www.accis.eu

ACCIS Association of Consumer Credit Information Suppliers IVZW

ACCIS RESPONSE TO THE FSUG POSITION PAPER ON ASSESSING THE IMPACT OF CREDIT DATA ON PREVENTING OVER-INDEBTEDNESS, CONTRIBUTING TO PRUDENTIAL REGULATION AND FACILITATING ACCESS TO AFFORDABLE AND QUALITY CREDIT PUBLISHED BY THE FSUG

About ACCIS

Who we are

ACCIS, the Association of Consumer Credit Information Suppliers, is an international non-profit trade association bringing together 44 Credit Reporting Agencies (CRAs) across Europe and 6 associate members from all other continents. As such, ACCIS represents the largest group of credit reporting agencies in the world.

Credit reporting systems sit at the heart of financial systems, their core activity being to act as a third party holder and provider of information about the credit behaviour of consumers and SMEs. ACCIS Members provide data and solutions designed to support financial organisations, enabling access to credit for consumers and SMEs, and as such, play a critical role in the lives of European citizens. The services provided by CRAs support credit suppliers to make lending decisions based on accurate, consistent and verifiable data.

Overall, ACCIS full members employ over 10.000 people in Europe.

What we do

Credit Reporting Agency's (CRAs) hold information on credit lines and payment behaviours of consumers and businesses supplied by lenders. When consumers and businesses apply for credit, financial institutions rely on the Credit Reporting Agency to verify and complete the information provided by the borrower. Only after merging all relevant information on the applicant, will the financial institution make its lending decision. It is important to note that the processing of personal data by CRAs is strictly regulated by the Data Protection Directive 95/46/EC.

CRAs hold databases of positive data (outstanding and settled credit agreements, possession of credit cards), and/or negative data (late payments, default), which they update with the information provided by financial institutions. The relationship between CRAs and lenders is based on mutual access to information, but the formers act as independent intermediaries from the latter. It is important to note that CRAs only provide credit data and are not involved in how this information is used by financial institutions. Nonetheless the financial institutions are bound by strict rules that regulate the use of this information.

For further information on how our business positively impacts the lives of consumers, please refer to Annex I of this paper.

www.accis.eu

I. ACCIS response to the FSUG findings

In February 2016, the Financial Services Users Group (FSUG) published its Position Paper on "Assessing the impact of credit data on preventing over-indebtedness, contributing to prudential regulation and facilitating access to affordable and quality credit" (hereinafter "the FSUG Position Paper"). After carefully considering the FSUG Position Paper, ACCIS believes that the findings and policy recommendations presented in the paper lack independent scientific evidence to support the policy recommendations brought forward. Moreover, it is based on a questionable methodology that, at best, seems too simplistic to draw reliable conclusions. In order to provide a thorough response to the FSUG Position Paper, ACCIS will outline in this paper its arguments regarding each of the conclusions presented by the FSUG. In addition, one section will focus on the methodology used and on why in our view it is flawed.

1. <u>CRAs and over-indebtedness</u>

ACCIS strongly disagrees with the FSUG's conclusion that credit registers and credit data availability do not help prevent over-indebtedness. Admittedly, credit information sharing is not a 'silver bullet' solution to detect and address all possible causes of over-indebtedness, which is a multi-dimensional problem triggered by several factors including unexpected life events such as unemployment, illness, declining wages, increased levels of taxation or cuts in social welfare. However, stating that credit registers do not play any role in reducing over-indebtedness (as it is done in the FSUG Position Paper) contradicts existing studies and evidence on this matter.

The positive role of credit reporting agencies has been assessed in a study conducted by Civic Consulting for the European Commission's Directorate General for Health and Consumers, which affirms that they can contribute to prevent households from over-indebtedness by recording positive credit information, thus providing a more accurate picture of an individual's financial situation.[1] Moreover the same study highlighted that breaking down overall arrears into specific categories, the proportion of people in arrears on utility bills in the EU (at 8.8%) was the highest among the overall arrears on key commitments. Keeping track of utility bill commitments is thus key for an efficient prevention of over-indebtedness.

