PERC
RESULTS AND SOLUTIONS

Who benefits from comprehensive credit reporting?

An evidenced based response to questions about who benefits from more credit information

May 2018

Executive summary

The debate about further reform of Australia's credit reporting system has resulted in a search for empirical data about who benefits from more credit information. This brief presentation provides empirical data from global studies addressing questions of access, price and performance. It has three key findings:

Finding #1: comprehensive reporting improves access – evidence clearly demonstrates that comprehensive credit reporting improves access to mainstream credit markets without increasing default rates.

Finding #2: comprehensive credit reporting is of greatest benefit to the under-served – people with limited or no credit history benefit the most from the inclusion of non-bank data. This benefit accrues overwhelmingly to the young, ethnic minorities and other people who may be new to credit.

Finding #3: the greatest benefits of comprehensive credit reporting result when all credit providers participate – competition and consumer benefit is maximized when all credit providers report comprehensive credit data.

More data results in improved access: the inclusion of positive data such as repayment history results in improved access at any given default rate – i.e. more people are approved without a rising default rate. The outcome is access to credit for those previously rejected because of little, or no, credit history but who actually represent a good credit risk.

Total Portfolio Accepted at Different Default Rates
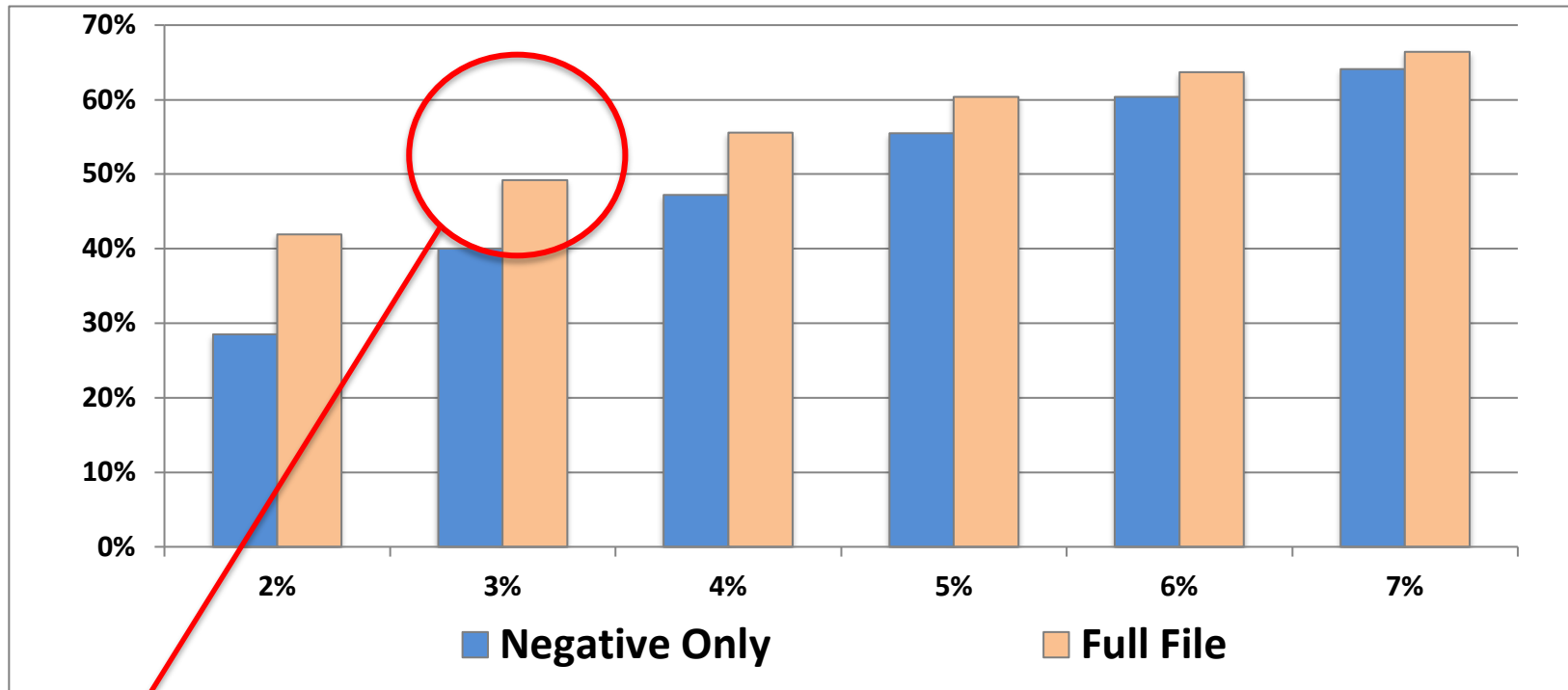
Source: Michael Turner et al., *The Fair Credit Reporting Act: Access, Efficiency, and Opportunity*, June 2003.

