

Political & Economic Research Council

Give Credit Where Credit is Due. Lessons from the United States

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Introduction

Catch-22 of credit system in US:

- credit file data allows for access to credit (with low origination and monitoring costs, better risk assessment) \Rightarrow low cost, widely accessible credit
- but no data, no credit (very expensive credit), but no credit no data, leaving many locked out

Congress mandates examination of data sources that can help but not included



What is alt data and why care?

Why care about alternative data, especially in US?

- Access to credit crucial for asset formation
- 35 to 54 million Americans “unscorable”
- Primarily low income, immigrants, elderly, and ethnic minorities
- Issue of development for underserved domestic markets

What is alternative data? Examples:

- non-financial payment information (utilities, telecoms cable/satellite television.)
- tuition
- rent
- auto liability insurance



Quantitative research

Give Credit Where Credit Is Due

**PERC-Brookings Institution Joint Publication
Released December 2006**

Freely Available: www.infopolicy.org



Selecting alt data for maximal effect

Assessed usefulness along 3 key dimensions

- “Cash-like” vs. “Credit-like” (incentive to furnish)
- Coverage (reach of data in population)
- Concentration (resources needed to reach furnishers)

- Traditional “credit-like” data
- Non-traditional “cash-like” data

Concentration of Data Furnisher

Low

High

<ul style="list-style-type: none"> ● Rental Payments 	<ul style="list-style-type: none"> ● Energy ● Water ● Cable ■ Auto liability insurance
<ul style="list-style-type: none"> ■ Child care ● Payment cards ● Payday loans 	<ul style="list-style-type: none"> ■ Tuition

Many

Few



Methodology: quantitative research

To measure the extent of lift from non-traditional information

- Used actual US credit files:
 - those with 1 or more utility (7.5M) and telecom (0.5M) trade line data
 - comparison sample of 4M files without
 - also segmented out thin-file reports (very few trade lines, < 3)
- Use commercial grade scoring models to measure impact on credit decision/prediction
- Drawn from two points in time to measure performance in order to observe performance

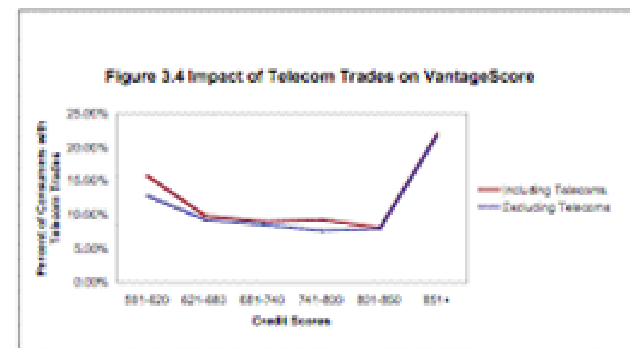
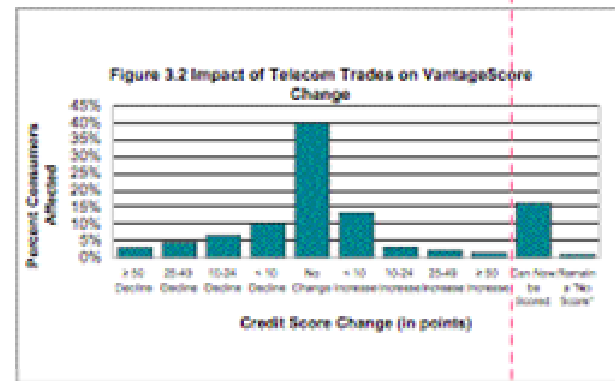
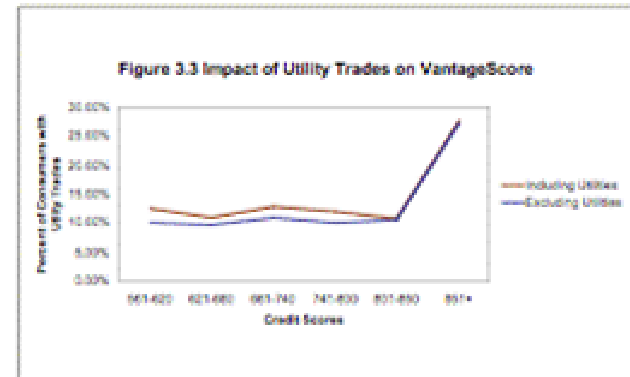
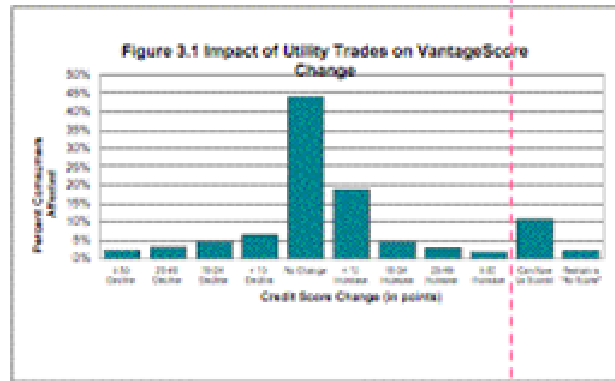
Key finding: *little information ≠ high risk*