It can reasonably be argued that the charts on page 5 of the FSUG Position Paper are completely irrelevant to the actual questions being discussed (whether or not CRAs help prevent over-indebtedness). The first chart reflects the number of households living with outstanding debts and/or arrears. However, as described by SILC in the glossary of its study[2], outstanding amounts cannot be directly confused with arrears: while arrears represent debts already past due, outstanding amounts are merely those not yet paid, but not yet past due either. While arrears arguably represent over-indebtedness, outstanding amounts do not. Many consumers make good use of credit such as credit cards and overdrafts without ever becoming over-indebted.

---

[1] Civic Consulting of the Consumer Policy Evaluation Consortium (CPEC)*Over-indebtedness of European households: updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact,* December 2013, p. 206-207.

[2] Eurostat, Glossary: *Household situation concerning arrears and outstanding amounts*. (http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Household_situation_concerning_arrears_and_outstanding_amounts)

The second chart on page 5 of the FSUG Position Paper, showing that there is no correlation between the proportion of those in over-indebted households that experienced a major drop in income and the extent of credit data used, does not take into account other relevant factors affecting over-indebtedness in the Countries (such as for instance unemployment levels and related trends, welfare measures, taxation levels and related trends, sound economic system, etc.) analysed and therefore presents an incomplete picture based on which the FSUG draws premature conclusions.

The chart does not show why these households became over-indebted in the first place. The fact that such a household subsequently experienced a major drop of income is not linked to credit reporting or indeed creditworthiness assessment in general.

The level of arrears in a given country is influenced by a number of factors beyond credit reporting. The general economic situation of the Country and the level of financial literacy play a very significant role. Despite continued efforts, the EU Member States do not form a homogenous group. Therefore we should strive to compare comparable Countries, i.e. those with a similar socio-economic background. For instance Czech Republic can be compared to Slovakia, since these countries not only border each other but formed a single State well into the 1990s. Here we can see that the higher level of credit data exchange in the Czech Republic corresponds to a lower level of arrears compared to Slovakia. Similarly a lower level of credit data exchange in Austria corresponds to a higher level of arrears compared to Germany. A similar situation applies to Belgium compared to The Netherlands.

2. CRAs and better access to credit / lower cost of credit

The FSUGs conclusion that credit registers and the use of credit data do not contribute to a better access to credit at a more affordable cost is not based on any sound evidence and contradicts finding of numerous reports and studies by reputable institutions showing the positive impact of the use of credit data on reducing the cost of credit and improving the access to credit.

For example Professor Michael Staten, from Georgetown University, in his study of 2001 found that credit bureaus are critical in the expansion of credit and access to finance for both individuals and SMEs[3].

The positive impact of the use of adequate breadth and depth of data to reduce lending discrimination and contribute to the democratisation of credit is demonstrated by a study of the Political and Economic Research Council (PERC). The study shows how in Brazil the share of women among the pool of borrowers has consistently increased when switching to a full-file credit reporting system[4]. PERC also produced a different study elaborating on the importance of comprehensive databases, finding that "alternative data, if widely incorporated into credit reporting can bridge the information gap on financial risk for millions of people".[5] The study

[3] Michael Staten, *The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience* in *Making Small Business Lending Profitable*, Proceedings from the Global Conference on Credit Scoring, IFC, Washington DC, 2001, p. 29-36. (http://www1.worldbank.org/finance/assets/images/confproceedings.pdf)

[4] Michael Turner, *Economic fairness through smarter lending some factors to consider on the eve of the Brazilian Credit Reporting Reform*, October 2007, p. 29 - 35. (http://www1.worldbank.org/finance/assets/images/confproceedings.pdf)

[5] PERC / Infopolicy, *"Give credit where credit is due"*, 2006, p 2. (http://www.perc.net/wp-

shows that the percentage of new credit accounts opened between February 2005 and January 2006 increased from 42.21% within the validation sample to 50.92% within consumers providing also utilities and telephone data. Interestingly enough, the growth in opened loans is sky-high when the non-bankable consumers (those with no credit history) are considered. A meta-study by PERC[6] summarizes multiple studies done in several different countries to reach the same outcome, as well as finding that removal of certain categories of data results in worsened default rates.