For a 3% Default Rate, an additional 23% of loans can be made with Full File Data

The young, ethnic minorities and low income households experience the greatest improvement in access from comprehensive credit reporting: this table provides evidence from the United States on which social groups experience the greatest improvement in access to mainstream credit from more credit information.

Effects on Acceptance Rates for a 3 Percent Default Rate between Full-file Reporting and Negative-only Reporting (US Data)

	Negative-only (index = 100)	Full-file
Race-Ethnicity		
Caucasian, Non-Hispanic	100	121.8
African American	100	127.9
Latinos	100	136.8
All Minority	100	135.5
Age		
<36	100	147.1
36-45	100	121.8
46-55	100	121.2
56-65	100	119.8
66-75	100	117.9
76+	100	119.9
Household Income (US$)		
< 15,000	100	135.9
15,000-29,000	100	129.7
30,000-49,000	100	124.2
50,000-99,000	100	120.6
>100,000	100	117.8

Source: Michael Turner et al., *The Fair Credit Reporting Act: Access, Efficiency, and Opportunity* (Washington, DC: The National Chamber Foundation, June 2003).

More data delivers improved scores: this graph illustrates that including more data in credit reports produces improved credit scores for more consumers than not because of the impact of non-bank data.
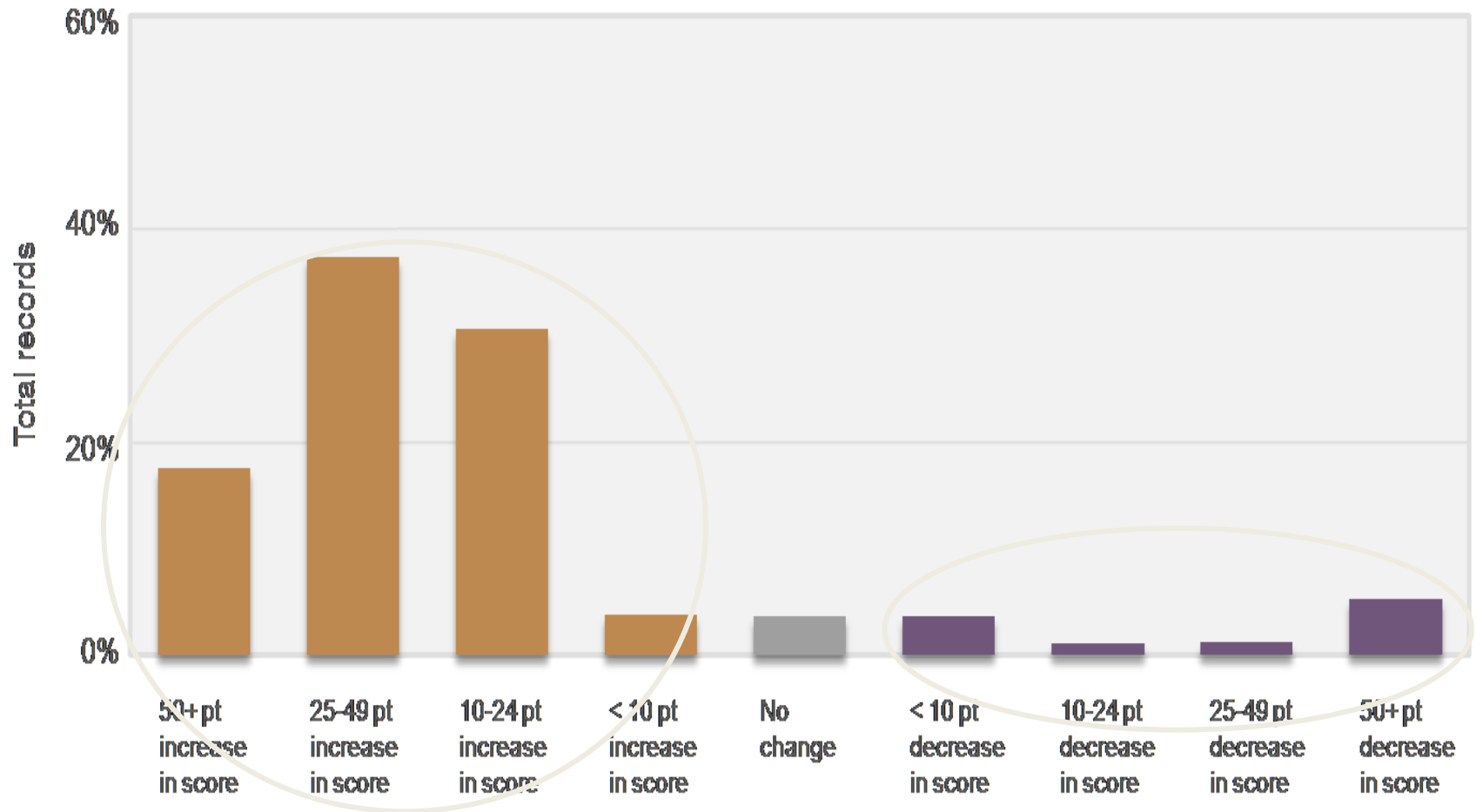

Source: Experian 2010

Thin file consumers (those with little or no credit history) experience the greatest improvement in scores from the inclusion of non-bank data: this table illustrates that while the inclusion of non-bank data improves scores for the whole population, it is thin file consumers who experience the greatest improvement.

|	Rise one or more Tiers	No Change	Fall one or more Tiers
Entire Sample			
Including Unscoreables	9%	88%	3%
Excluding Unscoreables	4%	93%	3%
Thin-file			
Including Unscoreables	64%	35%	1%
Excluding Unscoreables	25%	69%	6%

Source: PERC (2012). *The Credit Impacts on Low-Income Americans from Reporting Moderately Late Utility Payments*

Approval rates increase the most for young people with the inclusion of comprehensive data: this graph illustrates the impact on accept rates for age groups as comprehensive data has been included over time in the United States.


