

# The Credit Impacts on Low-Income Americans from Reporting Moderately Late Utility Payments

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August 2012

## Acknowledgments

PERC wishes to thank the Annie E. Casey Foundation, the Ashoka Foundation, Experian and TransUnion for their financial support for this analysis. PERC also extends our gratitude to TransUnion, Acxiom, and Experian for supplying the underlying data used in this analysis, as well as programming and run time, and access to analytical services experts.

In addition, we would like to thank a number of people who shaped our thinking and influenced our approach to examining this topic—directly and indirectly—including Carol Wayman, Michael Nathans, Joseph Duncan, and Birny Birnbaum.

Helpful comments and edits were also received from Whytney Pickens.

Ultimately, however, despite the contributions of those referenced above, the views and opinions presented in this study are exclusively those of the authors.

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## Background

For 8 years, PERC has been championing the inclusion of fully reported energy utility, telecoms, media, and other non-financial credit payment data into consumer credit reports. Currently, a vast majority of utilities only report late payments either directly or indirectly to nationwide credit bureaus, punishing consumers for late payments but not rewarding them for timely payments.

We have conducted pioneering empirical research establishing that the best way for consumers to build a credit history is by adding tradelines—credit accounts reported to a credit bureau.<sup>1</sup> By “thickening” a thin credit file, a lender has more data for underwriting purposes. The result is a more inclusive, fairer, more responsible national credit system. This is especially helpful for lower-income persons, most notably members of minority communities, recent immigrants, younger, and elderly Americans.<sup>2</sup>

Despite a considerable amount of incontrovertible evidence of the value of including fully reported utility accounts (tradelines) in credit reports—and the support of over 60 organizations—a small handful of skeptics have recently ramped up an opposition campaign to stymie legislative efforts to clarify that full-file utility reporting is already permitted under federal law.

**Table 1: PERC and Skeptics Positions on Utilities Reporting Late Payment Data to Credit Bureaus (with Current Industry Practice)**

	30-days late	60-days late	90-days late	120-days late	150-days late	Non-payment	Charge off	Collection
<b>PERC</b>	Not recommended	Recommended	Favors	Favors	Favors	Favors	Favors	Favors
<b>Skeptics</b>	Opposed	Opposed	Unopposed	Unopposed	Unopposed	Unopposed	Unopposed	Unopposed
<b>Industry Practice**</b>	Minority practice	Majority practice	Majority practice	Majority Practice	Majority Practice	Universal Practice	Universal Practice	Universal Practice

\*Skeptics positions were gleaned from publicly available documents or public comments by staff of skeptical organization(s). Skeptics positions may shift, preferences may cycle, or other changes occur that render the above table inaccurate. These are inferred positions in some cases based upon the lack of a coherent and consistently stated position by the skeptics.

\*\*Practice as established by those firms that fully report to one or more nationwide consumer reporting agencies. This is currently a small minority of all such firms.

<sup>1</sup> See Turner et al., “Giving Underserved Consumers Better Access to the Credit System: The Promise of Non-traditional Data.” PERC, 2005; Turner et al., “Give Credit Where Credit is Due: Increasing Access to Affordable Mainstream Credit Using Alternative Data.” PERC, 2006; Turner et al., “You Score You Win: The Consequences of Giving Credit Where Credit is Due.” PERC, 2008; Turner et al., “Roadmap to Reform: Lessons from around the world to guide consumer credit reporting reform in Australia.” PERC, 2008; Turner et al., “New to Credit from Alternative Data.” PERC, 2009; Turner et al., “Credit Reporting Customer Payment Data.” PERC, 2009; Turner et al., “The Consequences of Prohibiting Credit Inquiry Data in Chilean Credit Files.” PERC, 2010; Turner et al., “Credit Impacts of More Comprehensive Credit Reporting in Australia and New Zealand.” PERC, 2012; and Turner et al., “A New Pathway to Financial Inclusion.” PERC, 2012.

<sup>2</sup> Turner et al., “Give Credit Where Credit is Due: Increasing Access to Affordable Mainstream Credit Using Alternative Data.” PERC, 2006.

A recent release by the National Consumer Law Center (NCLC) offers many assertions about harms that “could” befall low-income persons without direct evidence, relying instead on anecdotes and hypotheticals.<sup>3</sup> The respective positions of PERC and the NCLC on what utility payment data should and shouldn’t be included in consumer credit reports is listed in the Table 1, as is the current industry practice.

It should be noted that for the most, there is a high level of agreement. Both groups agree that very late payment data—120 days or later—should be reported to nationwide credit bureaus, as should collections, non-payments, and charge-offs. Both groups also agree that consumers should be given a grace period of sorts, and that 30-day late payments should not be included. Happily for both, industry practices generally adhere to these preferences, with the sole exception being that a minority of those utility firms that currently fully report customer payment data to one or more nationwide credit bureaus do report 30-day late payment information.