Risk profile shows promise

- Score distribution of thin-file sample similar to general population
- Nearly 40% of Black unscorable population have credits scores above 620 when energy utility and telecoms data included
 - 1 tradeline matters
 - Multiple tradelines is better

Small impact on the distribution of scores

Total sample



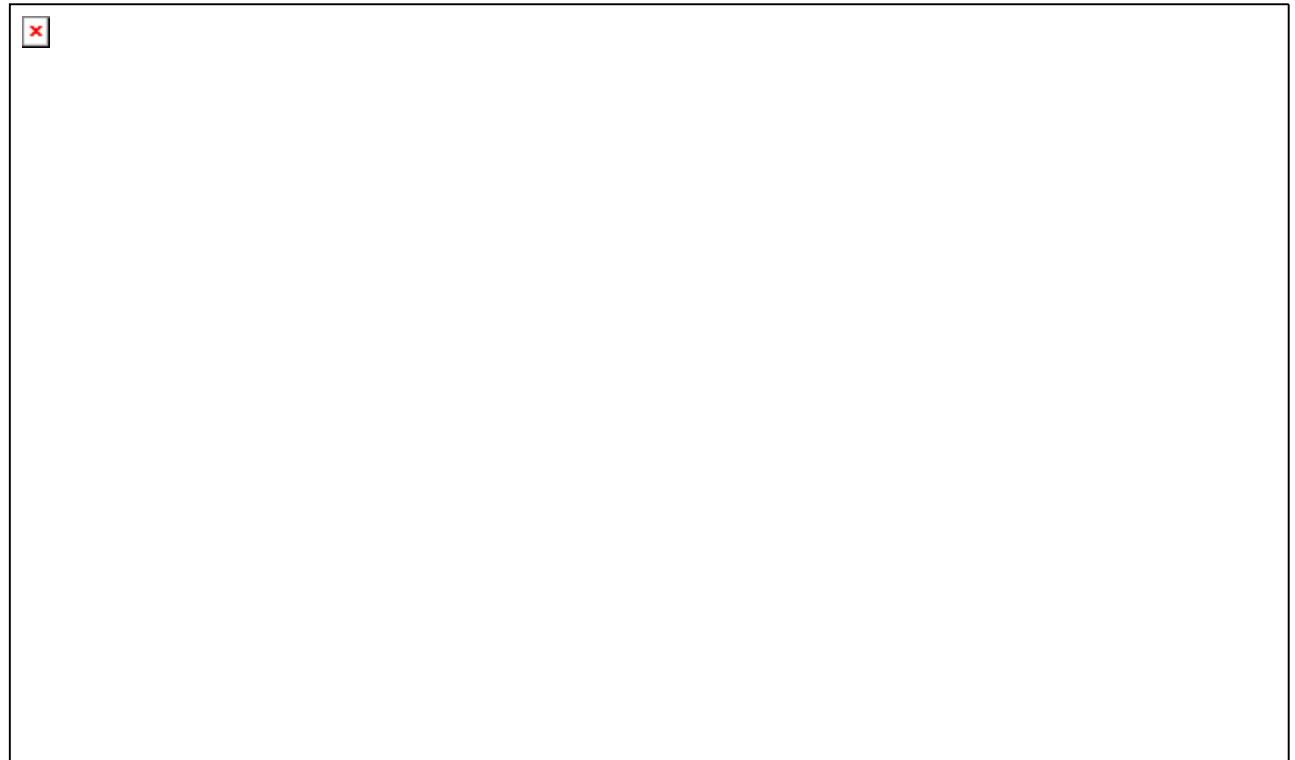
7.5M

0.5M



Sizeable share of consumers becomes scoreable

Many consumers would be unscorable without these tradeline



Disproportionately minorities, low-income earners, and young



Thin-file with utility: race



Greater access & better performance

Considerable increases in acceptance rates for a given performance level. For utilities, an increase of 6 percentage points for a 6% delinquency level.

Acceptance Rates by Targeted Delinquency Rates

Delinquency Rate %	Consumers with Utility Trades	
	Including Utilities (#1)	Excluding Utilities (#2)
2	52.4	47.2
3	60.4	54.9
4	65.4	59.6
5	69.1	63.1
6	72.0	65.7

Young, low-income, minorities see greater than expected lift



Gender does not appear to make a difference in the aggregate in the USA



Not just hypothetical but greater observed access

Access is not merely hypothetical but seen in the share of the thin-file population for which alt data is reported.

(“Validation sample” = no alt data)

Table 4.1. New Credit Accounts Opened February 2005 to January 2006

	All Borrowers			Thin-File (<3 Traditional Trades)		
	Consumers with Utility Trades (#1)	Consumers with Telecom Trades (#2)	Validation Sample (#3)	Consumers with Utility Trades (#4)	Consumers with Telecom Trades (#5)	Validation Sample (#6)
Pct with new accounts	50.92%	48.73%	42.21%	16.44%	16.42%	4.61%
Ave. no. trades opened	1.14	1.07	0.93	0.27	0.26	0.05
_ Total outstanding balance	+\$3956	+\$1466	+\$8489	+\$1972	+\$891	-\$402
_ Total available credit	+\$6973	+\$3192	+\$12309	+\$2466	+\$1094	-\$382
