



America's Alternative Credit Bureau

**Bill Payment Channels
as Credit Data Collection
Points in Emerging
Markets**

Next Generation Access to
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Overview: Using Bill Payments to Build Credit History

- PRBC's business model
- How it works in the US
- Applicability to other markets

“Alternative credit data” to assess the “unscored” and low-FICO consumers has received growing interest in US market.

- High percentage of unscorable or “thin file” applicants in key lending markets:
 - 8 – 10% in home purchase loans
 - 25% at used car dealers
 - 20% of in-branch credit card applications

- Increasing defaults in sub-prime markets driving search for better risk assessment tools;
 - A gateway for refinancing?

- Equal Credit Opportunity Act (ECOA) challenges to the current system

- Positive payment history of rent, phone, utilities, insurance, cable, etc. is now of special interest
 - Universal to most households
 - Not reported to the traditional credit bureaus (except in default)
 - Likely to be predictive (Brookings/PERC Study, 2006)
 - Used in mortgage market under Fannie Mae, Freddie Mac, and FHA guidelines

PRBC enables consumers to demonstrate ability and willingness to make on-time rental and bill payments

- “Alternative” credit bureau that hosts and reports positive bill payment history from multiple sources
 - PRBC Reportssm disclose full file, allow for automated scoring, underwriting
 - Can be merged with traditional bureau data

- Initial focus in mortgage market; moving beyond it
 - R&D funded by Citimortgage, Fannie Mae, Freddie Mac, and IBM
 - Pilots underway in other lending verticals (auto, credit cards, wireless)
 - Investors include : Omidyar Network, ACCION International, traditional VCs

- Three data acquisition channels (plus aggregation from 3rd parties):
 - Traditional payee reporting
 - Consumers “self-report” bill payment history online and purchase manual verification by PRBC
 - Automatic bill payment reporting as feature of online or walk-in bill payment services

How payment reporting from on-line or in-store bill pay works:

- Customer opts in (required under privacy and credit reporting law) or reporting is part of T&Cs of bill pay service
- Payment history accumulates in credit file automatically as payments are made from the bill pay service
- Consumers can view data in their PRBC credit file online at any time for free
- Consumers can add additional trade line data (e.g. rent) retrospectively and order (for a fee) a manual verification to make it part of the file
- Consumer and FI protection: PRBC won't sell mailing lists or trigger leads
 - Narrow definition of “permissible purpose” under FCRA

Automated payment reporting pilot via online bill payment with CheckFree

- Existing CheckFree Direct subscribers
- New enrollees/visitors seeking to build credit

PRBC ✓ Payment Reporting Builds Credit™

Report Builder | **Online Bill Pay** | About PRBC | Learning Center | Business Services | User Services

Enroll Now in Bill Pay | Bill Pay Login

Build Credit with Online Bill Pay

Get the credit **YOU** deserve
by paying your bills on time
and online with...

CheckFreeWeb
with **PRBC** ✓
Bill Payment Reporting

Enroll Now
CheckFreeWeb
with **PRBC** ✓
Payment Reporting

Enroll Me

Get Credit for Paying Your Bills On Time

PRBC, America's Alternative Credit Bureau, has teamed with CheckFreeWeb, the leading online bill payment service.

Now when you pay your bills online through [CheckFreeWeb with PRBC Payment Reporting](#), your payments will be automatically reported to PRBC. **By paying your bills on time**, you'll build a positive credit file with PRBC that you can use to **qualify for new credit offers and better rates**.

Your monthly payments such as rent, utilities, cable, phone, insurance, cell phone, and day care **aren't reported to the traditional credit bureaus**. That means you don't get positive credit for paying most of your bills on time.

Already enrolled in CheckFreeWeb with PRBC?
Sign In

Automated payment reporting with Account Now

- Prepaid card account; card loads via direct deposit and in-person
- Offers online bill payment and electronic checkbook
- Target customer: internet-enabled users who cannot obtain bank accounts
 - Most have had prior credit problems
- 20% adoption of online bill payment with payment reporting to build credit



Reporting and scoring of payment history will become a value-added feature of financial institutions' on-line and in-store bill payment services

- Surprising opportunity, even among early adopters of online banking services

- Existing consolidated online bill payment subscribers:
 - 40 – 55M users, rapidly growing

Bill pay user profile at time of enrollment:	No-FICOs	FICOs under 720
Large regional (SE):	18%	45%
Super-regional (MW)	14%	39%

- Walk-in bill payment users:
 - Total user market 20 – 30M households
 - 50% +/- are “unbanked”
 - Disproportionately “unscored” or low-FICO

What consumers have benefited so far and how?

