

FDIC Consumer Research Symposium

Credit Building Panel Discussant
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October 28, 2016

Overview

- Review both studies, questions, policy implications
- Summary of conclusions
- Fit with previous knowledge
- Context for credit building work
- Future credit building research
- Future credit building policy
- Conclusion

Roll & Moulton (2016)

Impact of Credit Counseling

- Strengths of the study
 - Sample size > 6,000
 - Matched comparison group, counterfactual
 - Drew on broader research of financial counseling, financial education and financial coaching, budget counseling
 - Isolated behavioral component
 - Examination of subsamples

Roll & Moulton (2016)

Impact of Credit Counseling

- Questions:
 - What is the value of looking at the shorter-term?
 - How does this intervention differ from previous counseling intervention (DMP)?
 - Did each agency do a “deep dive”?
 - Use of technology – text messages and email. Possibly include more discussion.

Roll & Moulton (2016)

Impact of Credit Counseling

- Policy Implications
 - What does it mean for policy that this model of credit counseling was successful for credit distressed? Targeted models?
 - Bring intervention to scale?
 - Similarity to financial coaching (with deep dive) – hybrid models develop?

Burke, Jamison, Karlan, Mihaly & Zinman (2016)

Credit Building for All?

- Strengths of the study
 - Large sample size (2,269)
 - Randomization into a control group
 - Situated within financial education and financial coaching literature
 - Isolated CBL contribution, rather than in combination with supportive services
 - Examination of subsamples
 - Located in St. Louis!

Burke, et al (2016)

Credit Building for All?

- Questions and Future Research
 - Scope of the CBL industry?
 - Examined credit building in isolation. Need studies on holistic credit building (paired with financial counseling and coaching)
 - Examined effect of online financial education on CBL take-up. Perhaps need to examine paired fin. education delivered differently (face-to-face, through text messaging, etc.)

Summary of Studies Re: Credit Scores

- Credit counseling – most beneficial for most credit distressed (Roll & Moulton, 2016)
- Credit building product (loan) – most beneficial for those without installment credit obligations (Burke, et al., 2016)

What Builds Credit Scores?

- Reporting “alternative” data
 - Remittances – unlikely (CFPB, 2014)
 - **Rent and utilities – yes** (Chenven & Schulte, 2015; Turner et al., 2006)
 - **Lending Circle activity – yes** (Reyes, Lopez, Phillips, Schroeder, 2013)
- Financial education - mixed (Miller et al., 2014, Fernandes et al., 2015)
- Financial (credit) counseling – mixed, **yes** for most credit-distressed (Elliehausen, Lundquist, & Staten, 2007; Roll & Moulton, 2016)
- Financial coaching – mixed (Theodos, et al, 2015)
- **Credit building loans** – yes (w/no installment loans) (Burke et al., 2016)

Context for Credit-Building

- Growing interest in effectiveness and quality in financial education/counseling/coaching industry (Collins & O'Rourke, 2013; Mintz, 2015; Theodos et al, 2015)
- Growing industry of credit-building products
- Growing federal monitoring and regulation
 - New proposed CFPB regulations may impact credit (Silberman, 2016)
 - Increasing Congressional scrutiny of credit reporting and bureau. EX: “Comprehensive Consumer Credit Reporting Reform Act of 2016” (Lane, 2016)

Context for Credit Building (cont.)

- Experimentation with alternative credit building methods and data
 - Lending circle data (Mission Asset Fund Lending Circles) (Reyes, Lopez, Phillips, Schroeder, 2013),
 - Alternative data (utility, telecom, and rent payments) for credit scoring (Newville & Levin, 2016; Chenven & Schulte, 2015)
- Experimentation with using alternative data (beyond credit score) when assessing risk and price offerings for unbanked, unscored consumers (TransUnion, 2016)

Future Credit Building Research

- Need more data on the credit building industry
- More research is needed to build evidence-based practices (RCTs). EX:
 - Financial (credit) counseling
 - Product-linked fin. education and credit
 - Alternative credit building methods, possibly linked with CBL
 - Alternative data approaches to building traditional credit

Future Credit Building Policy

- Federal monitoring and regulation of credit bureaus are likely to continue and grow
- Can use policy mechanisms to leverage technology to more fully assist the unscored and credit-distressed, and possibly prevent credit problems. EX:
 - Software for opt-out reporting (Chenven & Schulte, 2015)
 - Standardization among the bureaus re: reporting (Chenven & Schulte, 2015)
 - Publically available, comprehensive financial platform (“financial gateway”) (Sherraden et al., 2015)

Conclusion

- These two studies are significant contributions
 - fit well into current knowledge, and advance the credit-building field
- Financial (credit) building and counseling field needs more experimentation and evaluation
- Policy can be used to leverage current knowledge toward more effective future credit building

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