Sample size	6,211,323	504,481	3,785,681	1,036,396	113,240	1,030,357

Alt data in emerging economies

What are potential sources of alternative data in emerging markets?

- non-financial payment information
 - utilities
 - telecoms, payment and prepayment
 - school fees
- remittance data
- informal SME trade credit and payment data from “cash and carries”
- social network information from call logs

Experience outside US--Colombian experience:

- utilities, telecoms, rental payments for years
 - improved access to credit
 - improved payment performance for data furnishers
 - better performance of loan portfolios
- analytic tools incorporating this data

Implications for other economies

Identify data sources that:

- cover larger population segments
- have few points of collection
- can provide data regularly
- have sophisticated data furnishers (to comply with data quality, security, privacy and use principles)
- have furnishers with incentives to furnish (e.g., reduce late payments, but also induce a shift from short-term high turnover accounts to longer term contracts)

Considerations for selection of data source

Have sophisticated data furnishers (to comply with data quality, privacy and use principles), means that the data furnishers:

- Have effective IT (storage, transmission, verification systems)
- Can collect data with subject's awareness and consent, i.e. able to notify data subject, collect consent
- Can assure data security and quality to reasonable degree, including ability to execute data subject rights, including
 - dispute & verification
 - preserve integrity of data
 - limit access to permissible purposes and personnel
 - authenticate identity of subjects
- Can guarantee limited use, governed by law, regulation, i.e. prepared to accept burdens
 - ⇒ i.e, can comply with the OECD guidelines on data security or similar principles

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