The positive impact of CRAs in improving access to credit is further confirmed by the International Finance Corporation (IFC), an international financial institution that is a member of the World Bank Group, who launched the Global Credit Bureau Program with the objective of supporting the development of credit bureaus in developing countries as a means to encourage private sector developments. In its "Credit Reporting Knowledge Guide" from 2012, the IFC reported its experience with credit bureau markets and provided best practices. In their words, "Credit reporting systems help ensure financial stability by enabling responsible access to finance and can also play an instrumental role in expanding access to credit and other services on credit to the underserved and unbanked. (…) By doing so, credit reporting systems, enable lenders to expand access to credit to creditworthy borrowers including individuals with thin credit files, micro entrepreneurs, and small and medium enterprises".[7]

A more recent study carried out by Deloitte in 2013[8] shows the beneficial impact of CRAs on credit availability and quotes the findings of a recent study conducted in Latin America[9] according to which "full population coverage of full-file CRAs increased the ratio of credit availability to GDP by 47.5% compared to a situation without any CRA presence in the country".

It is also worth stressing that CRAs play an important role in instalment purchases at the point of sale and remote purchases (for further explanation on the role of CRAs in this field please refer to Annex I). CRAs are able to immediately assess the risk associated with the transactions, including preventing and detecting fraudulent behaviour, and thus benefit both consumers by allowing them to easily open a credit line to purchase goods, and businesses by reducing the risks associated with credit decisions. A recent research produced by the European Central Bank found that in 2009 French retailers bore 53.5% of fraud losses, most of which related to fraudulent internet transactions.[10] These additional costs ultimately are paid by consumers, since retailers tend to absorb them by increasing the prices of their products.[11]

---

content/uploads/2013/09/alt_data.pdf)

[6] Turner and Varghese (PERC), *"The Economic Consequences of Consumer Credit Information Sharing: Efficiency, Inclusion and Privacy"*, 2010. (http://www.perc.net/wp-content/uploads/2013/09/OECD-Info-Sharing-White-Paper-FINAL_rv_110210.pdf)

[7] The International Finance Corporation (IFC), *Credit Reporting Knowledge Guide*, 2012, p. 5. (http://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/industries/financial+markets/publications/toolkits/credit+reporting+knowledge+guide)

[8] Deloitte, *Economic impact assessment of the proposed European General Data Protection Regulation*, December 2013, p. 30. (http://www2.deloitte.com/content/dam/Deloitte/uk/Documents/about-deloitte/deloitte-uk-european-data-protection-tmt.pdf)

[9] Turner and Varghese (PERC), "*Economic impacts of payment reporting participation in Latin America*", 2007. (http://www.perc.net/publications/economic-impacts-payment-reporting-participation-latin-america/)

[10] Creti and Verdier, *"Fraud, Investments and liability regimes in payment platforms".* ECB Working Paper 1390, October 2011. (https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1390.pdf?11b041a5d375cc55327a0a259c7b36f1)

[11]Telegraph, *Cost of car insurance falls following fraud crackdown*, 27 July 2013. (http://www.telegraph.co.uk/finance/personalfinance/insurance/motorinsurance/10206054/Cost-of-car-

Again it needs to be noted that while CRAs have a significant positive impact on the access of consumers (and especially marginalised consumers) to credit, it is not the only factor that influences access to credit or credit costs. The general economic situation in a given country, the costs of collection and litigation or the composition of credits taken out will of course have a significant impact on the cost of credit for consumers.

Also it should be noted that the access to credit and the average APRs are linked: restricting access to credit to customers with high creditworthiness will often force a bank to lower the rates since such customers are naturally the ones that are more likely to request better credit conditions.

The claim that CRAs do not contribute to better access to credit by FSUG is illustrated by a single chart on page 6. This chart compares average APR data with the extent of credit data used in each country; however APR data are too volatile and are affected by too many other factors to be a valid variable in the context of credit reporting.

3. CRAs and the use of credit data to help fulfil prudential regulation objectives

In its paper, the FSUG claims that "there is no apparent link between credit loss rates and the depth and breadth of credit data used by credit bureaus." Again, **ACCIS would like to reiterate that, although Credit Reporting Agencies are obviously not a perfect solution for identifying all the possible risks linked to the granting of credit, they do contribute significantly to mitigating them by allowing a better estimation of the probability of default, which is one of the four measures imposed by prudential regulation to the banking system**.

Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (the "Capital Requirements Regulation") requires financial entities to perform some credit profiling in order to prevent and mitigate lending risk and CRAs help financial entities to comply with this regulation by providing credit scores.

The European Commission's Expert Group on Credit Histories recognised that "credit data sharing between creditors is considered an essential element of the financial infrastructure that facilitates access to finance for consumers. The use of credit data in assessing borrowers' creditworthiness is key in order to enhance the quality of creditors' loans portfolio and thus reduce risks. It also assists creditors in complying with responsible lending obligations".[12]

Moreover, in its *Principles for Sound Residential Mortgage Underwriting Practices*[13], the Financial Stability Board states that: *A borrower's underlying income capacity is a key input into effective mortgage underwriting. Jurisdictions should ensure that lenders verify and document each applicant's current employment status, relevant income history, and* ***other financial information (e.g. credit scores, credit registers)*** *submitted for mortgage qualification.*

---

insurance-falls-following-fraud-crackdown.html)

[12] DG Internal Market and Services, *Report of the Expert Group on Credit Histories,* May 2009, p. 2. (http://ec.europa.eu/internal_market/consultations/docs/2009/credit_histories/egch_report_en.pdf)

[13] FSB, *Principles for Sound Residential Mortgage Underwriting Practices*, April 2012. (http://www.fsb.org/wp-content/uploads/r_120418.pdf?page_moved=1)

Similarly (and based on the FSB's principles), in its Guidelines on creditworthiness assessment[14], the EBA has provided indications that clearly recognise the importance of accurately assessing, among others, the consumer's ability to meet his/her obligations under the credit agreement and the allowance for the consumer's committed and other non-discretionary expenditures. EBA states that:

When assessing the consumer's ability to meet his/her obligations under the credit agreement, the creditor should take into account relevant factors that could influence the consumer's ability to meet his/her obligations and without inducing undue hardship and over-indebtedness. The factors may include other ***servicing obligations, their interest rates, and the outstanding principal on such debt; evidence of any missed payments****; as well as directly relevant taxes and insurance, where known*. [...]

When assessing the consumer's ability to meet obligations under the credit agreement, the creditor should make reasonable allowances for ***committed and other non-discretionary expenditures, such as the consumer's actual obligations, including appropriate substantiation and consideration of the living expenses of the consumer****.*

It is thus clear that CRAs and their credit scores are part of the creditworthiness assessment process regulated by European and national Authorities.

The FSUG states that since credit registers and creditworthiness assessments are of public interest, CRAs and the way in which they operate are also of public interest. The FSUG seems to imply that public ownership of CRAs is preferred over private ownership. ACCIS, which represents both private CRAs and public credit registers strongly opposes the idea that one model (public or private) is superior to the other. In this regard it should also be underlined that privately-owned CRAs, in addition to basic credit register services provide added value services to support lenders, helping them - among other things - to comply with legislation (assessment of the probability of default), manage their internal processes and prevent fraud.[15]

4. Risk-based pricing vs mutualisation of risk

In its conclusions the FSUG criticises the individualised risk based pricing as a practice that introduces new forms of discrimination. **ACCIS is firmly against the mutualisation of risk as opposed to risk based pricing, which is required by prudential regulation.** The mutualisation of risk encourages more risky behaviour by borrowers on the basis that those who make hazardous decisions do not pay a higher price compared to prudent borrowers, who instead have to bear these costs. Theory and empirical studies on adverse selection and moral hazard problems that have been conducted over the last three decades show that credit information systems contribute to mitigate the risk of moral hazard and improve the overall security of loans.[16]

---

[14] European Banking Authority, *Final Report Guidelines on creditworthiness assessment (BA/GL/2015/11)*, 01 June 2015. (https://www.eba.europa.eu/documents/10180/1092161/EBA-GL-2015-11+Guidelines+on+creditworthiness+assessment.pdf)

[15] Michael Turner, Robin Varghese and Patrick Walker (PERC), C*redit Bureaus in Emerging Markets: Overview of Ownership & Regulatory Frameworks*, September 2014. (http://www.perc.net/wp-content/uploads/2014/09/EM.pdf)

[16] Craig McIntosh and Bruce Wydick, *Adverse Selection, Moral Hazard, and Credit Information Systems: Theory and Experimental Evidence*, 2007. (http://www.cid.harvard.edu/neudc07/docs/neudc07_s5_p01_mcintosh.pdf) ; Holden Lewis, '*Moral hazard' helps shape mortgage mess*, April 2007, Bankrate.com.

