



Political & Economic Research Council

The Score on the Poor is not on the Colbert Report: The Pros and Cons of Reporting by Utilities of Payment History

By Patrick Walker

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About PERC

- **Small, Non-profit, Centrist Think Tank**
- **Established in 2002**
- **Focuses on information policy, information led development, and credit access**
- **Domestic: Credit Access, Disaster Recovery, and Measures of Program Efficacy**
- **International: Microfinance, Information Sharing, Small Business and consumer lending, promote competition**

Alternative Payment Data

- Everyday payments that are not typically fully reported to consumer credit bureaus
 - Rent, Utilities, Telephone, Cable / Satellite, Child care, and Tuition
- Most Utility and Telecom payment information can be efficiently reported and if reported would cover a large portion of population, including those who currently have little or no information in their credit files.



Why new data in Credit Files?

Why Care About “Alternative” Data?

- 35 to 54 million Americans “unscorable”
- Primarily low income, immigrants, elderly, and ethnic minorities
- Use of credit scores and credit file information has grown considerably
- Access to credit crucial for asset formation
 - Home
 - Car
 - Small Business



Who is reporting and using reports?

From ongoing PERC/CFSI survey of Utilities and Telecoms

- 13% currently report directly to a bureau (10% fully report) [18.5% from PAID survey]
- 94% have ever referred delinquencies to a collections agency (88% currently do) [70% from PAID survey]
- 68% report that the collection agency they use reports to a bureau, 9% are unsure
- 92% use credit reports or 3rd party authorization services for processing new accounts



Most Utilities Punish without Rewarding

Most utilities punish customers that are severely delinquent by indirectly reporting to a credit bureau via a collections agency...

But they rarely reward the majority that pay on-time.

Some utilities have responded that by utilizing a collections agency they are reporting to consumer credit bureaus

Quantitative Research

To measure the extent of lift from non-traditional information

- Sample of the 8 million credit files with 1 or more alternative payment histories
- Drawn from two points in time to measure performance
- Used commercial grade generic scoring model(s), mortgage scoring model(s), credit card model(s)

Greater Access

Many consumers had only alternative payments and without the reporting such payments these consumers would be unscorable.

- 10% of consumers with utility trades had no traditional payments
- 14% of consumers with telecom trades had no traditional payments
- Such consumers are disproportionately minorities, low-income earners, and young

Greater Access

Considerable increases in acceptance rates for a given performance level. With utility payment information, an increase in acceptance of 10% without raising the delinquency rate.

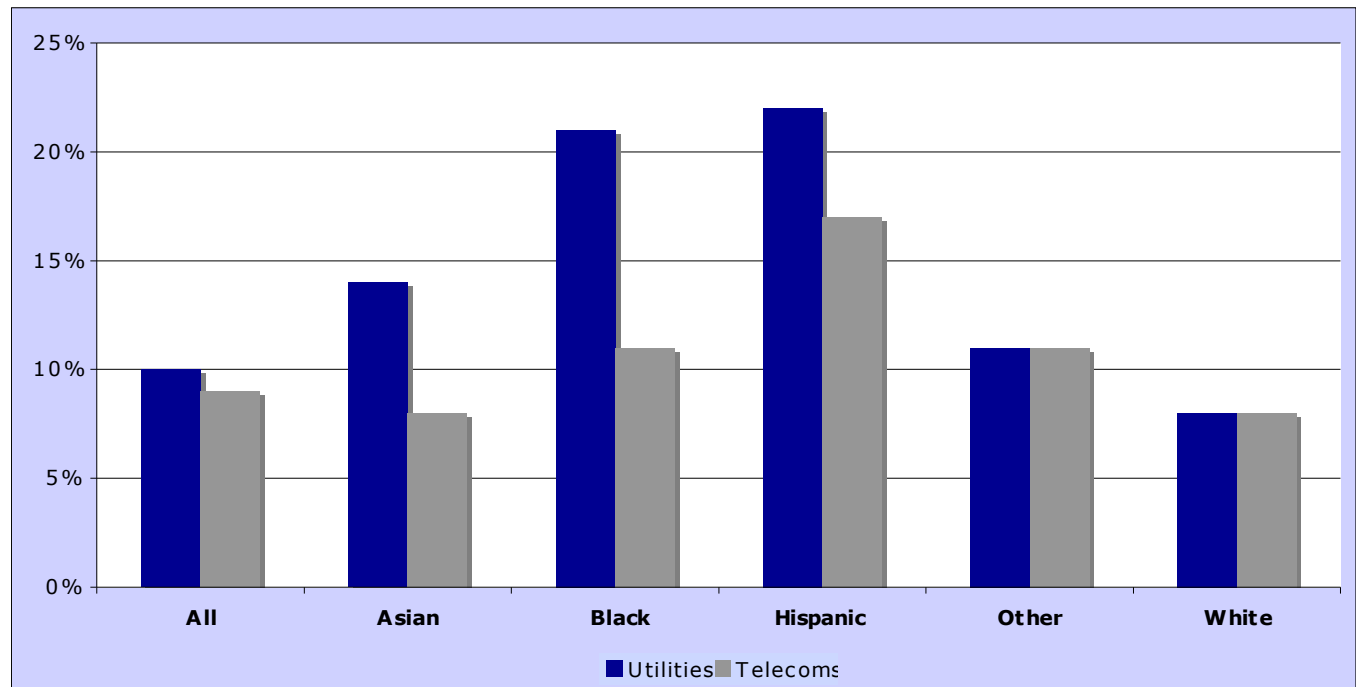
Acceptance Rates by Targeted Delinquency Rates

