CFSI Center for Financial Services Innovation

May 19, 2017

Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1275 First Street NE
Washington, DC 20002

Docket No CFPB-2017-0005

Dear Ms. Jackson:

The Center for Financial Services Innovation (CFSI) is submitting this letter in response to "Request for Information Regarding Use of Alternative Data and Modeling Techniques in the Credit Process," issued by the Consumer Financial Protection Bureau (CFPB) on February 16, 2017. Like you, CFSI believes that the use of alternative data in the credit process poses both risks and benefits to consumers. We welcome this opportunity to share information with respect to the impacts, and potential impacts, of alternative data on shaping access to high-quality credit that can help consumers improve and maintain their financial health.

We believe that financial health comes about when a consumer's day-to-day financial systems enable them to build resilience and pursue opportunities. As a national authority on consumer financial health, CFSI believes that finance can be a force for good in people's lives and that meeting consumers' needs responsibly is ultimately good for the consumer and the provider.

We lead a network of financial services innovators – banks, the fintech community, processors, servicers, non-profits, and community-based organizations – all committed to building higher quality products and services. CFSI informs, advises, and connects our network to seed innovation that will transform the financial services landscape. We hear the pain points and the see the opportunities from a variety of different viewpoints from both industry and consumers.

Through our consulting work, our Financial Capability Innovation Funds, our Test & Learn initiatives, and our Financial Solutions Lab, we have fostered innovative products and technologies that improve the financial health of consumers and nurture small businesses. Our vision is to see a strong, robust, and competitive financial services marketplace, where the diversity of consumer transaction, savings, and credit needs are met by a range of providers offering clear, transparent, and high-quality products and services at reasonable prices.

CFSI recognizes that machine-readable data is increasingly playing a role in the provision of consumer financial products, and that practices concerning the collection, storage, modeling, and transmission of these data continue to evolve. We believe there is significant opportunity for consumers to benefit from the use of alternative data in the credit process. At the same time, care must be taken to mitigate pitfalls of its usage that may cause consumers harm, create disparate impact, or impede credit access. We believe the wide and growing use of alternative data in the credit process necessitates a forward-looking regulatory approach that takes into account technological, ethical, and practical considerations for present and potential future applications of alternative data that support its use in high-quality, accessible credit products at scale.

In this letter we first provide information on the scope of CFSI's long-term efforts to enumerate the particulars of high-quality small-dollar credit, identify the nature and scope of consumer credit needs, and investigate innovations and opportunities for the use of alternative data to facilitate greater credit access and credit building. We then address key ways in which we believe alternative data can be potentially beneficial or detrimental when used in the credit process, identify aspects of this topic in need of further research, and recommend ways to foster a regulatory environment conducive to providing strong consumer protections while supporting industry innovation and development that leverages alternative data in support of positive consumer outcomes.

Information on Fundamentals of High-Quality Credit to Support Financial Health

Consumers continue to encounter a number of liquidity challenges for which high-quality credit products can be a fitting solution for borrowers who have the ability to repay and can access credit that is safe and of high quality. Currently, millions of adults in the U.S. are shut out of the mainstream credit markets due to subprime credit scores below 660[1] or insufficient credit history to garner a viable score.[2] Millions more may avoid applying for credit, get less credit than they need, or face high interest rates due to their inability to demonstrate a low risk of non-payment with a traditional credit score.[3]

CFSI's interest in the merits of alternative data usage to address this challenge date back to our 2006 reports "The Predictive Value of Alternative Credit Scores," and "Reaching Deeper: Using Alternative Data Sources to Increase the Efficacy of Credit Scoring," which explore the early use of alternative data points including rent and utility payments.[4,5]

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[1] 32% of U.S. adults included in the credit economy have scores of 660 or less. Federal Reserve Bank of New York, "Community Credit: A New Perspective on America's Communities," updated March 21, 2017 features interactive credit data available at www.newyorkfed.org/data-and-statistics/data-visualization/community-credit-profiles/index.html#inclusion/credit_quality/pct_ce_prime.

[2] 19.3% of U.S. adults - more than 45 million people – have no credit file or are unscorable due to insufficient or stale information. CFPB, "Data Point: Credit Invisibles," May 2015 is available at http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

[3] 38% of all personal loan applicants were denied or given less credit than requested in 2015, while 56% of those who desired credit but did not apply indicated that their reason for not applying is expectation of denial. Federal Reserve, "Report on the Economic Well-Being of U.S. Households in 2015," May, 2016 is available at www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf.

[4] The Predictive Value of Alternative Credit Scores is available at https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/02/05053225/The-Predictive-Value-of-Alternative-Credit-Scores.pdf.

[5] Reaching Deeper: Using Alternative Data Sources to Increase the Efficacy of Credit Scoring is available at https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/02/14031138/2006-03-Reaching-Deeper-Using-Alternative-Data-Sources-to-Increase-the-Efficacy-of-Credit-Scoring.pdf.

