

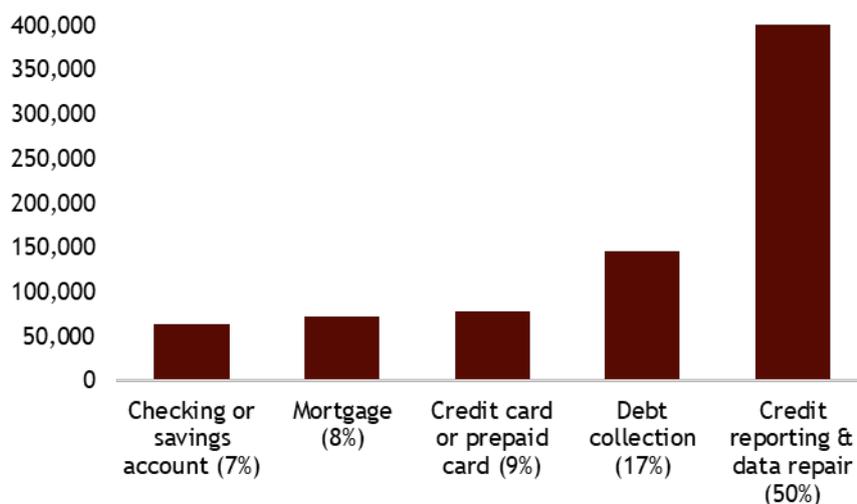
Biden proposal would shake up US consumer credit-reporting industry

Blog post by Director Erin Caddell, 14 September 2020

Politicians are often rightfully accused of speaking in generalities, or of not being consistent in the plans they put forth. But in at least one narrow aspect of financial services policy, US Democratic presidential candidate Joe Biden is neither. On three separate occasions in recent months, Biden’s campaign has pledged to establish a government-financed and -operated consumer credit reporting bureau. The idea has been greeted with scepticism by many as too ambitious. But companies and investors should take Biden’s plan seriously and consider the opportunities as well as the risks of such a development. Particularly if Democrats win the Senate as well as the White House - neither a lock, but both strong possibilities based on recent polls - we think the party would welcome the type of sweeping, impactful change the PCRA would represent, consistent with Democratic initiatives of the past.

The new entity, which Biden calls the Public Credit Reporting Agency (PCRA), would create competition for the three private companies that currently dominate the sector - Equifax (ticker EFX) Experian (EXPN on the London Exchange), and TransUnion (TRU). The PCRA would attempt to address what progressive advocates for years have argued are racial biases in the models used to determine whether an individual is considered creditworthy, as well as frequent errors in consumers’ reports, which lead to a substantial volume of complaints against the companies (see below).

US Consumer Complaints to the CFPB by Category, September 2017 - September 2020



Source: Consumer Financial Protection Bureau

Biden's plan is to house the new organization within the Consumer Financial Protection Bureau (CFPB); require its use in deciding who receives funding through federal lending programs, including home mortgages and student loans; and mandate that private credit reporting bureaus share their data with the PCRA.

Sceptics of the PCRA have pointed out that it would be necessary to pass legislation to establish such an entity and would amount to an overhaul of a sector critical to US credit markets. In one critique of the proposal, the Consumer Data Industry Association, an industry trade group, said: "Biden is in the political fight of a lifetime and will face enormous pressures inheriting a downturned economy amidst a pandemic if inaugurated next year. Creating a new agency will simply be an uphill battle his administration may not have the bandwidth to take on." The equity markets have similarly shrugged. Shares of the three credit bureaus are trading at healthy multiples above 25x next year's expected earnings and have not reacted negatively to any of Biden's announcements.

To those who dismiss the PCRA, consider the three occasions in which Biden has spelled out his plans for the agency. The [first](#) was in May 2020 as part of a broader proposal to address alleged discrimination against Black Americans - a key issue at the time, and one that has become even more critical to Biden's campaign in the wake of the Black Lives Matter protests this summer. The [second](#) was in July as part of the Biden/Sanders "Unity Agenda" - a series of recommendations by Biden, former presidential rival Sen. Bernie Sanders and Democratic leaders designed to present a united front for the progressive and moderate wings of the party heading into the November election. Finally, the PCRA was included as a plank in the official Democratic [platform](#) issued in conjunction with last month's party convention in August. A more aggressive approach toward the privately held credit bureaus would also be consistent with Biden's pledge to be tougher toward antitrust enforcement and concentration of corporate power, a theme GC [wrote about](#) recently with regards to the similarly oligopolistic bond-rating agencies.

The Biden proposals appear to build from a March 2019 [report](#) by Demos, a left-leaning think tank, a link to which was included in Biden's May proposal. Demos suggests the PCRA would design publicly available algorithms for measuring creditworthiness that would be designed to minimise what the think tank and others argue to be "disparate impact", or systemic bias that disadvantages racial minorities. The PCRA would, on an opt-in basis, allow consumers to include non-traditional sources such as bank account data, rent or utility payments, not just credit-related records.

The PCRA would clearly represent a threat to the privately owned credit reporting bureaus. In extremis, the Demos report even recommends phasing out the private competitors once the PCRA is firmly established, though the legal authority to do this is not clear. But it would also represent a potential opportunity for private fin-techs and IT firms that would almost certainly be needed to stand up such an agency, consistent with the experience of other government-funded data-management efforts that have turned to private companies for help.

A number of privately held companies in recent years have made efforts to use non-traditional metrics to assess creditworthiness among consumers and could potentially help the federal government in building the PCRA. Founded in 2005 and registered with the CFPB, Payment Reporting Builds Credit, a subsidiary of MicroBilt, gives consumers the opportunity to self-report payments for rent, utilities, mobile-phone and similar expenses for free and provides a credit score

that is accepted by a number of retail and rent-to-own finance companies, buy-here-pay-here auto dealers, tenant screening firms and others. eCredable provides a similar service to collect alternative credit-data metrics, but charges consumers a monthly fee, and reports its data to TransUnion. Even if they do not partner with the government, such firms could find tailwinds in a world in which the longstanding status quo for consumer credit reporting is disrupted.