- Principally first time home-buyers with thin or no credit history
 - Able to obtain prime mortgages under GSE underwriting guidelines

- GSEs' and mortgage insurers' treatment:
 - 12 months of rental history plus 3 other tradelines paid on time = 620 FICO
 - Based on historical experience with consumer-reported data verified by lenders

- Consumer-reported data viewed as having higher quality if verified by third party (retrospective data);
 - No loan experience yet with data reported prospectively from bill pay services
 - Eligibility criteria will evolve and become more granular as data becomes available from bill payment services

Benefits for financial institutions and retail correspondents:

- Attract new customers/depositors
- Drive greater adoption of banking and bill pay services
- Cross-sell loans with a tool mono-line lenders can't duplicate:
 - Receive alerts when customer's payment history nears threshold to qualify for offers
 - Offer an "alternative to no" to in-branch or online loan applicants who may not qualify today, but can requalify upon demonstrating a positive payment history
- Earn CRA credit:
 - Fed acknowledges PRBC as "an innovative community development service"
 - A financial literacy tool

■ **Summary:** Payment history is an important consumer asset. Financial institution (and/or correspondent) enables customer to build, protect, and benefit from it.

Limitations of consumer-initiated payment reporting?

- Biggest value is to “emerging” customer segments who are new to credit
- Works best in tandem with established creditor reporting that captures negative history

	Concern?	Response
Consumer opts in:	<ul style="list-style-type: none"> ■ Consumers self-select for good history 	<ul style="list-style-type: none"> ■ Protects privacy ■ Attracts best risks ■ Attracts credit-seekers
Consumer selects accounts to report:	<ul style="list-style-type: none"> ■ Consumer only reports accounts with positive history 	<ul style="list-style-type: none"> ■ Traditional creditor reporting can capture negative history
Data coming from bill pay services	<ul style="list-style-type: none"> ■ Data captured is mostly “right-side” only 	<ul style="list-style-type: none"> ■ Pattern of recurring payments establishes willingness and ability to pay

International applicability factors:

- Identity infrastructure
 - National identification systems
 - Fraud prevention
- Penetration of basic recurring payment services
 - Electricity
 - Phone
 - Water
 - Wireless
- Prevailing channels and payment methods for recurring bills
 - Post-paid vs. prepaid
 - Cash vs. account-based methods
 - Financial institutions, billers, correspondents
- Examples

Penetration of recurring payment services defines potential audience:

- Credit access becomes an added benefit to enrolling in service contracts
- Biller contract may become identity source in absence of national system
- Explosive growth of wireless may help in least-developed markets
 - ..but only where pre-paid service doesn't have to be anonymous