Our focus on applications of alternative data continued as CFSI partnered with The Policy and Economic Research Council (PERC), along with The Brookings Institution, Experian, Transunion, The Edison Electric Institute, and The American Gas Association to produce the 2009 report, "Fully Reporting Nonfinancial Payment Data: Impact on Customer Payment Behavior and Furnisher Costs and Benefits," which surveyed 70 nonfinancial companies and 900 customers about their experiences of bill payment, credit payment, awareness and perceptions of credit reporting, and the impact of reporting on credit files.[6] This was followed in 2012 by the CFSI report "Building Consumer Credit: A Winning Strategy for Financial Institutions and Consumers," which included long-term recommendations concerning the use of alternative data including rental, utility, public records, and non-traditional loan payments to aid those with thin or no credit files in building a score.[7]

CFSI was also an early investor in two innovative consumer credit reporting agencies that developed credit files based on payments data:

- RentBureau, which used property management and electronic rental payments data to help renters build credit, acquired by Experian in 2010;
- PRBC (Payment Reporting Builds Credit), which incorporated recurring bill payment and alternative loan repayment data into its scoring model, acquired by MicroBilt in 2008.

To further support innovation that safely and efficiently meets the credit needs of consumers that lack sufficient access, CFSI developed guidelines aligned with our Compass Principles that set aspirational industry practices for Small-Dollar Credit (SDC) products, and then tested the feasibility of those guidelines in the market with our Test & Learn Working Group, including one pilot centered on balancing with risk when using alternative data.[8] CFSI's Compass Guide to Small-Dollar Credit is anchored in the Compass Principles, which serve as a framework to assess quality in financial products and innovations.[9]

CFSI's work to better understand barriers to credit, availability of high-quality credit, and the role of alternative data in supporting its provision has also led to several recent studies and reports including:

- A Snapshot of Quality and Innovation Among Small-Dollar Credit Installment Lenders[10] – This report surveys a sample of 16 installment lenders that have adopted some of the

[6] Fully Reporting Nonfinancial Payment Data: Impact on Customer Payment Behavior and Furnisher Costs and Benefits is available at http://cfsinnovation.org/research/fully-reporting-nonfinancial-payment-data-perc-research.
[7] Building Consumer Credit: A Winning Strategy for Financial Institutions and Consumers is available at http://policylinkcontent.s3.amazonaws.com/BuildingConsumerCreditWinningStrategy_CFSI_0.pdf.
[8] Designing High-Quality, Small-Dollar Credit: Insights from CFSI's Test & Learn Working Group is available at https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/01/26043219/CFSI-Small-Dollar-Credit-Test-and-Learn.pdf. See especially Kinecta Federal Credit Union partnership with LexisNexis RiskView.
[9] The Compass Guide to Small-Dollar Credit defines a high-quality small-dollar loan as one that is made with a high confidence in the borrower's ability to repay; structured to support repayment; priced to align profitability for the provider with success for the borrower; creates opportunities for upward mobility and greater financial health; has transparent marketing, communications, and disclosures; is accessible and convenient; and provides support and rights for borrowers. The Guide is available at http://cfsinnovation.s3.amazonaws.com/CompassGuideToSDC.pdf.
[10] A Snapshot of Quality and Innovation Among Small-Dollar Credit Installment Lenders is available at http://cfsinnovation.org/research/a-snapshot-of-quality-and-innovation-among-small-dollar-credit-installment-lenders-2/#sthash.vLf5Tm7d.dpuf.

high-quality practices described in CFSI's Compass Guide to Small-Dollar Credit. Several featured companies turn to alternative data collection and measurement to extend credit to borrowers.
  - A key finding of this snapshot report was that lenders with practices receiving the highest ratings per the Compass Principles are consistently doing well in areas of responsible underwriting and transparency in pricing and disclosures.

- Consumers & Credit Scores: Understanding Consumer Confusion to Target Solutions[11] – This report draws on consumer survey data from CFSI's 2015 Consumer Financial Health Survey to better understand how consumers perceive and manage their credit scores. Findings include an assessment of standard Experian VantageScore data compared with LexisNexis RiskView scores that include alternative data. When matched with survey participants who opted in to have their credit scores pulled:
  - 28% percent of respondents had scores in the same tier of credit quality using both VantageScore and RiskView methods;
  - 23% were scored in a higher tier using VantageScore;
  - 29% were scored in a higher tier using RiskView; and
  - 18% who were unscorable using VantageScore were scoreable using RiskView, indicating a wider span of inclusion when alternative data was considered.