Borrowing and payment behaviour of an individual is something that is – except in rare circumstances – under the control of the individual in question. In addition, the FSUG seems to imply that CRAs use all sorts of information, including "scraping" it from social media and other sources to produce their credit scores. Credit Reporting Agencies do not store sensitive personal data related to race, religion, sexuality, or criminal records, they do not "scrape" data subjects' information from social media or the web and they do not make any decision related to the final approval of credit by lenders. Moreover, it is worth noting that the quality of the scoring systems provided by CRAs is at the heart of their business models: it is in CRAs' best interest to provide carefully and precisely processed data to lenders. Therefore, data collected and processed by CRAs cannot be "scraped" from social media or the web and the scoring systems are regularly reviewed to ensure the highest possible level of reliability.

ACCIS therefore strongly opposes this allegation and reiterates that consumers are made aware of the data processing and of the purposes for which it is performed. CRAs are bound by national and European data protection rules to keep a record each time a file is accessed. Furthermore, ACCIS 2015 survey of membership shows that all members provide consumers with the possibility to access their data and that in 69% of cases this access is free of charge. Even when a fee is applied it is in a range of 2 to 19 euros.[17]

II. FSUG Policy Recommendations

1. Call to policymakers to make explicit the objectives of credit registers

Explicit objectives are already provided in codes of conduct, national laws and in the information memorandum of each credit bureau. ACCIS does not believe that there is a need to further regulate the sector which is already highly regulated and scrutinised.
Moreover, in its recommendations the FSUG seems to confuse the activities carried out by credit registers with the use of credit data. We would like to reinstate that CRAs hold databases of positive and/or negative data and that they act as data providers for financial institutions. However, they are not involved in how this information is used.

2. Recommendation to develop an explicit national policy on mutualisation of risk

As already explained, ACCIS opposes the idea that mutualisation of risk is to be preferred over individualisation of risk. On the other hand, we welcome government's initiatives to support consumers who face financial difficulties due to unexpected circumstances, by developing measures that help individuals to exit from situations of over-indebtedness when they can prove that they acted prudently. Transparency and financial education should be further developed to prevent bad financial behaviours. Rather than mutualising risk, governments can take into consideration the possibility of mutualising debts of vulnerable groups, when they fall under certain characteristics.

3. Establishment of a credit register expert group

ACCIS has on several occasions sought to interact with the FSUG or individual members of the

---

[17] *ACCIS 2016 Survey of Members*, p. 24 (http://www.accis.eu/fileadmin/filestore/position_papers/REPORT_ACCIS_2015_SURVEY_OF_MEMBERS_FINAL_30112015_compressed.pdf)

group, but apart from one meeting to present to the Group what CRAs do the engagement has been very limited. ACCIS was aware that the FSUG were drafting the paper on credit data and offered on several occasions to meet with the Group to share its extensive knowledge and research but regretfully our offers were not taken up. Before establishing other Expert Groups - one in each Member State - ACCIS believes that the FSUG should firstly look to cooperate with CRAs in order to build an effective dialogue and find shared solutions on how to improve the credit information system for consumers.

4. Call on the Commission to carry out further research on the need for credit data

While ACCIS does not oppose further research on the need for credit data, it would like to point to the fact that in significant number of member states such research has already taken place and resulted in the adoption of laws regulating specifically the CRAs.

III. Comments on the FSUG methodology used in the Position Paper

Based on the arguments that have been elaborated in the past sections of this papers, ACCIS believes that the evidence provided by the FSUG is ill-founded in that it is based on overly simplistic calculations. In addition the analysis do not take into consideration other relevant macro- and micro-economic variable that affect over-indebtedness, cost of credit, the effectiveness of financial regulation and financial stability.