While we cannot confirm this, we believe that the NCLC—the most prominent skeptic—would be unopposed to having timely payment data included in consumer credit files. PERC wholeheartedly endorses that practice, making this another area of likely common ground.

The sole area of disagreement, then, is upon those who are 60-days or later in making payments. PERC believes that a 60-day grace period represents a consumer friendly reporting regime, and that anyone who cannot pay a utility bill within 60 days, or enter into a payment plan agreement with their utility, is highly likely to represent a credit risk.

The NCLC has represented that should energy utility firms fully report customer payment data, then active duty military personnel defending America from overseas threats will be punished, that elderly persons won’t take their prescription drugs, and that low-income families won’t feed their children.<sup>4</sup> Their logic hinges on the supposed use of non-payments to utility firms as a cushion during cash flow disruptions, with the implication that these late payments tell lenders nothing useful about the credit risk of a potential borrower. That is, energy utility firms are to provide a social safety net for low-income persons by providing a 90-day grace period for payment on services rendered. Taking away this safety net—as would allegedly happen by fully reporting utility payment data—would be catastrophic for low-income persons, according to the NCLC, ostensibly as they would be falsely seen as higher risk for credit that they could afford.

Of course measuring the credit impacts upon low-income or any group of Americans is achievable given the right data. In this case, the right data are millions of credit files with fully reported utility payment information. This report presents the results from our analysis of data from millions of credit files that were provided for the PERC 2012 study, “A New Pathway to Financial Inclusion.”



<sup>3</sup> See NCLC report at: [http://www.nclc.org/images/pdf/energy\\_utility\\_telecom/consumer\\_protection\\_and\\_regulatory\\_issues/ib\\_risks\\_of\\_full\\_utility\\_credit\\_reporting\\_july2012.pdf](http://www.nclc.org/images/pdf/energy_utility_telecom/consumer_protection_and_regulatory_issues/ib_risks_of_full_utility_credit_reporting_july2012.pdf)

Data from one of the two CRAs allowed us to examine credit score changes for individuals who had delinquencies (to various degrees) on alternative data accounts when that alternative data was added and removed from their credit files. This data was used in this paper.

## Credit Reporting Moderately Late Utility Payments: Issues to Consider

### Measuring the Credit Impacts

Excluding fully reported utility data (both timely and late payments) from consumer credit reports would negatively impact the credit scores of far more low-income consumers than would including the data. Contrary to the assertion that fully reporting utility payment data to nationwide credit bureaus presents risks to low-income consumers, we find that far more low-income consumers witness credit score increases than decreases with full utility credit reporting. That is, more consumers have lower scores *without* full-file reporting than with full-file reporting.

But this misses an important point. Assessing whether an action “harms” or “helps” a particular group of people’s credit standing—their ability to qualify for affordable sources of mainstream credit and the terms they receive—cannot be accomplished simply by examining the distribution of credit score changes by income tier or any other socio-demographic variable.

The fact is that a 1-point change could improve a person’s credit standing while a 110-point change may have no affect at all. As such, any discussion about the merits of the social and economic value of fully reporting utility payment data (and other non-financial credit data) to credit bureaus is meaningless. Instead, as will be explained in detail below, such impact and value assessments can only be made through an examination of the “material” impacts of including or excluding utility payment data.

PERC’s most recent report on this matter undertakes this

analysis. The results clearly demonstrate the measurable material benefits to low-income borrowers, especially those with little or no credit history, and the minuscule number who experience a diminished credit standing. This report directly addresses the core fears of skeptics to fully reporting utility payment data to nationwide credit bureaus. It uses data from the most comprehensive analysis ever of the credit impacts of including fully reported utility data in credit reports. These are facts based upon the actual experiences of low-income Americans.

### What is “harm” anyway?

Nothing is more fundamental to understanding the value of fully reporting energy utility and other non-financial payment data than how this question is answered. In the context of consumer credit markets, PERC would include any of the following in the definition of consumer credit harm:

- ▶ Denial of credit owing to insufficient information in credit report;
- ▶ Having a credit score that does not reflect credit risk as accurately as is reasonably possible;
- ▶ Being granted more credit than you can afford;
- ▶ Receiving less credit than you want, need and/or deserve;
- ▶ Paying more for credit than is warranted or necessary;

Conspicuously absent from this list are:

- ▶ Receiving a lower than prime credit score when none previously existed; and,
- ▶ Receiving a lower credit score as a result of including new predictive data in a credit report.



There are good reasons for excluding these two criteria from the definition of consumer credit harm. **First**, in the context of a credit market, it is generally better to have a credit score than to be Credit Invisible. (The exceptions generally are if a consumer has severe derogatories such as bankruptcies and/or multiple collections.) In today's retail credit market, nearly every lender uses automated underwriting solutions to assess a person's credit risk, determine whether to grant credit and what terms to offer. If an applicant either does not have a credit report (the so-called "no-file" applicant), or has insufficient information in their credit report to generate a credit score (the so-called "thin-file" applicant,) then they are almost always denied credit. Thus, having a credit score is essential to accessing mainstream credit, which is, in turn, is critical for building assets and creating wealth.