- Big Data, Big Potential: Harnessing Data Technology for the Underserved Market[12] – This report identifies four key themes that show potential for leveraging data, including alternative data sources and methods, for better consumer financial health, much of which is focused on credit provision. The themes include:
  - Getting Granular Through Getting Huge: Designing data mosaics for personalized outcomes which leverage data to enhance the ability of a wider range of consumers to be included and find value in financial services;
  - Connecting the Dots: Communicating data elements clearly so consumers have strong awareness of how their financial choices and other personal information impacts their scores and data profiles, including the ability to correct incomplete or erroneous data, and work to improve behaviors that may impact the outcomes of such data usage;
  - Opening the Books: Trading private information for better value which empowers consumers to control their private data and choose when to share it with providers in order to pursue greater access to credit and other financial products; and
  - Hitting the Target: Strengthening models through market adoption to ensure that innovations that positively impact the consumer are not only implemented by credit bureaus, third-party aggregators, and other business-to-business parts of the

[11] Consumers & Credit Scores: Understanding Consumer Confusion to Target Solutions is available at https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/01/25200810/Consumers-and-Credit-Scores-Understanding-Consumer-Confusion-to-Target-Solutions-CFSI-FINAL.pdf.
[12] Big Data, Big Potential: Harnessing Data Technology for the Underserved Market is available at https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/02/13062352/Big-Data-Big-Potential-Harnessing-Data-Technology-for-the-Underserved-Market.pdf.

credit supply chain, but also reach the end consumer through implementation by front-line direct lenders.

- Consumer Data Sharing Principles: A Framework for Industry-Wide Collaboration[13] – Many of the products and services that consumers use to understand, manage, and improve their financial health rely on data from numerous sources, which presents unique business and technological challenges for the industry. CFSI created the Consumer Data Sharing Principles to provide a framework for the financial services industry as it works to establish a data-sharing ecosystem that is secure, inclusive, and innovative. These principles are:
    - Availability: Consumers must have the ability to view their financial information within the trusted and secure third-party application of their choice.
    - Reliability: Consumer financial data must be timely, consistent, accurate and complete.
    - Consent: Consumers must provide explicit consent for access to and use of their data. Consumers must be able to easily view, modify and revoke consent for data sharing.
    - Security: All entities must follow applicable laws and industry best practices with regard to data privacy and security.
    - Minimization: Only the minimum amount of data required for application functionality should be collected, and the data should be stored for the minimum amount of time needed.

In addition to the above, CFSI has sought to seed innovation in both the non-profit and for-profit credit sectors through our Financial Capability Innovation Funds,[14] Small-Dollar Credit Test & Learn Working Group[15], and our Financial Solutions Lab.[16, 17] Providers involved in these efforts to identify and support innovation related to the use of alternative data and enhancement of traditional data in the credit process include:

- Clarifi and Innovations for Poverty Action (IPA) – Borrow Less Tomorrow (FCI Fund)
- Self-Help FCU – Just Right line of small-dollar credit products (FCI Fund)

[13] Consumer Data Sharing Principles: A Framework for Industry-Wide Collaboration is available at http://cfsinnovation.org/research/consumer-data-sharing-principles-a-framework-for-industry-wide-collaboration/#sthash.iHgeAbAs.dpuf.

[14] Designing for Financial Health: Stories and profiles from the Financial Capability Innovation Funds is available at https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/01/25192158/Designing-for-Financial-Health-COMPLETE-PAPER-final-2-8-16.pdf. See especially the profiles for Clarifi and IPA, Center for Community Self-Help, and Mission Asset Fund.

[15] Designing High-Quality, Small-Dollar Credit: Insights from CFSI's Test & Learn Working Group is available at https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/01/26043219/CFSI-Small-Dollar-Credit-Test-and-Learn.pdf. See especially Kinecta Federal Credit Union partnership with LexisNexis RiskView.

[16] Profiles in Innovation - The Financial Solutions Lab is available at https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/01/19203356/FinLab-Brief-Profiles-in-Innovation_Final.pdf. See especially the profiles for Ascend and LendStreet.

[17] Learn more about eCreditHero and the Financial Solutions Lab at http://finlab.cfsinnovation.com/challenges/2016/ecredithero.

- Mission Asset Fund – Lending Circles (FCI Fund)
- Kinecta and LexisNexis RiskView (Test & Learn)
- Ascend (FSL)
- LendStreet (FSL)
- eCreditHero (FSL)

The Role of Alternative Data Usage in Credit Access and Quality

Types of Alternative Data to Consider

(Refers to RFI Q1)[18]

The realm of alternative data can include a wide variety of data points. At one end of this spectrum lies mainstream, widely available information such public records or utility payments common to the vast majority of U.S. consumers and mediated through a limited set of established utility provider and third-party bill-pay entities.[19] At the other end of the spectrum lie experimental data mined from social media, psychographic surveys and quizzes, and other unverifiable and unregulated sources of information which may only be available for small pockets of consumers. The latter experimental data remain largely unused for credit decisions in the U.S. due to their high potential to produce disparate impacts that run afoul of the Fair Credit Reporting Act (FCRA).

Even among data points that appear uniform and in wide use, it is important to consider those that may display variations due to factors outside the control of consumers or purview of alternative data processors.[20] These include local idiosyncrasies and policies that impact the uniformity and accuracy of public records, such as differing methods of recording short sales of property that result in some being encoded as foreclosure events while others are not.[21] Another example concerns differing practices among municipalities, some of which do not include social security numbers in court records of tax liens or civil debts, leading in an uneven incidence of matching errors identifying the wrong person with a lien or other civil judgment. This problem was recently acknowledged by the Consumer Data Industry Association, which announced that

[18] Where a section of this letter pertains directly to part or all of a question directly posed by the CFPB for this RFI, the relevant section and subsection is labeled. Please note that some sections of this letter constitute additional information or pertain implicitly to multiple aspects of the RFI and as such are not labeled with respect to specific RFI questions.