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

Access by Race/Ethnicity

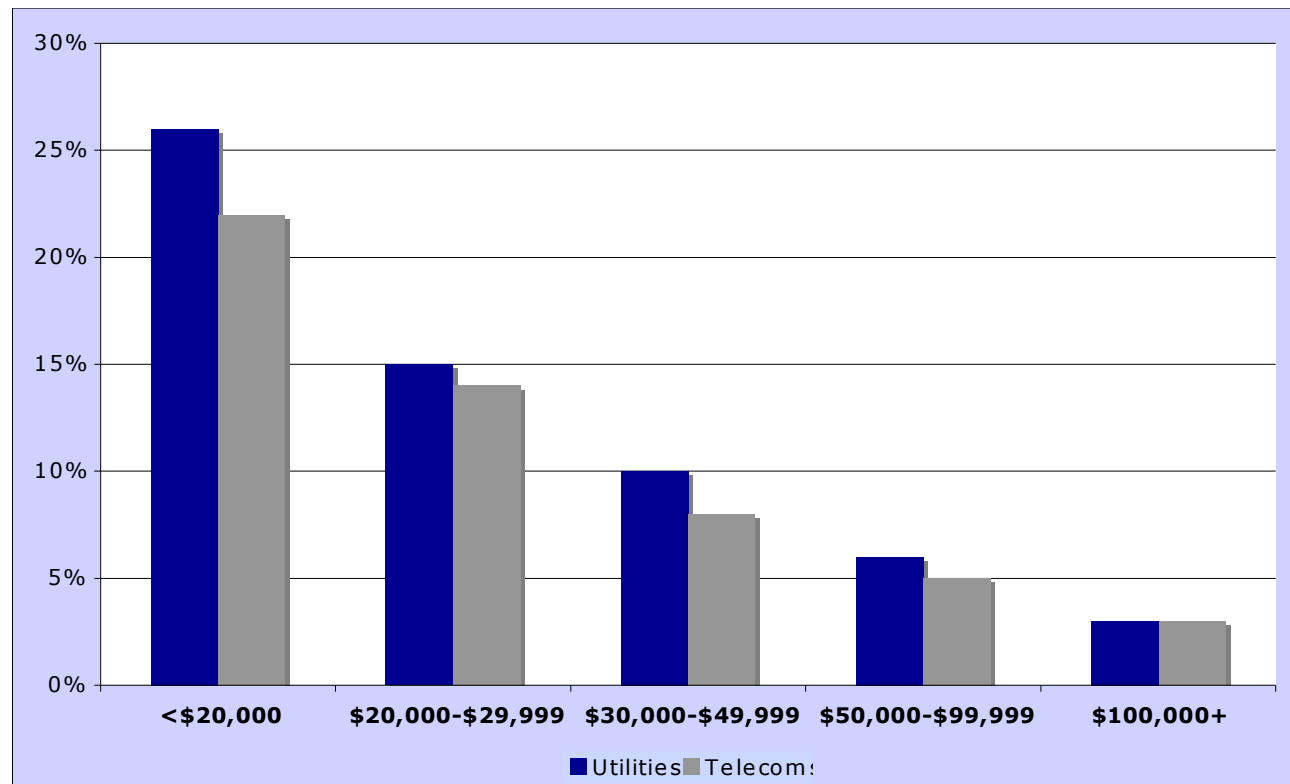
Considerable lift for Ethnic Minorities

Change in Acceptance Rates by Race/Ethnicity at 3% Delinquency Target



Key Findings-- Access by Income

And a greater lift for lower income consumers
Change in Acceptance Rates by Income



Lenders and Consumer Advocates Are Interested

Key Finding: Little or No Information \neq High Risk
Risk profile shows promise: Score distribution of thin-file/no-file sample similar to general population when alternative data is utilized.

For those with only utility payments in credit file, the serious delinquency rate is 17 percent, slightly lower than for the general population.

SYSTEMIC CHANGE--Pervasive reporting of alternative data could change the way banking is done in under-served markets.

Examples of customer friendly reporting practices

- Exclude final accounts with low balances
 - Such as < \$20
- Report as current if customer is paying agreed upon monthly payment
 - Do not differentiate payment if it is subsidized
 - Do not differentiate payment if it is part of a payment plan
- Only payments over 60 days overdue reported as late
- **Communicate** with customers extensively about reporting, prior to reporting and on an ongoing basis

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