These Credit Invisible Americans, estimated at between 35 and 54 million adults, are forced to have their credit needs met by check cashing services, payday lenders, pawnshops, and other predatory lenders. Those with very low scores face a similar situation, and are often no worse off than those with no scores when seeking credit. Very few people will have deep subprime scores as a consequence of moderate late payments. And those who do will be better able to rebuild a good credit history with positive data being included in their credit reports than they would be if only very late and strongly negative data were included.

Thickening thin-files, and creating reports where none previously existed is always in the best interest of a person. If one is able to meet basic payments on time, then a credit history can rapidly be built—or rebuilt when one's circumstances improve—without the need to take on a high cost credit building loan, as is often recommended by different advocacy groups.<sup>5</sup>

**Second**, with fully reported utility payment data, lower scores can be improved by meeting non-financial payment obligations in a timely manner. This is especially true for those who have only ever been moderately late in meeting their credit obligations. Having additional tradelines (open credit accounts including utility and media accounts) raises a credit score—in some cases dramatically so—and countervails the effects of moderate late payments. The ability to rapidly build or re-build good credit standing will be a borrower's ticket to mainstream credit access.

**Third**, a low score only ever constitutes a consumer credit harm if it inaccurately depicts a person's actual credit risk. The NCLC's argument seems to imply that no one should ever have a low credit score, even as they insist that lenders should be made to assess whether a consumer can afford a loan. A worsening of the ability to assess the risk associated with a borrower threatens one of two outcomes: (1) low-income persons would be entirely shut out of mainstream credit markets as credit becomes rationed<sup>6</sup>; or (2) all borrowers would be granted credit they couldn't afford, leading often to overindebtedness. Neither outcome is desirable.

The fact is that some low-income Americans struggle to pay utility bills, while many, many others pay their bills on time all the time. Reporting utility payments would indicate that the former are high credit risks and the latter are low credit risks. Not reporting this data would indicate that the latter are high credit risks, in effect punishing those who are able to pay their bills in order to keep those who cannot from having a credit report and a low credit score. The latter group, those who pay on time, are a far larger number than the former, those who don't pay on time.

<sup>5</sup> The average cost of a \$150 credit builder loan is \$50. While it's unclear that such a small loan would be of much value to a low-income consumer, it is clear that this loan comes with a heavy price tag. Using fully reported utility payments—that a person already makes—is a more expeditious, accurate, and cost-effective means of building a credit history and accessing mainstream credit.

<sup>6</sup> See Joseph Stiglitz and Andrew Weiss. "Credit Rationing in Markets with Imperfect Information," *American Economic Review*. 71 (1981): 393-410.

But are those low-income persons who cannot pay their utility bills being helped by not having a credit score? Specifically, are the consumers themselves being helped by an indication that they are not risky and can afford a loan, or by being kept out of the system altogether with those who can afford a loan? First, those who cannot pay their utility bills, and who require financial assistance, most likely face chronic cash flow problems and frequently struggle to pay bills and are often very late in paying. Many who share this profile already have delinquencies, charge offs and collections reported on a credit report. For this group, including fully reported utility payments can only help. Should their circumstances change, and they are able to make payments on time, they will receive lift from having the timely payment data in their credit file.

They are not harmed by the low score, however, as a low score accurately reflects their credit risk. Indeed, the low score is a powerful protection against over-extension and irresponsible lending. New regulations reasonably mandate or recommend stronger affordability checks. Affordability checks require whether a potential borrower can meet existing obligations and thereby take on new ones. It stands to reason that if a person struggles to make basic utility payments, they are in a poor position to take on new debt. *Denying credit to a person who demonstrably cannot afford to take on further debt does not constitute a credit harm—it is in fact a consumer protection, and reflects a healthy and responsible lending practice.*

Tying this in with the arc of the report, then, this again underscores the fallacy with arguing that a reduced score is a harm. To reiterate, a score change may not have any material impact—a person's credit standing could remain unaffected—and a lower score, if accurate, can help protect a person from taking on debt they cannot afford. One needn't look back too far in our history to understand the devastating consequences resulting from widespread irresponsible lending—with many Americans having taken on far more mortgage debt than they could afford, and more Americans still having to pay for the recklessness.

Regulatory action in response has consisted of strengthening affordability checks and underwriting standards that require lenders to make sure that potential borrowers can service their debt. For underwriting, examining how a potential borrower is able to service their existing obligations is a crucial part of assessing whether a consumer can afford a new loan. More accessible data on these obligations allows lenders to make an affordability check. When that check reveals that a borrower is high risk, through an index that provides the likelihood of default, i.e., a credit score, it helps lenders better practice responsible lending. Moreover, it also helps regulators monitor whether lenders are adhering to stricter underwriting guidelines.