[19] For a compendium of companies illustrating the landscape of those involved in the alternative data supply chain for the credit system, see Oracle/BlueKai, "Little Blue Book: A Buyers Guide," December 2014 available at www.bluekai.com/bluebook/assets_20150102/bluekai-little-blue-book.pdf.

[20] Recognizing the multiple types of players in the alternative credit ecosystem, we will refer to all those who analyze, synthesize, or manipulate data in any way between its source and end-user as "alternative data processors," a term which encompasses brokers, aggregators, alternative credit bureaus, and credit risk, decision, or scoring platforms provided by third parties or maintained by direct lenders.

[21] Mahoney, Maureen, "Errors and Gotchas: How Credit Report Errors and Unreliable Credit Scores Hurt Consumers," Consumers Union, April 9, 2014 is available at http://consumersunion.org/wp-content/uploads/2014/04/Errors-and-Gotchas-report.pdf.

the 'Big Three' Bureaus have opted to stop including civil judgment data in score information if it cannot be clearly matched to a social security number.[22]

There is also a vast subset of data that is privately controlled by individual consumers and shared at their discretion. Bank account activity, and the information it can provide with respect to income, expenses, historical patterns, and predictive trajectories of personal finances is chief among this category of user-permissioned alternative data that has potential to widen credit inclusion.

CFSI believes that alternative data most appropriate for inclusion in the credit process is data that can meet the standards outlined above in our Consumer Data Sharing Principles. This means that alternative data used for credit decisions should be available and reliable, able to be viewed and corrected by the consumer, shared only with the knowledge and consent of the consumer if privately held, and only applied for the minimum usage and timeframe necessary for its intended purpose.

Types of Alternative Data Usage Strategies

(Refers to RFI Q2.b)

There are two key ways that the use of alternative data is being used today with respect to credit provision, each of which can impact the credit process for providers and consumers. One is the incorporation of alternative data points by the 'Big Three' bureaus, some versions of FICO, VantageScore, depository financial institutions, and other mainstream entities currently exploring alternative or expanded methods to assess credit risk. The NCTUE Plus database established by Equifax and the National Consumer Telecom and Utilities Exchange (NCTUE) in 2009 is one example of the continuing effort to make positive reporting of highly common types of bill payment a part of mainstream credit decisioning rather than only counting negative events when late payment occurs.

The second is use of alternative data by specialty or alternative lenders who typically make small-dollar loans at higher costs to those who cannot access other forms of credit. These lenders may or may not report repayment to the 'Big Three' credit bureaus or otherwise link their business models and consumer-facing practices to the wider credit market. Often, such lenders rely on data from alternative bureaus to assess risk for unscorable applicants. For instance, Clarity Services' 'Clear Ability to Pay' product provides storefront lenders with information on data points such as the stability of applicants' income, housing and employment histories, and current debt obligations to other alternative lenders.

Both of these trends can be seen gaining purchase today, and both may have merit if they increase access to affordable, high-quality credit for consumers. However, it is important to note that CFSI's vision for financial health means consumers can utilize day-to-day financial systems that build long-term resilience and opportunity. For credit, this means full access and inclusion to

[22] Harney, Kenneth R. "Many mortgage applicants will get a surprise boost in their credit scores," Washington Post, March 8, 2017 is available at www.washingtonpost.com/realestate/many-mortgage-applicants-will-get-a-surprise-boost-in-their-credit-scores/2017/03/07/b1018620-0347-11e7-b9fa-ed727b644a0b_story.html?utm_term=.7a7284517df5.

mainstream credit products offering robust ways to support financial health remains the overall goal. Hence, while the use of alternative data to make non-traditional forms of credit available can provide an important stepping-stone to building a credit score, we believe access to alternative credit products should not be viewed as an end unto itself. If the use of alternative data in credit decisions serves only to afford disenfranchised consumers access to products outside the mainstream in perpetuity, this level of access does not represent true inclusion and prevents borrowers from moving beyond a credit-building or credit-repair phase, ensnaring them in a parallel credit ecosystem that builds, rather than breaks down, economic barriers. In the longer term, however, it is possible that products built on alternative data models could be more truly inclusive.

Benefits of Using Alternative Data

(Refers to RFI Q9, Q10, Q11, Q12)

Alternative data has the potential to increase access to traditional credit by bridging gaps between consumers' traditional credit scores and their true credit risk. It does this by incorporating many types of transaction and other information not considered in traditional credit bureau models and reports. Some consumers classified as high-risk may be able to demonstrate a lower level of risk and gain access to credit if a more complete accounting of their behavior and ability to repay were taken into consideration. Experian found that the addition of electricity bill payment information, when combined with existing trade lines allowed 20% of thin-file consumers to be reclassified as having a thick file.[23] A recent FICO study showed that one third of all previously unscorable bankcard applicants could be scored at or above a 620 using FICO Score XD, an alternative method that incorporates rental and utility payment data.[24]

The ability to identify and provide credit to these additional consumers can also benefit credit providers by expanding their lending base and providing more nuanced ways to understand the level of risk associated with prospective borrowers. In turn, they have fewer missed opportunities to lend or inaccurate assessments of risk, and may have lower costs that can be passed on to consumers.