Source: PERC (2012). *A New Pathway to Financial Inclusion.*

6
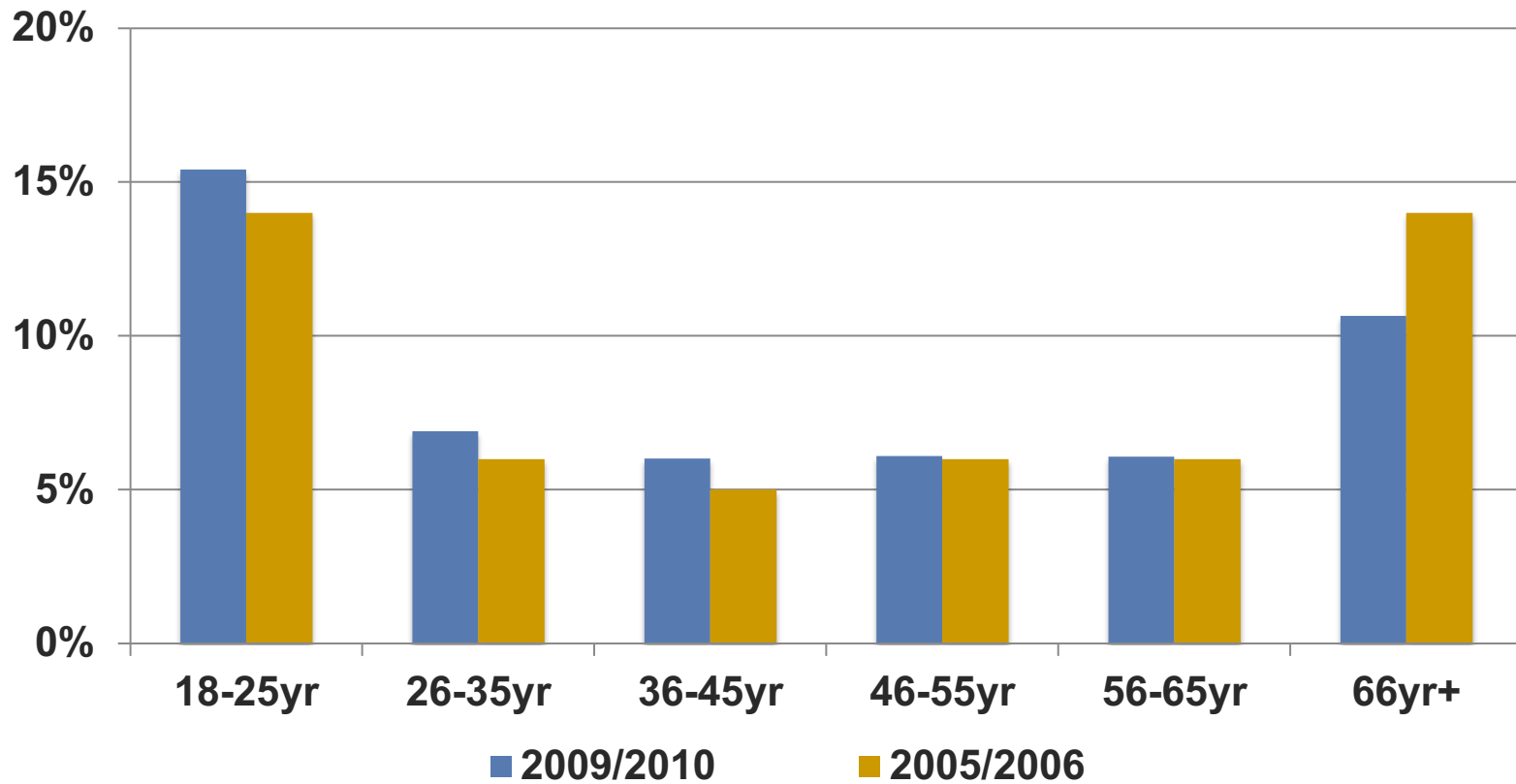
Comprehensive data helps to improve credit scores for those with an impaired history: this graph illustrates the proportion of the community that