At the heart of disagreement between PERC and NCLC is the question of what constitutes a “consumer credit harm;” this disagreement has led two organizations that are committed to helping lower-income Americans to take opposite positions on this issue. We hope that other concerned parties invest the time necessary to carefully review the facts, and make an informed decision about which position to support. We are confident that if the facts are considered, there is only one position a reasonable person could take, and that is to fully support PERC's Alternative Data Initiative (ADI).

Whether low-income persons will be disproportionately harmed should energy utilities report 30- or 60-day late payment to nationwide credit bureaus is an empirical question that can be answered empirically. PERC has done just that, the results of which are highlighted in this paper and in two previous generations of research on the topic dating back to 2005.

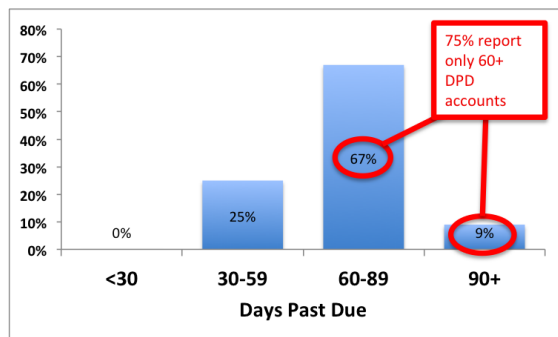
Before we present the empirical facts, it is worth noting that the NCLC ignores the fact that utilities do not need to report 30-day late payments to credit bureaus. Utilities also have the latitude to report scheduled payments that may be less than what is fully owed but have been rescheduled by agreement as on time payments without special notation. Moreover, they can (and do) exclude

late payments below a certain amount as determined by the utility firm. That is, as is discussed below in greater detail, the utility industry can and does make choices about what to report, when to report it, and how to report it. And by and large, its reporting practices are sensitive to challenges faced by and agreements made with customers.

## Structuring a Consumer Friendly Reporting Regime

One nationwide credit bureau indicated that utilities that fully reported to them used different criteria for reporting late payments, some reported late payment at 30 days, some at 60 days and others at 90+ days. As Figure 1 shows, over three-quarters of firms that currently fully report customer payment data wait until bills were at least 60+ days late.

**Figure 1: When Full-File Utilities Begin Reporting Delinquencies**



Source: Experian

Given this industry trend, the probability of a large segment of consumers who are just moderately late paying utility bills suffering from reduced credit scores is mathematically impossible. In fact, as will be established below, very few persons who are moderately late in paying their utility bills—30 and 60 days late—actually experience either a dramatic score reduction or materially, that is, experience a reduced credit standing.

Advocating for consumer friendly approaches to fully reporting utility payment data—as PERC has consistently done for years—might enable most of the benefits to be accrued while minimizing feared harms. For instance, if utility firms reported only after 60-days late, did not report outstanding balances below \$100 on closed accounts, and reported discounted or negotiated installment payments as “on-time” most of the feared sources of alleged “harm” to low-income persons would be mitigated.

PERC fully supports such pro-consumer measures, and states unequivocally that the Metro2 reporting standard permits sufficient flexibility to implement such a reporting regime. We know this because it is already being done by utilities that fully report to nationwide credit bureaus.

## Moderate Late Payments a Non-Issue?

It is most likely the case that nearly all would support the full file payment reporting for those who pay on-time. And it seems broadly tolerable (if not strongly supported) that CRAs are notified when a consumer’s account is charged off or otherwise very delinquent (though there may be difference of opinions as to when a consumer is considered very delinquent). The controversy regarding full file reporting, therefore, surrounds the reporting of moderately late payments.

Overall the estimated increase in access to credit from full utility credit reporting is greater for lower-income consumer than for higher income consumers. If we look at score changes alone, of consumers with incomes under \$20,000 36% had score increases, 16% had score decreases, and 29% had no change, while 15% became scoreable *with* full utility credit reporting.

The idea that many with moderately late utility payments would see large (60 to 110 point) declines in their credit scores is not seen. Of all of those in the lowest income category, only 3% saw declines of more than 50+ points (on the other hand 4% saw increase of

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greater than 50+ points). Of those with such declines, over three-fourths had one or more 90+ days delinquencies reported for the alternative accounts.

Table 2 shows the distribution of credit reports with a single 30-day late utility payment reported over a year by income tier. This speaks directly to the assertions that many low-income Americans would be harmed with the reporting of moderately late (30 days and 60 days) payments.