- **Increasing Access and Raising Scores**
  Inclusion of alternative data into credit scores would benefit thin-file or unscorable consumers most. These consumers have insufficient credit history (typically defined as less than three credit lines in their credit report) for credit bureaus to create a viable score. The Bureau's own research, released in 2015, identifies 45 million U.S. adults as either lacking a credit file or unscorable due to insufficient or stale credit file data.[25] Research

[23] Experian, "Let There Be Light: The Impact of Positive Energy-Utility Reporting on Consumers," 2015 is available at http://www.experian.com/assets/consumer-information/white-papers/cis-energy-utilities-tl.pdf.
[24] FICO, "Can New and Alternative Credit-Scoring Tools Mean Greater Access to Credit?" presented at Urban Institute, March 21, 2017 is available at www.urban.org/sites/default/files/f_urban_institute_creditscoring_032017.pdf.
[25] CFPB, "Data Point: Credit Invisibles," May 2015 is available at http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

by PERC suggests that this group includes as many as 70 million Americans.[26] A 2012 study by PERC, examining 4 million credit files from TransUnion and Experian, found that the addition of positive electric utility and phone payments allows 74% of unscorable consumers to become scoreable, the first step to accessing high quality credit.[27] In addition, 64% of the thin-file consumers in the sample and 9% of the total sample rose one or more credit tiers through the inclusion of alternative data and 13% of consumers who were scoreable by traditional credit bureau standards saw an increase in their credit scores.

A 2013-14 pilot study of affordable housing unit renters by the Credit Builders Alliance in conjunction with Citi Foundation found that the reporting of rental payments afforded virtually all participants who lacked a score at the beginning with a high nonprime or prime score by the end of the study. Scores increased for 79% of all participants and decreased for only 7% of the participant group following the addition of a rental payment trade line.[28]

Currently, consumers are penalized when late payment of utility bills are reported to credit bureaus while on-time payments typically produce no positive record. Similarly, credit records of those who rent rather than own their homes often do not reflect timely payments. In practice, these discrepancies between reporting of negative and positive payment behavior create credit access disparities, disenfranchising responsible consumers who rent rather than own their homes, or choose to manage their day-to-day financial lives, including bill payment, by closely monitoring their checking accounts and avoiding the use of credit cards.

- **Positive Customer Engagement Through Data Usage**
  Alternative data can also allow lenders to maintain positive engagement with borrowers to support successful repayment. For example, borrowers who allow lenders or servicers to access their bank account information can provide an ongoing stream of data that contributes both to loan decisions by demonstrating stable income and expense data, and real-time information on potential changes in income or expenses to predict and manage repayment challenges proactively.

  For instance, Enova Decisions, which offers analytics-as-a-service in their Colossus analytics platform, is able to identify borrowers most at risk to miss an upcoming payment and delay a regular ACH attempt to retrieve funds if funds are not projected to be available. This, in turn, means that the borrower who lacks funds will not incur an

[26] PERC, "Alternative Data Sign-On Letter" in conjunction with CFSI and CFED is available at www.perc.net/subsidiaries-affiliates/alternative-data-institute-adi/alternative-data-initiative-sign-letter.
[27] PERC, "A New Pathway to Financial Inclusion: Alternative Data, Credit Building, and Responsible Lending in the Wake of the Great Recession" is available at www.perc.net/wp-content/uploads/2013/09/WEB-file-ADI5-layout1.pdf.
[28] Credit Builders Alliance, "The Power of Rent Reporting Pilot: A Credit Building Strategy," is available at www.creditbuildersalliance.org/download/3482.

additional overdraft charge that moves them further away from their ability to make a loan payment.[29]

Risks of Using Alternative Data

(Refers to RFI Q13, Q14, Q15, Q16)

- **Exclusionary Effects of Alternative Data Usage**

  The use of alternative data points does not mean that all people will see improvements to their scores. Some may, in fact, see their scores decrease. PERC's 2012 study also showed that the use of alternative data had a negative impact on a smaller although not insignificant set of consumers: 1% of the thin file sample and 3% of the total sample fell one or more credit tiers and 3% of consumers scoreable by traditional means saw a decrease in score. Similarly, CBA's study found that 7% of participants ended up with lower scores. For these people, who were better off when assessed using traditional scoring methods, alternative data exposed potential weaknesses in their profiles or contradicted the risk levels identified using only traditional trade lines. Their lower scores may more accurately reflect their risk levels, resulting in fewer losses for lenders who can potentially pass on savings to consumers, and helping these riskier consumers avoid taking on debts they are not likely to manage successfully. Yet the negative impact on a small group of affected borrowers should be recognized as an inherent tradeoff of a shift toward alternative data usage in the credit system.