A more meaningful exercise would focus on what happens when comprehensive data is available as opposed to when it is not. Such a study would also need to consider different data needs in different countries.

Examples of good practice highlighting the benefits of comprehensive credit data including also alternative data already exist. In Italy, a local regional administration appointed one of the leading credit reporting agencies in the country to analyse if it is possible to carry out an assessment of the creditworthiness of SMEs creating scoring systems developed using only information from water bills. The study showed that SMEs without any previous credit history could develop a robust scoring which allowed them to be eligible for credit.[18] The study proved that alternative and non-traditional data can make a significant contribution to the assessment of SMEs creditworthiness, with crucial benefits for the financial inclusion of those entities with limited or no credit history.

Another good example of proven benefits of positive credit history applied to low income groups is the initiative undertaken by Big Issue Invest - a non-profit organization based in the UK - in cooperation with one of the leading CRAs in the country.[19] The project gives low income tenants the same opportunity as mortgage owners to demonstrate their financial credibility and build a positive credit score that will allow them to afford the purchase of a house. Furthermore, Big Issue Invest shows that in the UK it is more expensive to buy a washing machine for someone with no credit score than for someone with a good credit score, thus linking credit score to a facilitated access to credit.[20]

---

[18] CRIF, *Assessing SMEs: the Use of Alternative Information*, 2011.
[19] Big Issue Invest, *The Rental Exchange*. (http://bigissueinvest.com/rentalexchange/)
[20] Big Issue Invest, *The Rental Exchange*. (http://bigissueinvest.com/wp-content/uploads/2015/06/BII-Rental-Exchange-White-Paper.pdf)

Annex I

THE LENDING JOURNEY

A case study on the role of Credit Reporting Agencies on consumer's access to credit

Overview

Credit reporting systems sit at the heart of financial systems, their core activity being to act as a third party holder and provider of information about the credit behaviour of consumers and SMEs.

ACCIS Members provide data and solutions designed to support financial organisations, enabling access to credit for consumers and SMEs, and as such, play a critical role in the lives of European citizens. The services provided by CRAs support providers to make lending decisions based on accurate, consistent and verifiable data.

We as an industry would like to demonstrate a case study which is aimed at highlighting the potential impact on consumers if Credit Reporting Agencies' services are being limited.

It is important to note that as a result of the differing national legislative regimes there may be a slight variance in the impact, however there is likely to be an overall significant negative consequence for consumers, in terms of cost, burden and accessibility in the credit journey.

The Lending Journey

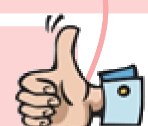
Meet Jo Smith. He is a thirty something, office worker who earns a modest salary of EUR 30,000 per year.

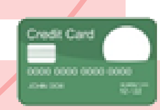
Jo has decided that he wants to buy a house and finds his ideal property for EUR 120,000.

Jo thinks that he would be able to afford this on his current salary, he approaches his current lender Local Bank for a loan.

However Jo isn't sure that he is getting the best interest rate with Local Bank as they offer him a loan at 8% interest and thinks he might be better getting a loan with Mortgage Bank a new bank in town advertising home loans at 4%. Mortgage Bank doesn't have any information about Jo because he's not an existing client. Mortgage Bank says that they may lend to him but need more information.

So Mortgage Bank informs Jo that the bank will use a credit check about him from a major credit reference agency which is quick and easy and provides a non-bias view of Jo.





The Credit Reference Agency provides the lender with a credit report of Jo using a range of data[1] available to them under national law. This information gives Mortgage Bank a comprehensive picture of whether Jo would be able to afford the purchase of the house and whether he had any existing loans or commitments. Mortgage Bank deems that from the data they have, and the information Jo has provided on his application:

- He is who he says he is
- He can afford to repay and maintain the loan
- He has paid back of his previous loans and bills

Jo buys his dream house using his competitive loan from Mortgage Bank and moves in without delay. Mortgage Bank continues to monitor his repayments on the loan from the data provided by the Credit Reference Agency to make sure he's able to maintain his payments and isn't in financial distress.

