FDIC Consumer Research Symposium

Credit Building Panel Discussant
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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!
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)


• **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; Theodosos 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
References


• Lane, B. *Congress to consider dramatic overhaul of credit reporting*. HousingWire. Retrieved from www.housingwire.com

References


• Newville, D. & Levin, E. (32016). The importance of credit reports and credit scores for building financial security. CFED. Retrieved from www.cfed.org