**Table 2: Consumers with only one 30-day late utility payment reported in a year by income:**

Household Income	Rate	Number	Distribution	Share of total scoreable population
Less than \$20,000	2%	5,671	19.1%	0.15%
\$20,000 to \$29,999	1.4%	2,641	8.9%	0.07%
\$30,000 to \$49,999	1.2%	6,963	23.5%	0.19%
\$50,000 to \$99,999	0.8%	10,994	37.1%	0.29%
\$100,000+	0.4%	3,414	11.5%	0.09%

Though highly suggestive, the paucity of low-income persons with a single late utility payment reported during a one-year observation period is only part of the picture. To accurately assess the impact of including fully reported utility payments in consumer credit reports, it is necessary to also examine the distribution of single 60-day late utility payments by income tier. In this scenario, multiple 30-day late payments are permitted. If the magnitude of lower income Americans with a smattering of late payments were the norm, then it would be depicted here.

*Most tellingly, less than 3% of those earning \$50,000 or less per annum have just a single 60-day late utility payment reported during the one-year period.* This is attributable to the fact that most people pay their bills on time

regardless of income tier, and that those low-income persons who struggle to pay utility bills are frequently late, and often very late. Those who are more than 90-days late are generally reported to nationwide credit bureaus. Moreover, reporting these very late payments provides the lending system that these consumers cannot afford a loan and is designed to help consumer from getting overindebted.

As such, fully reporting utility payments yields the positive effect of providing lenders with a more accurate picture of a person’s credit risk and capacity. By far, more lower-income Americans experience improved credit standing and therefore greater access to affordable mainstream sources of credit and improved terms (lower price of credit).

**Table 3: Consumers with only one 60-day utility delinquency in a year by income:**

Household Income	Rate	Number	Distribution	Share of total scoreable population
Less than \$20,000	2.6%	7,498	12%	0.20%
\$20,000 to \$29,999	2.3%	4,541	7.3%	0.12%
\$30,000 to \$49,999	2.3%	12,948	20.7%	0.35%
\$50,000 to \$99,999	1.9%	27,739	44.4%	0.74%
\$100,000+	1.3%	9,782	15.6%	0.26%

\*Number of persons with 30-day late / number of persons in income tier from scoreable sample.

Skeptics may take issue with Table 2 and Table 3 and argue that few will have just a single 30-day or 60-day late payment, but many more are likely to have multiple moderately late payments over the span of a year—

especially when times are tough. Table 4 analyzes that assumption, and while a broader definition of “moderately late” will generate a larger group, it is still a quite modest population. In this case, of the 3.7+ million persons in the sample who could be scored with and without utility payment data, just 3.1% have moderate late payments of any sort in any quantity—even up to 6 or more 30- and/or 60-day late payments during the one-year observation period.

Even in the lowest income tier, just under 5% of persons have moderately late payments reported when their account is fully reported. Simply put, most people pay their bills on time all the time, a small minority pay very late, and an even smaller minority pay late some of the time.

**Table 4: Consumers with 30-day and/or 60-day Utility Delinquencies (all)\* by Income**

Household Income	Rate	Number	Distribution	Share of total scoreable population
Less than \$20,000	4.7%	13,309	14.3%	0.35%
\$20,000 to \$29,999	3.7%	7,269	7.8%	0.19%
\$30,000 to \$49,999	3.6%	20,138	21.6%	0.54%
\$50,000 to \$99,999	2.7%	39,205	42%	1.05%
\$100,000+	1.7%	13,356	14.3%	0.36%

\*Includes all consumers with one or more 30-day and/or 60-day utility delinquencies during the one-year observation period used in this analysis.

The data also helps us to evaluate NCLC’s claim that a single moderately late utility payment alone will slam a person’s credit score by over 60 or even over 100 points—taken seemingly out of context from [www.myFICO.com](http://www.myFICO.com). It is of course possible that a single moderate late utility payment can reduce a credit score by 100 points, but the data allows us to see the likelihood of

such a decline. The data shows that the probability of this being the case for low-income earners is exceedingly small, with just 0.006% of the entire population being those who earn less than \$50,000 per annum and have a single 30-day late utility payment that reduces their score by 100 points or more.

Policymakers of course have to measure these declines in this tiny sub-population against the increase in scores and the very fact of becoming scoreable for a much, much larger number of persons. Furthermore, policymakers also have to consider that for many of this group within the wider population, this data will not be even reported as many utility providers currently do not and will not report 30-day late payments. They are not required to do so, Metro2 (the credit reporting industry standard for furnishing payment data to credit bureaus) permits flexibility, and most utilities that fully report have made the decision to report only after a payment is 60+ days past due.

