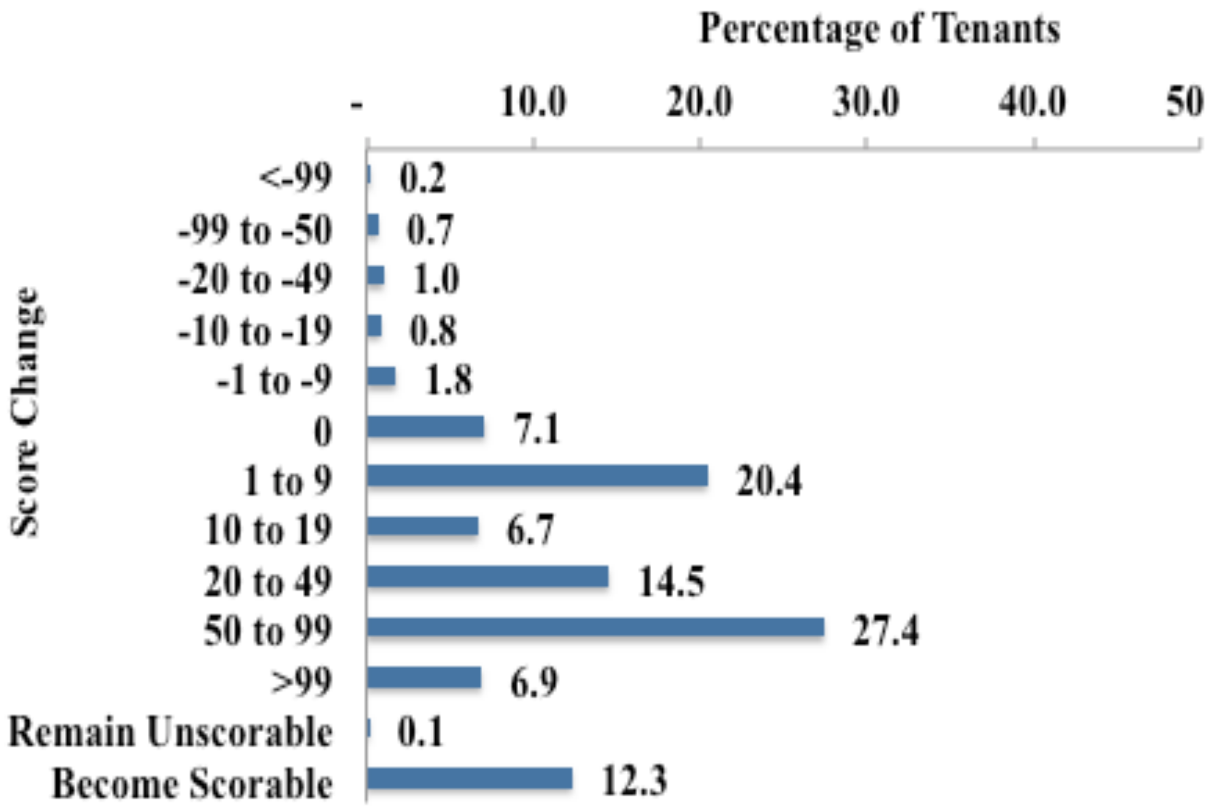
Unscoreable Rate **With** Alt Credit Score/Data



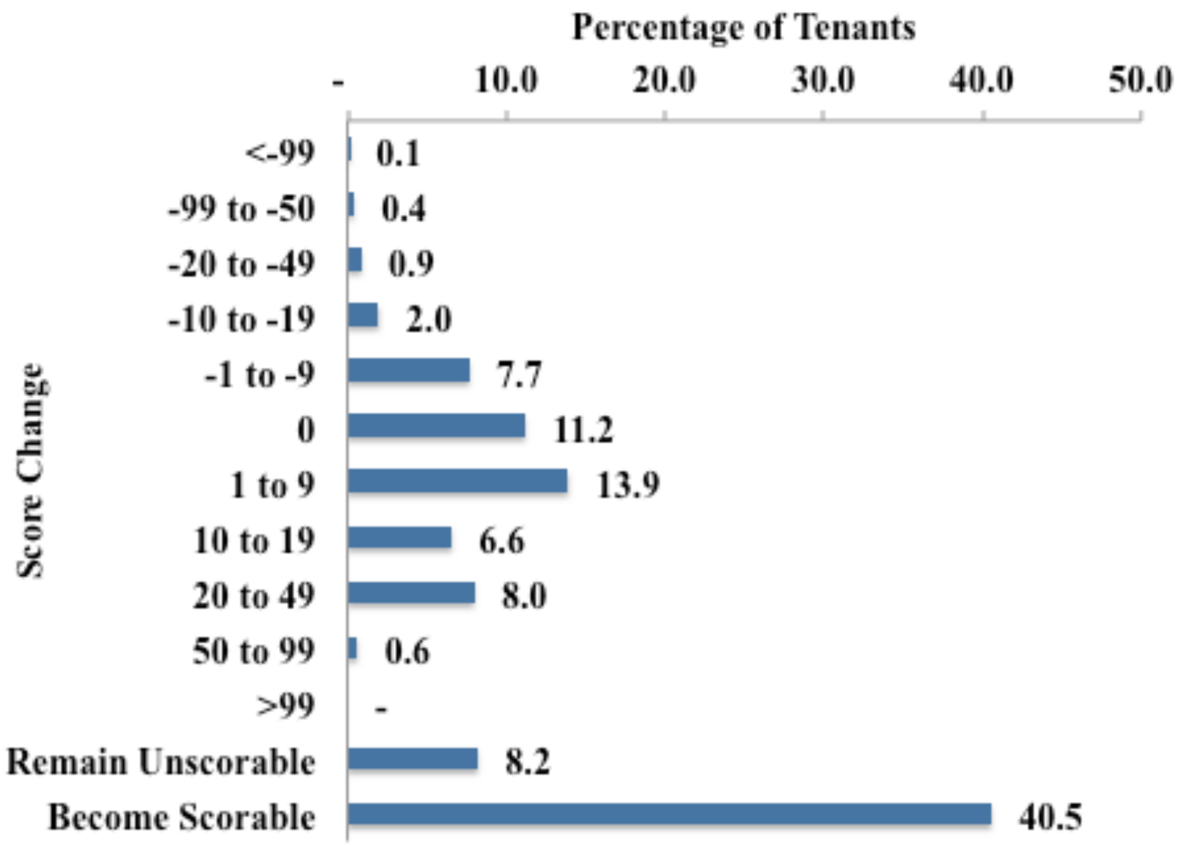
Credit deserts virtually **eliminated** with use of alternative data & score

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)



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