  Others who lack access to credit today will simply not be helped by alternative data points that fail to accurately demonstrate the motivations for their financial choices and the relationship of those choices to risk levels. For instance, the National Consumer Law Center outlines the practice of intentionally delayed utility bill payment as a considered and responsible choice in the face of a financial shortfall by those who live paycheck-to-paycheck in states that mandate a no-shutoff policy during winter or summer.[30] While this choice may be logical and evidence of close financial management and ability to juggle obligations, the behavior would not be identified as such by lenders considering utility payment data. As the use of alternative data becomes more prevalent, there is also a risk of exclusion to consumers who have a thin alternative file because they lack common alternative trade lines. For example, a consumer may appear abnormal or unscoreable by alternative credit standards because they lack a utility bill payment history if they share a home where those utilities are not in their name.

- **Stigmatizing Alternative Borrowers**

[29] PYMNTS, "Payments 2016: The Year of Payment Innovation Via Predictive Analytics," December 27, 2016 is available at www.pymnts.com/news/payments-innovation/2016/payments-2016-the-year-of-payment-innovation-via-predictive-analytics.

[30] NCLC, "Full Utility Credit Reporting: Risks to Low-Income Consumers" is available at www.nclc.org/images/pdf/energy_utility_telecom/consumer_protection_and_regulatory_issues/ib_risks_of_full_utility_credit_reporting_july2012.pdf.

The reporting of alternative loan payments also presents potential risk of harm for consumers if current disparate impact guardrails in FCRA regulation do not prevent its use for purposes of denying credit. While there is great potential for credit building when alternative loan providers report repayment to the 'Big Three' credit bureaus, it is also possible for the data showing that a consumer borrowed such a loan, regardless of the loan's repayment outcome, to be used against the consumer. We believe data indicating use of alternative credit should not be allowed to stigmatize or harm the borrower's ability to otherwise demonstrate creditworthiness.

- **Use of Data Collected for Other Purposes in Alternative Credit Decisions**
  There is increased risk to borrowers if data originally collected for other purposes, such as identity verification or fraud mitigation, is applied to credit decisions despite the original purpose of its collection and usage. This ties back to the principle of Minimization in CFSI's Consumer Data Sharing Principles outlined above, since the collection of data for one purpose could lead to other uses without the consumer's knowledge or consent.

  The potential use of data for credit decisions when originally collected for other purposes also highlights the need for clarity in the regulation of the data supply chain and the roles and responsibilities of market participants. Data aggregators, alternative bureaus, and all other alternative data processors that provide analysis or synthesis of data provided to lenders for use in credit decisions should be subject to the Fair Credit Reporting Act (FCRA) and Equal Credit Opportunity Act (ECOA) rules governing the fairness, accuracy, and completeness of information as well as addressing consumer disputes into information accuracy.

  At the same time, user-permissioned private data, such as bank account ledger information, can aid in building a more inclusive credit risk profile. Regulations should be conducive to inclusion of this type of data without adding additional burden to banks and others who originate such data with user permission, provided what they share electronically with data aggregators, transmitters, or lenders is in read-only format and mirrors exactly what the user could directly download or capture manually through a less streamlined process.

- **Avoiding the 'Black Box'**
  (Refers to RFI Q18.g, Q19.d, Q19.f)
  Data modeling that employs Artificial Intelligence (AI) through the use of machine-learning algorithms affords providers the ability to increase access to a wider swath of borrowers who may lack a robust credit file. Yet these algorithms may also pose risks to lenders and providers due to their complexity if not designed to ensure clear and ongoing windows into the impact of data inputs and interactions in these systems.[31] The Equal Credit Opportunity Act (ECOA) stipulates that those who are declined credit must be

[31] Crossman, Penny, "[Is AI making credit scores better, or more confusing?](www.americanbanker.com/news/is-ai-making-credit-scores-better-or-more-confusing)" American Banker, February 14, 2017 is available at www.americanbanker.com/news/is-ai-making-credit-scores-better-or-more-confusing.

informed of the driving factors behind the decision. Regulators need to be confident that the reasons for denial or higher rates are legal and do not constitute discrimination. We believe this is especially important, beyond the legal requirements, because potential borrowers who understand the reasons they are denied credit stand a better change of identifying and updating incorrect or out-of-date information about themselves, and can be armed with the information to change or improve financial behaviors that may be holding them back from accessing affordable credit.

Given the level of complexity involved in credit decisions that employ AI to combine thousands of data points and create new data points, or meta-variables, lenders need to be able to retrace the factors that result in a credit decision to avoid a "black box" effect. This is important not only for the ability of the provider to inform applicants of adverse actions or ways to improve their standing in the future, but also for those providers who use third-party alternative data processors and risk-decision platforms to be able to understand the nature of the credit modeling services they are contracting for, and how the AI process being used impacts the provision of consumer loans.

For small business lenders and borrowers, who have fewer lending protections required by law, the ability to understand the relative impacts of specific variables in an AI credit model grow even more important to the provision of high-quality small business loans that are designed to both reduce lender risk levels and encourage small business borrowers' access.