**Table 5: Consumers with 60+ point decline as a result of only one 30-day late utility payment by income**

Household Income	Rate	Number	Distribution	Share of total scoreable population
Less than \$20,000	0.15%	412	14.4%	0.01%
\$20,000 to \$29,999	0.11%	221	7.7%	0.01%
\$30,000 to \$49,999	0.10%	582	20.4%	0.02%
\$50,000 to \$99,999	0.08%	1104	38.6%	0.03%
\$100,000+	0.07%	539	18.9%	0.01%

**Table 6: Consumers with 100+ point decline as a result of one 30-day late utility payment by income**

Household Income	Rate	Number	Distribution	Share of total scoreable population
Less than \$20,000	0.03%	87	13%	0.002%
\$20,000 to \$29,999	0.02%	40	6%	0.001%
\$30,000 to \$49,999	0.02%	122	18.3%	0.003%
\$50,000 to \$99,999	0.02%	255	38.2%	0.007%
\$100,000+	0.02%	164	24.6%	0.004%

\*Number of persons with 30-day late / number of persons in income tier from scoreable sample

While it is possible that a sole moderate late payment on a utility account *could* lower scores over 100 points, as Table 6 shows it is far from typical. The median score change for those with a single 30 days late payment in the last twelve months on an alternative/utility account was a decline of 9 points. By comparison, close to a quarter even had score increase due to the positive impact of adding an account. The extreme cases of scores declining 100+ points as a result of a single 30-day late utility payment represented just under two-one-hundredths of one-percent (0.017%) of those who are scoreable without utility payment data.

The same pattern holds true for those consumers who have just a single 60-day late utility payment during the one-year observation period. In this scenario, multiple 30-day late utility payments are permitted. Thus, if the inclusion of moderate late payments were to have a broad and negative affect upon the credit scores and, more importantly, the credit standing of low-income persons, then it should show up here. However, as Table 7 and Table 8 show as before, only a small minority of lower income persons have a score decline of 60+ or 100+ points, and an even smaller few experience a reduced credit standing.

**Table 7: Consumers with 60+ point decline as a result of one 60-day late utility payment by income**

Household Income	Rate	Number	Distribution	Share of total scoreable population
Less than \$20,000	0.32%	920	11.4%	0.02%
\$20,000 to \$29,999	0.29%	553	6.9%	0.01%
\$30,000 to \$49,999	0.27%	1,534	19.1%	0.04%
\$50,000 to \$99,999	0.24%	3,388	42.1%	0.09%
\$100,000+	0.21%	1,657	20.6%	0.04%

**Table 8: Consumers with 100+ point decline as a result of one 60-day late utility payment by income**

Household Income	Rate	Number	Distribution	Share of total scoreable population
Less than \$20,000	0.09%	248	11.1%	0.007%
\$20,000 to \$29,999	0.07%	140	6.2%	0.004%
\$30,000 to \$49,999	0.07%	389	17.4%	0.010%
\$50,000 to \$99,999	0.06%	903	40.3%	0.024%
\$100,000+	0.07%	562	25.1%	0.015%

\*Number of persons with 30-day late / number of persons in income tier from scoreable sample

This is the crux of the policy debate. The 100+ point score reduction for 0.09% of those with household incomes of \$20,000 per annum or less; a single 60-day late bill must be weighed against the 21% of that income group who would qualify for mainstream credit with these tradelines fully reported but not otherwise.

PERC's steadfast position has been that while a decline in score does not constitute "harm" if that decline accurately reflects whether a consumer can afford a loan, we do strenuously argue that denying someone access to credit even though they can afford it is a harm, especially if the source of the assessment is insufficient or incomplete information.

As discussed above, however, a simple examination of how many people's scores change, and by how much, can be misleading if it is grounded within the context of credit standing. The following section examines the material impacts of including moderately late payment data in consumer credit reports.

## The Material Impact of Fully Reported Utility Payment Data

Skeptics often fail to realize that preserving the status quo—as they seek to—materially harms many, many of the credit underserved in this country. In fact, the issue of materiality is often entirely overlooked by skeptics. A narrow focus on credit score changes fully misses the fact that borrowers are grouped into risk tiers—such as super-prime, prime, non-prime, near-prime, and sub-prime—by credit score bands. Such risk bands are relatively wide, often in excess of 100 points, so that a score increase or reduction of even 100 points may not have any affect upon a person's credit status. By the same token, if a person is near a cut-off point—say a score of 619, where a score of 620 would move them out of subprime and into the less-risky non-prime tier—then a score increase of just a single point could affect their credit standing. As such, one of the best measures of whether including a specific data element (fully reported utility tradelines in this case) in a consumer's credit report is net beneficial is how many persons migrate across score tiers.

The over 4 million persons in the analytic sample--those with one or more fully reported alternative data tradelines--were scored using the VantageScore credit scoring

model. The most commonly referenced set of score tiers for the VantageScore model are the so-called ABC or report card tiers. A simple report card methodology is used to describe each score tier with an "A" being assigned to the lowest-risk (those with scores above 900), a "B" assigned to modest risk persons (score between 800-899), a "C" to those with moderate risk (700-799), a "D" to those with high risk (600-699), and an "F" to those with the highest risk (600-699). Using these cut-off points, PERC quantifies the material impacts of including moderate late payments (all 30-day and 60-day late payments) upon a person's credit standing (which score tier they populate).