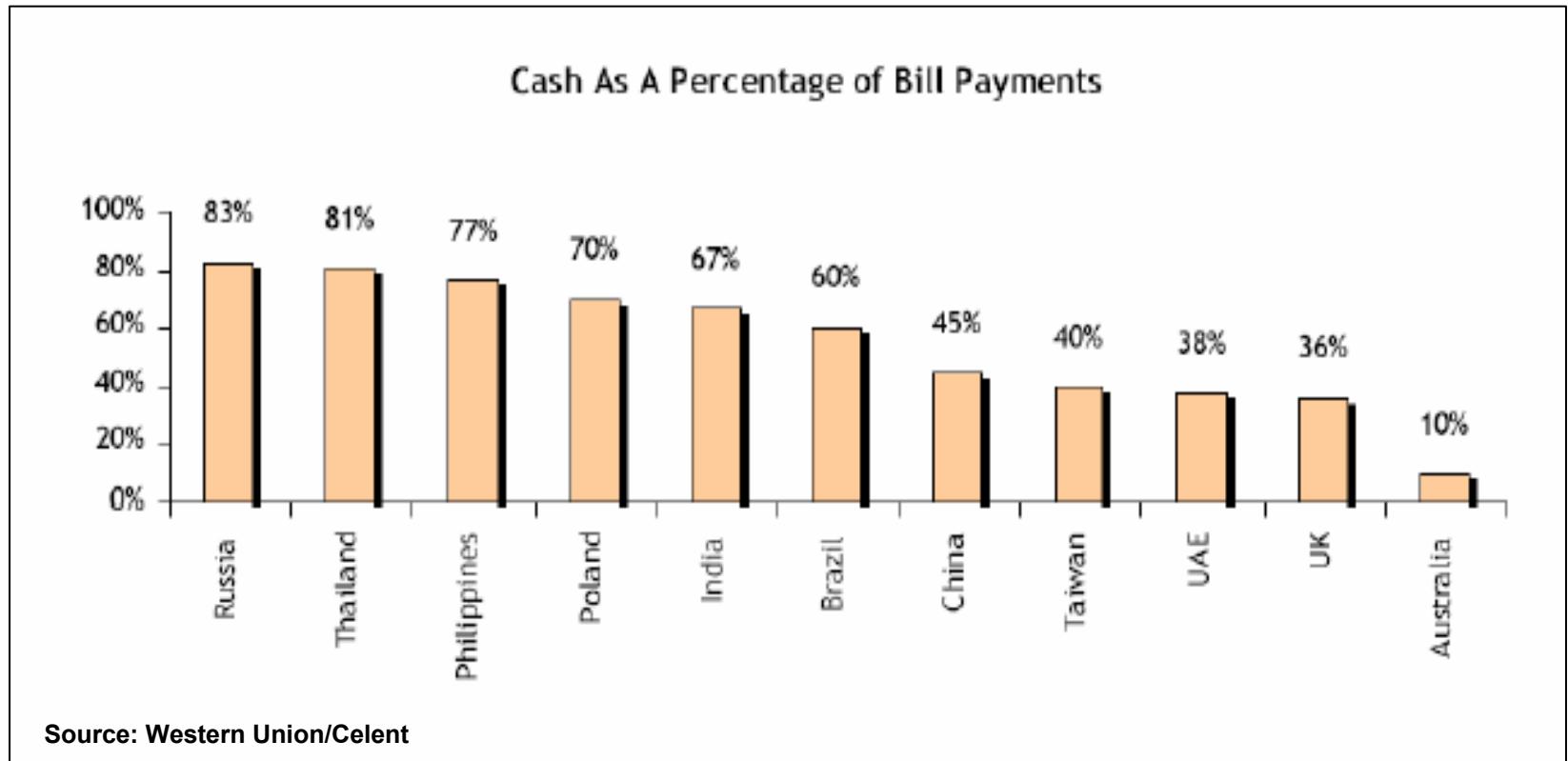
	Percent of Population with Electricity Access	Main Phone Lines Per 100 Persons	Cellular Subscribers Per 100 Persons
Canada	100	64	52
Germany	100	66	102
China	99	28	34
Mexico	95	18	53
Egypt	94	14	24
Thailand	82	11	63
Peru	73	1	37
S. Africa	66	11	71
Indonesia	53	7	28
India	43	4	15
Nigeria	40	1	24
Bangladesh	20	1	13
Angola	12	1	14

Source: Electricity data for 2000 from World Resources Council; Telecoms data for 2006 from World Telecommunications Union

Bill payment channels (and methods) define points of data capture:

- **Channels**
 - **Biller/Biller's Bank**
 - Mail/lockbox (check, card)
 - Automatic (direct debit)
 - Window (check, cash)
 - Automated kiosk (cash, card)
 - **Payor's Bank**
 - Consolidated online bill payment (ACH)
 - Automatic (direct debit)
 - Branch (check, cash)
 - ATM (ACH)
 - **Retail agent/correspondent**
 - Money services window (cash, check)
 - Check-out lane (cash, card)
 - Automated kiosk (cash, card)
- **Methods**
 - Cash
 - Check
 - Credit/debit card
 - ACH
 - Automated debit
 - Prepaid tokens/vouchers

In-person payments (biller, bank, or retailer) with cash predominate in many markets



Brazil payment example: Caixa Economica and GTech

- 14,000 state lottery locations at independent retailers also serve as bill payment processing agents (banking correspondents)
- 35% of all recurring bills collected
- Majority of cash bill payments
- GTech operates similar payment agent networks in Poland, Chile
- Other cash payment networks and kiosk systems abound globally.
 - Bank branches
 - Post offices
 - Many large market chains
 - Western Union
 - MoneyGram
 - EuroNet
 - PayPoint
 - PayZone
 - Tio
 - Etc.



Photo courtesy of CGAP. For more information visit:
http://www.microfinancegateway.org/files/30787_file_Brazil_Banking_Correspondents.pdf



Implications for global emerging markets.

- Recurring payment history is the most widely available data in absence of formal credit experience

- Payment channels—and FIs that sponsor them—are efficient collection points

- Opt-in model can...
 - Over-come privacy concerns
 - Operate in absence of an identity infrastructure (with password protection)