Aspects of Alternative Data Use in Need of Further Research

- **Hierarchy of Alternative Data in Credit Decisions**
  (Refers to RFI Q18.f)
  Even when examining only credit scores assessed by the 'Big Three' bureaus, consumers can often see variations in their score. The use of alternative data expands that variation. While some consumers would clearly benefit from using alternative data and see an improvement in their scores, others would fare worse relative to using a traditional scoring model. An open question remains as to whether credit access and risk-pricing for both consumers and providers would be best served by:
  a) Applying a single standard of enhanced alternative data use to assess all potential borrowers, regardless the outcome (recognizing that some my be made worse off using alternative data), or
  b) Allowing for a cascading 'second look' system in which consumers who do not fare well through the application of traditional scoring can be reconsidered through a model applying alternative data, thus ensuring that its use can only enhance scores and credit access, but not prove detrimental.

  A 2006 study by the Brookings Institution, "Give Credit Where Credit is Due," found little negative impact of alternative data inclusion on consumers who already had positive mainstream scores in comparison with those who were newly included through the use of alternative data.[32] More current research would be helpful in considering the relative merits of each scheme outlined above to determine which provides greater overall benefits to providers and consumers by enhancing standards of fairness and accuracy that lead to wider inclusion in the credit system.

- **Limits of Alternative Data Utility in Credit Decisions**
  (Refers to RFI Q18.f)
  Providers need to consider the costs and benefits of using alternative data relative to the size and complexity of the loan in question. CFSI believes that lenders should be able to balance the size and term of a loan with the resources required for the underwriting process while still keeping in mind the consumer's ability to repay. For example, the use of alternative data may be most appropriate for loans of a few hundred to a few thousand dollars, while those who lend extremely small amounts of only $200 to $500 may find simpler tools that incorporate only a few basic data points more appropriate for assessing ability to repay at scale.

  While reporting loan repayment behavior for smaller loans is still highly recommended as a financial inclusion strategy, the provision of these loans should be structured to make lending decisions which balance accurate risk assessment with lenders' exposure and the overall cost of providing credit. The question of optimal resource intensity associated with credit decisions for smaller loans is also partially contingent on the use of a cascading 'second look' system outlined in the previous section, which has the potential to funnel some smaller loan decisions to alternative data platforms designed with a specific loan size and risk profile in mind. More research into the optimization of resources for credit decisions is needed to identify industry best practices that support scale, quality, and affordability by right-sizing the use of alternative data.

- **Degree of Improved Access and Other Impacts on Consumers through Use of Alternative Data**
  Alternative data holds the possibility of affording wider credit access to consumers while providing ways to reduce risk to lenders. However, the positive impacts can only be realized if newer systems employing AI or other alternative data modeling are widely incorporated across the industry. Thus far, the degree to which credit decisions using alternative data differ from those using traditional means is not fully apparent.

  Newer versions of scoring models offered by providers such as FICO and VantageScore, which have endeavored to take some alternative elements of modeling and consumer access into account in parallel with nontraditional bureau innovations, often show significant lag time between their release and take-up by direct lenders at the end of the data-supply chain. This lag time is particularly common among mortgage lenders, who favor versions of FICO released 13 to 19 years ago. Auto and credit card lenders still prefer a version nearly a decade out of date which lacks improvements such as a reduction in the weighting of medical debt found reduce scores yet have low correlation

[32] Brookings Institution, "Give Credit Where Credit Is Due," December 2006 is available at www.brookings.edu/wp-content/uploads/2016/06/20061218_givecredit.pdf.

with risk.[33] A better understanding of the barriers to this end-user adoption, whether due to cost, supervisory risk-aversion, training, awareness, or other factors (e.g., resource intensity, friction in making upgrades or switches to using newer models) would help to reduce this lag time, ensuring that credit applicants can more readily benefit from innovations of more advanced models incorporating alternative data insights. To the extent that lender reticence to adapt to newer scoring models is driven by apprehensions of regulatory scrutiny, we encourage regulators to proactively communicate their support for the use of these newer models to decrease lenders' perceptions of risk or significant regulatory burdens associated with their uptake.

Recommendations for the Role of Regulation in Supporting High-Quality Alternative Data Modeling and Credit Decisioning

Alternative Data Availability

Today, many of the most consistent, high-quality, and widely-available types of alternative data are stored and collected unevenly. In some cases, the purview of rental, utility, public records, or bank account data within government regulations means that small shifts in requirements for data collection and storage practices could lead to big gains in the availability of such data for a greater share of consumers, especially those who are least likely to have traditional credit access today.

For example, there is wide variation on the length of time that financial institutions store consumer account records and statements. The period for some sizable banks can be as brief as 90 days, while 12 to 18 months is typical, thus limiting the bank account histories a consumer can access or share to potentially increase inclusion in the credit system. Some financial institutions also charge fees for consumers to access to historical account data, which poses an additional barrier to data access.