The results are telling. Just over six-tenths of one-percent (0.62%) of the scoreable population experience a reduced credit standing from moderate late payments. In fact, over one-tenth of one-percent (0.11%) experience a material benefit from having an additional tradeline. So the net impact is upon just around one-half of one-percent of the scoreable sample. This number is even small for those with either a single 30-day or 60-day late utility payment (0.23% and 0.41% respectively),

The fact is that given current industry practices, less than one-half of one percent of persons would have diminished credit standing as a consequence of fully reporting moderately late payments to nationwide credit bureaus. There is simply no truth to the claim that many people's scores, or credit standing, would be negatively impacted from the reporting of moderately late payments.



**Table 8: Material Impact of Single 30-day Utility Delinquency:**

Material Impact	Distribution	Share of total score-able population
Fall in credit score by two risk tiers	0.48%	0.005%
Fall in credit score by one risk tier	17.26%	0.18%
No change	76.95%	0.8%
Rise in credit score by one risk tier	5.30%	0.06%

**Table 11: Fall in Credit Score Tier from a single 30-day delinquency, by Income**

Household Income	Rate	Number	Distribution	Share of total scoreable population
Less than \$20,000	0.27%	776	16.3%	0.02%
\$20,000 to \$29,999	0.19%	377	7.9%	0.01%
\$30,000 to \$49,999	0.18%	1,032	21.6%	0.03%
\$50,000 to \$99,999	0.13%	1,833	38.4%	0.05%
\$100,000+	0.10%	750	15.7%	0.02%

**Table 9: Material Impact of Single 60-day utility delinquency**

Material Impact	Distribution	Share of total score-able population
Fall in credit score by two risk tiers	0.7%	0.01%
Fall in credit score by one risk tier	20.7%	0.4%
No change	76%	1.5%
Rise in credit score by one risk tier	2.6%	0.05%

**Table 12: Fall in Credit Score Tier from a single 60-day delinquency, by Income**

Household Income	Rate	Number	Distribution	Share of total scoreable population
Less than \$20,000	0.50%	1,410	10.9%	0.04%
\$20,000 to \$29,999	0.48%	927	7.2%	0.02%
\$30,000 to \$49,999	0.46%	2,596	20.1%	0.07%
\$50,000 to \$99,999	0.40%	5,683	43.9%	0.15%
\$100,000+	0.30%	2,322	17.9%	0.06%

**Table 10: Material Impact of Single 60-day utility delinquency \***

Material Impact	Distribution	Share of total score-able population
Fall in credit score by two risk tiers	0.6%	0.02%
Fall in credit score by one risk tier	19.6%	0.6%
No change	76.3%	2.34%
Rise in credit score by one risk tier	3.5%	0.11%

**Table 13: Fall in Credit Score Tier from any 30-day and/or 60-day delinquency, by Income**

Household Income	Rate	Number	Distribution	Share of total scoreable population
Less than \$20,000	0.79%	2,231	12.3%	0.06%
\$20,000 to \$29,999	0.68%	1,324	7.3%	0.04%
\$30,000 to \$49,999	0.66%	3,701	20.4%	0.10%
\$50,000 to \$99,999	0.54%	7,702	42.6%	0.21%
\$100,000+	0.41%	3,140	17.3%	0.08%

\* Includes all consumers with one or more 30-day and/or 60-day utility delinquencies during the one-year observation period used in this analysis.



While the overall rate of a moderately late payment resulting in movement to a higher credit risk tier is 0.62%, it is only somewhat higher for consumers from lower income households. All groups have rates under 1% with lowest income group having a rate of 0.79%. This represents just small fraction of those that would benefit in this income group. For instance, it is estimated that for this lowest household income group, there would be a 21% increase in access to mainstream credit with the full file reporting of utility data. That is, roughly 15 Americans in the lowest income tier would gain access to affordable sources of mainstream credit for each such person who experienced a reduced change in credit status due to a moderately late payment.



## Rebutting Other Misconceptions

### ► Increase in Late Payments Owing to Macro-economy Not Reason to Oppose Fully Reporting Alternative Data:

The fact that consumers were delinquent on accounts does not mean that fully reporting those accounts negatively and meaningfully impacts consumers. First, of the around 20% cited from the NARUC report that were delinquent, most were likely not late enough to have had a delinquency reported to a CRA. For instance, Pacific Gas and Electric reported that in 2010, of delinquent accounts, 54% were 30 to 60 days in arrears and a further 23% were between 61 and 90 days in arrears. The remaining 23% were 91+ days in arrears.<sup>9</sup> And in the NARUC report, around 5% had their service terminated, and around 3% were written off. It is likely many of these very late accounts were already reported directly or indirectly to CRAs via collections. Of those that weren't written off and reported and were either 60+ or 90+ days late, many likely would have other payments that were also late and are reported to CRAs. As such a reported late utility may not have a large negative impact if a credit card or other account is also reported late. Also, as has been noted by FICO and others, the average credit score changed very little during the recession, with average FICO score falling from 689 to 686 between 2007 and 2009.<sup>10</sup>