experience increases or decreases to their credit score from the inclusion of non-bank data. More than 55% of the population experience an increase.
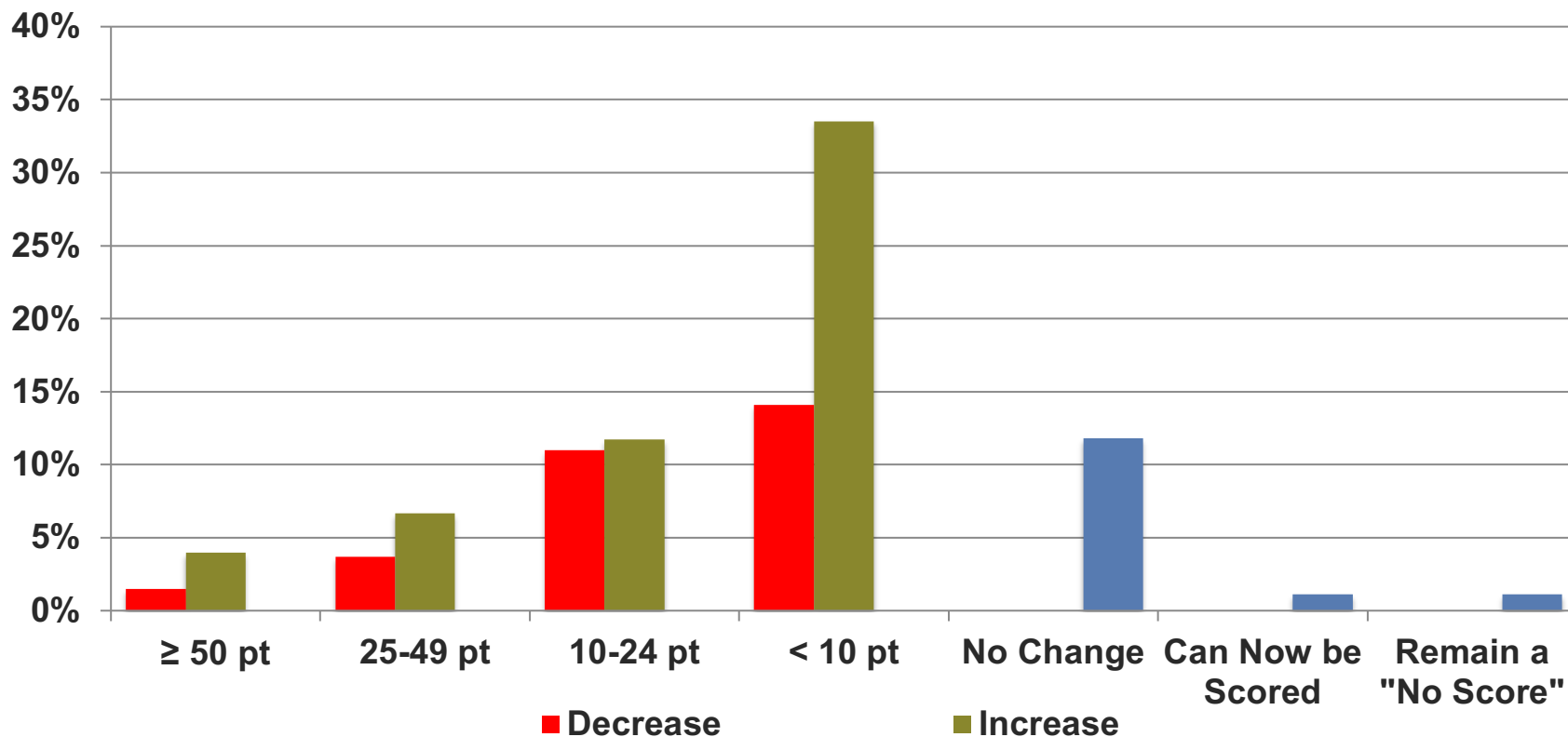
Source: PERC (2012). *A New Pathway to Financial Inclusion.*