Another example concerns public affordable housing programs, some of which allow for consumers to opt-in to reporting their rental payments. While this is a good opportunity to provide an avenue for credit-building, many renters do not opt-in, making the reporting of such data spotty and less thorough and reliable in credit modeling. A FICO study indicates that only 2.5% of utility or telecom payments data, and 1% of rental payments data, find their way into traditional credit bureau files today.[34] By switching from an opt-in to an opt-out policy, bureaus could see a large increase in rental repayment data collection that would help renters build their credit.

Regulators could also consider whether requirements of positive repayment reporting should be implemented for industries such as phone or utility companies that currently may do so only optionally. Today, most consumers find that negative repayment information is reported, but

[33] Berger, Rob, "Which Credit Score Do Lenders Actually Use?" Forbes, January 6, 2017 is available at www.forbes.com/sites/robertberger/2017/01/06/which-credit-score-do-lenders-actually-use/#17b9da30b156.

[34] FICO, "Can New and Alternative Credit-Scoring Tools Mean Greater Access to Credit?" presented at Urban Institute, March 21, 2017 is available at www.urban.org/sites/default/files/f_urban_institute_creditscoring_032017.pdf.

there is no guarantee that positive repayment will be reported in like fashion. This would add a layer of compliance for the industries in question, but could also benefit these same industries in the long run by ensuring that they have better access to thorough and uniform information about the consumers they serve, and their consumers have added incentive to make on-time payments, leading to more accurate marketing, engagement, and product development opportunities.

Consumer Control of Data Accuracy

(Refers to RFI Q19.c)

Fostering stronger mechanisms for allowing consumers to access, review, and correct their data being used in credit decisions can be a win-win for both consumers and providers, each of which benefit from data accuracy. Standards for a customer-dispute process to contest, correct, or update information should take into account the wide range of public records, payments, and related data points used in alternative credit modeling today, much of which may not have been digitized in a uniform format. The ability for consumers to view their information in a clear and consistent manner can help them to identify potential inaccuracies and speed the process of disputing items and reaching a resolution.

Requirements for the dispute process should also take into account the speed of the process, since consumers often only become aware of data inaccuracies and the need for a dispute or correction when they are in need of credit but have been denied. This means that just as data is digitized, the dispute process should be automated and digitized for swift, online means of engagement and resolution.

Lastly, an updated dispute and correction process should take into account the vast proliferation of data, and recognize that when data are corrected or updated at one point in the supply chain, they may still need to be updated at the source, or at other supply chain points. Requirements for the ongoing refreshing of data by those who collect, broker, aggregate, and use alternative data can help ensure that updated information makes its way into credit decisions in a timely manner. An update to the e-OSCAR system in place today could also contain a requirement that the initial data furnisher be notified and responsible for correcting or updating the data in question.

Fostering Innovation through Safe and Cooperative Experimentation with Retroactive Data

One of most positive capabilities of alternative data incorporation into newer credit decision models lies in the ability to test model efficacy without any risk of actual consumer harm by using retroactive consumer data to explore potential applications and results. Today, many alternative data processors and credit bureaus already do this when considering new ways to add or weight alternative data points, comparing hypothetical model outcomes with observed borrower outcomes to identify strengths and weaknesses in logic and impact.

Given this property of alternative data modeling which affords the chance for deep experimentation before launch, there is potential to increase the safety, accuracy, and quality of models before they are put into use in the market. We believe there is opportunity for regulators to foster clear opportunities for a range of market participants in the data supply chain to experiment cooperatively in a sandbox environment where they can a) test multiple layers of data collection, aggregation, and application in concert; b) share the results of experimentation with regulators for feedback and advisement in an iterative fashion as types of data incorporation and model strategies are tested and adjusted, and c) alert regulators to types of data or data collection practices that are problematic or would benefit from closer scrutiny or improvement where they fall short.

Conclusion

We thank the CFPB for this chance to contribute information to the body of knowledge concerning alternative data used in the credit system. The availability of alternative data will only continue to grow as digitized information about consumers becomes more widespread. CFSI believes that alternative data can hold great potential to increase access to credit and to fairly price it, vital components for building and maintaining financial health. Whether this can be realized, however, lies in how those data are collected, transmitted, and applied within the credit supply chain. We believe that consumers will be better able to achieve financial health if they have access to innovative credit products that are safe, affordable, and of high quality, enabling them to manage their day-to-day finances, weather financial shocks, and pursue long-term opportunities.

We recognize that regulators play an important role in keeping the market fair for both providers and consumers. We welcome and encourage further study of alternative data in the credit system by the CFPB to promulgate forward-looking policies concerning credit modeling and decisions that recognizes the technical, ethical, and practical abilities and pitfalls of alternative data usage to:

a) Support credit building and access;
b) Encourage experimentation and innovation by credit providers, data suppliers, and others involved in the alternative data process;
c) Align protections with consumers' ability to control, understand, and participate in the collection and use of accurate and inclusive data;
d) Provide consumers with the ability to expediently and effectively dispute and update their data in the credit system; and
e) Facilitate adoption of alternative credit innovations by end-users in order to maximize the positive impact of expanded credit access and credit-building capability for consumers.

We look forward to working with you as this effort moves ahead.

Sincerely,

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