[1] The range of data available is dependent on whether an EU Member State allows positive and negative data sharing. In the *General Principles for Credit Reporting*, published in September 2011, the World Bank highlights the benefits of sharing positive data.

What would the lack of credit data mean for Jo?

A key element for Jo to be able to borrow the loan to buy the house is the ability for the lender to identify Jo as the person he says he is. This would be easier for Local Bank as Jo has an existing relationship with this institution, however he has no existing connection to Mortgage Bank. Mortgage Bank would therefore use a powerful and trusted data source like a Credit Reference Agency to quickly, securely and comprehensively verify Jo.

Credit reference agencies use a **range of proportionate data from selected sources available at Member State level**, the **processing** of this data using highly sophisticated and complex methods **automatically** and **objectively** gives an accurate and current view of Jo's financial obligations. The outcome of the automated process by the Credit Reference Agency is one factor in the decision taken by Mortgage Bank on whether or not to give Jo a mortgage.

This method is quick and reliable. On the other hand, using less credit data may cause consumer detriment. The process would be **slowed** and the decision would no longer be objective. Humans introduce **bias** into the system, decisions could be made on factors which are not objective such as personal preferences or historical connections. As a result the use of less credit data **may restrict** the ability of Jo to get the best rate with any provider rather than relying on his existing lender Local Bank which holds his past information.

Therefore to enable Jo to borrow the loan it is key that Mortgage Bank uses an independent an reliable third party as the Credit Reference Agency, accessing all **data that are necessary** to perform an accurate creditworthiness assessment, including past debts or arrears and current expenses such as bills. Limiting the use of credit data would lead to Jo having an incomplete file. This would mean that when Mortgage Bank requests Jo's credit file they will be a lot less likely to lend.

Jo would then join a potential group of **financially excluded** consumers who would have thin credit files. It may make attaining credit extremely difficult in the future for Jo, and lenders would lack certainty on Jo's creditworthiness.

When Jo applies to Mortgage Bank and they request a copy of the credit information about his activities and past debts, this information contains data about Jo's credit history including positive and negative credit data and regular living expenses, as well as information on whether Jo has been declared bankrupt or has a judgement for unpaid debt against him.

If processing of credit data by Credit Reference Agencies would be restricted or unavailable, the Credit Reference Agency would not be able to tell Mortgage Bank about this information and this may lead to Jo being exposed to **unsuitable lending or additional debt** that he cannot manage, and the Bank being at risk of lending inappropriately to the consumer.

The lending journey/2 – purchase loan

Jo and his wife Joanna go to a shopping centre and she suddenly finds an amazing promotion: there's -25% discount offered on washing machines, and one model in particular can be repaid in 12 months!

Joanna needs a new washing machine: their existing machine isn't working besides consuming more energy than a newer model.

Paying the washing machine would mean a monthly instalment of EUR 50 if paid via a loan and Jo and Joanna can easily afford it.

An agent of the Purchase Loan Bank is at the point of sale, and she immediately processes the loan application for the washing machine. The agent provides Jo and Joanna with the **automated decision** to grant them the loan. In a couple of minutes Jo and his wife are out of the store, happy and excited they can use their brand new washing machine and reduce the energy bills!

What would less credit data mean for Joanna?

An automated decision on a loan is not possible at the point of sale without CRAs, as a delay would occur during the process of reviewing the loan manually by the Bank, rather than the store inputting the information and a decision being made in real time.

Only expert banking employees could be authorised to manually assess the creditworthiness of Jo and Joanna, as competence would be needed in the evaluation and consideration of information provided.

For this reason, the washing machine can only be paid in a single lump-sum payment.

Joanna would pay for the offer with cash, but Jo reminds her that they have to pay the car insurance policy at the end of the month, and this could mean that they risk going into overdraft, adding an expense of EUR 600.

www.accis.eu

Conclusion

These case studies show the potential impact of the lack of reliable and complete information on a consumer's lending journey. The impact may not only affect the speed of any decision-making for the consumer, but also entail serious harm deriving from consumers becoming financially excluded or only having access to limited credit products rather than a full market range.

For further information on ACCIS and the lending journey, please visit our website www.accis.eu *or contact* secretariat@accis.eu