More participants results in lower default rates: this chart illustrates the impact on default rates when just a few or all credit providers report data. Default rates are higher when only a small number of credit providers share data and at their lowest when all providers participate.
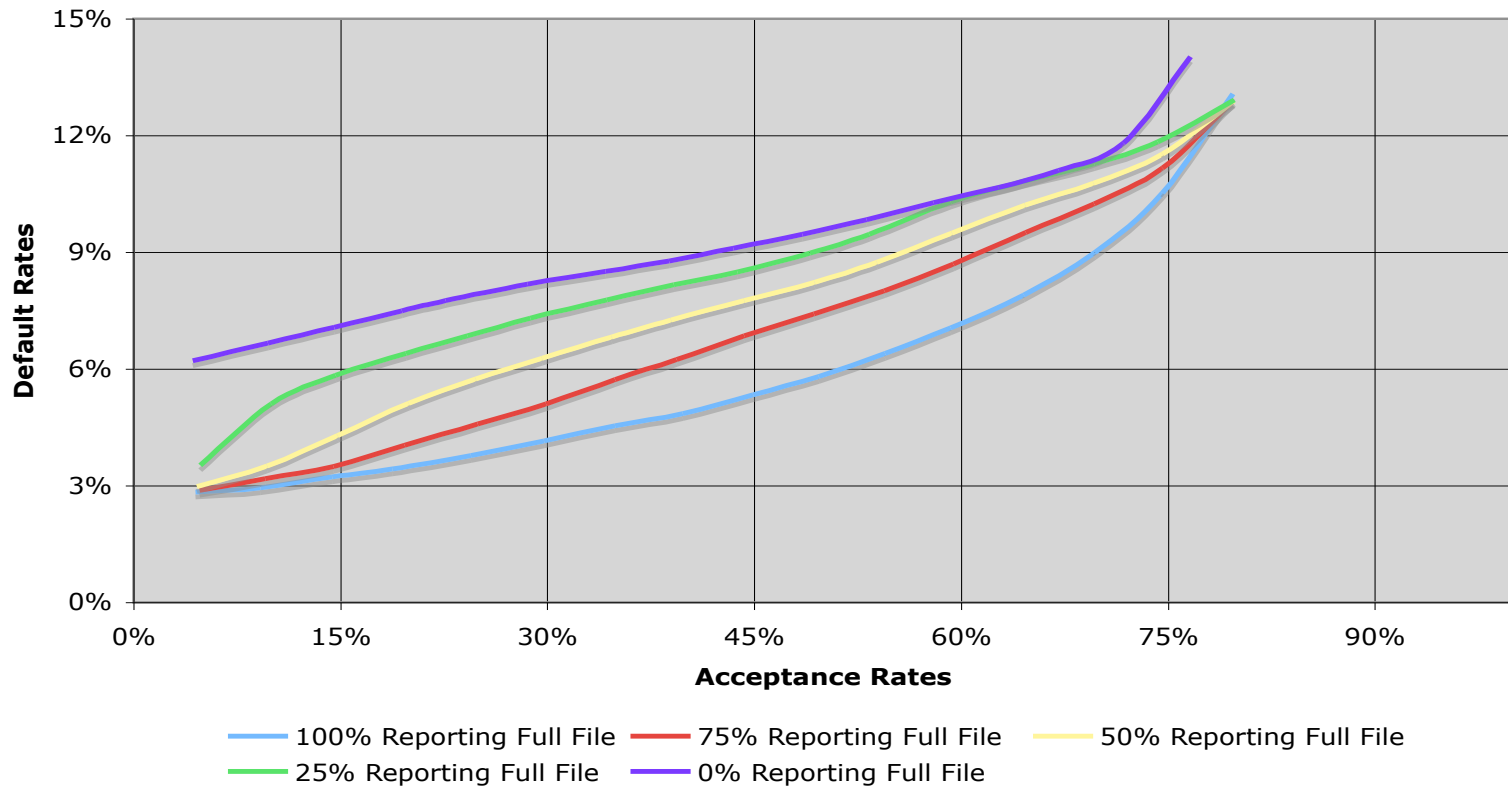
Source: PERC (2007). *Economic Impacts from Payment Reporting in Latin America.*

8

Who is PERC RESULTS AND SOLUTIONS ?

- A non-partisan, non-profit policy research and development institute devoted to increasing financial inclusion using information solutions.

www.perc.net