► **Metro2 is Flexible** — Consumer Friendly Reporting Possible: If consumers start to fall behind on their utility bills (or believe they will) and make payment arrangements with the utility, the payments that are made can simply be reported as the consumer paying as agreed. It does not need and it should not be reported that the consumer is paying less than was due for a particular month. And the fact that there are differences in utility costs between consumers should not hinder utilities from fully reporting. There are also differences

<sup>10</sup> Annamaria Andriotis "Recession's Surprise Impact on Credit Scores" SmartMoney. July 17, 2012. Available at: <http://www.smartmoney.com/borrow/credit-cards/recessions-surprise-impact-on-credit-scores-1342532155897/>

in the cost of credit between consumers and differences in the cost of homes between regions. There are also regional variation in rules pertaining to homes, credit, and collections.

► **Geographic Differences in Utility Rates Don't Matter:** Assessing poverty and any income level has always been a tricky and hotly debated issue. Being low income requires a different threshold for a family than it does for an individual, and what this income level is will vary greatly across regions. Earning \$30,000 per year while living in Manhattan is very different than earning the same income in Fargo, North Dakota. Different utility rates is just one of many factors generating dramatic differences in the cost of living across the country (and around the world, for the fact of the matter). To account for this, income and wages tend to reflect these differences, with a person in a higher cost of living area receiving higher compensation than someone conducting similar work in a lower cost of living area. Arguing that energy utility data should not be fully reported owing to differences in prices makes little sense. Homes cost more in certain high-demand areas than in others (compare northern Virginia to northern Wisconsin). Automobiles are priced differently owing to differences in sales tax rates—with citizens of Delaware paying no sales tax while those residing in New Jersey must pay 7 percent (on a \$20,000 sticker price, this is a difference of \$1,400 in total cost). And prices vary for other reasons—such as prolonged rate freezes that result in dramatic spikes in prices such as occurred in Illinois after a 10-year price freeze on electricity expired. Consumers there recently experienced 400%-600% price hikes as a consequence of this politically popular to economically misguided and purblind policy.



## Conclusion

If one accepts that providing a lender with a more comprehensive picture of a borrower's capacity to take on debt and likelihood that they will repay it in a timely fashion is not a harm, that it better enables lenders to engage in responsible lending and allows regulators to better monitor that they are doing so, then the contents of this report will seem trivially true. We have documented the following facts:

- Including fully reported utility payments in consumer credit reports results in dramatic improvements in credit access for lower-income Americans;
- Including fully reported utility payments in consumer credit reports makes lending fairer, more inclusive, and more responsible;
- It can be misleading to examine only credit score impacts without examining the impact on a person's credit standing (e.g. a 1-point change could have an impact while a 100 point change may not);
- Given current industry practices, the number of lower-income people who would either experience a dramatic score reduction, or a reduced credit standing, is miniscule (less than 0.5%).

When weighing the evidence, the promise of alternative data is self-evident. Despite this, one further point warrants consideration. Currently, most utility firms do not fully report customer payment data to nationwide consumer credit bureaus. Instead, they report—directly or indirectly through collections agencies—only when a payment is very late or in collection.

When such information alone is included in a credit report, for those with little or no credit history, there is no ability to offset the affect of a serious delinquency or derogatory like a collection. Including only negative data is akin to creating a black list, and it is a very unforgiving approach to risk assessment that is especially hard on lower income Americans.

To be clear, those who oppose fully reporting utility payment data while tolerating collections are in effect endorsing the use of black lists for credit underwriting. Without the inclusion of timely payment data, a thin-file or no-file person (this group is overwhelmingly comprised of lower-income persons, members of minority communities, younger and older Americans, and immigrants) has very little recourse and will be forced to have their credit needs met by high cost lenders such as pawn shops, payday lenders, and check cashing services.<sup>11</sup>

Opposing the inclusion of fully reported utility payment data is supporting a status quo that is harming an estimated 35 to 54 million thin-file and no-file Americans. For this group, when life takes a turn for the worse and they cannot make ends meet, their credit reports will be populated with stains, tarnishes, and black marks that will follow them around like a storm cloud for 7 to 10 years.

The most effective, time-tested, and proven method is to build and re-build consumer credit history by thickening credit reports with utility payment data. The timely data offsets the negative data and puts a person back on a path to healthy credit in order to build assets and create wealth.

<sup>11</sup>Turner, "NCLC Supports the "3 Ps" of Lending: Pawn Shops, Predatory Lenders and Pay Day Lenders." PERC, 2009.



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