

Consumer Finance Monitor Podcast (Season 9, Episode 48): The Future of Consumer Reporting with CDIA President Dan Smith

Speakers: Alan Kaplinsky, Adam Maarec and Dan Smith

Alan Kaplinsky:

Welcome to the award-winning Consumer Finance Monitor podcast, where we explore important new developments in the world of consumer financial services and what they mean for your business, your customers, and the industry. This is a weekly show brought to you by the Consumer Financial Services Group at the Ballard Spahr Law Firm. And I'm your host, Alan Kaplinsky, the founder and former chair of the Consumer Financial Services Group, and now senior counsel of that group. I'll be moderating today's program. For those of you who want even more information, don't forget about our blog, consumerfinancemonitor.com. Same name as our podcast show. We've hosted our blog since July 21, 2011, the very same day that the CFPB became operational. That time, it was called CFPB Monitor. We ultimately, with Trump coming into office, we at that point changed the name because we wanted a broader perspective, not just CFPB type of blog.

We also regularly host webinars on subjects of interest to those in the industry. So if you want to subscribe to our blog or get on the list for our webinars, please visit us at ballardspahr.com. And if you like our podcast, please let us know about it. You can leave us a review on whatever platform you're using today to access our podcast show. And also, if you have any ideas for other topics that we should consider covering or speakers that we should consider inviting as guests on our show, please let us know about that. We're always looking for new material and for people who have not previously been on our show. Let me tell you a little bit about the show that we're going to be doing today, and then I'm going to introduce our guests and then we're going to get right into it. So today's program focuses on an area that touches virtually every consumer and every financial institution in the US, namely the consumer reporting system.

While many people think only about credit scores, today's consumer reporting ecosystem is far broader than that and is undergoing very rapid change. The industry is grappling with issues ranging from the explosion of AI-generated disputes and recent changes to the CFPB's consumer complaint portal, to the increasing use of alternative data, cash flow underwriting, consumer permission data under Section 1033 of Dodd-Frank, and the ever-growing role of artificial intelligence throughout the entire credit ecosystem. Let me introduce our two guests. Our first guest is Dan Smith. Dan is the president and the CEO of the Consumer Data Industry Association, better known as CDIA. And it's the leading trade association representing the consumer reporting industry in the United States. At CDIA, Dan leads the organization's efforts to enhance public understanding of the consumer reporting industry and its critical role in our nation's economy. He is widely recognized as one of the country's leading experts on consumer financial protection laws and regulations, as well as federal and state legislative and regulatory developments affecting consumer reporting.

Before joining CDIA, Dan served as executive vice president and the head of regulatory affairs at the Consumer Bankers Association. And before that, he led card policy efforts at the American Bankers Association. And before that, he was the CFPB's very first assistant director for the Office of Financial Institutions and Business Liaison, where he helped establish the bureau's relationship with the financial services industry. That's how I first got to know Dan when he invited me to be a participant in some hearings that the CFPB was conducting, not about consumer reporting, but about a different subject, namely the arbitration rulemaking. So Dan, welcome. It's nice to have you on our program today.

Dan Smith:

Alan, thank you. It's great to see you. Happy to be here. I'm glad I can share some of my insights into this really, really important topic.

Alan Kaplinsky:

Well, it's great to have you. And let me now introduce my colleague, Adam Maarec, who's also going to join us today. Adam is a member of our consumer financial services group. As part of his broad consumer financial services experience supporting the development of innovative credit and banking products, Adam has developed a national practice advising banks, technology companies, consumer reporting agencies, and other participants in the consumer reporting ecosystem on compliance with the Fair Credit Reporting Act, state consumer reporting laws, Section 1033 of Dodd-Frank developments, open banking, data sharing, privacy, and related regulatory matters. Adam has become one of our firm's leading lawyers in this rapidly evolving area and regularly counsels clients on emerging issues involving consumer reporting data access and innovative underwriting models. So Adam, very warm welcome to you.

Adam Maarec:

Great. Thanks, Alan. I'm excited to have this conversation. I'm glad you're here with us today, Dan.

Alan Kaplinsky:

Okay. Well, I've got a lot of questions to ask both of you, but I'm going to start with you, Dan. And before we get into some of the current developments that are going on, let's ground our discussion in some fundamentals for those of our listeners who may not be as well versed in this area as you and as Adam is. So consumer reporting agencies and furnishers operate under very specific accuracy obligations under the Fair Credit Reporting Act. And the industry processes an enormous volume of consumer disputes every year, responding to the vast majority within the statutory timelines. Can you talk about what those accuracy obligations are, the scale of the dispute volume that the industry handles today, and why you believe, assuming you do, that the FCRA's dispute process as designed works for everyone?

Dan Smith:

Great. That's a lot to cover, but I think it's really important to set a foundation on the FCRA itself. So back in 1970, Congress passed the Fair Credit Reporting Act and established clear guidelines on the use and collection of the data from data furnishers. Some of the core principles are around accuracy and disputes and how the information is used. And so it requires reasonable procedures that the courts have defined over the years. The CFPB has had oversight over both furnishers and CRAs for over a decade. There are clear guidelines for the industry to follow to make sure that the data that they collect and then use have reasonable procedures to ensure accuracy and to ensure the consumer can dispute and has the right to dispute. It is a fundamental piece of our system that a consumer has that ability to see their information, to then identify inaccuracies, and for us to investigate those inaccuracies.

And when I say us, it's the furnisher has obligations, the lender, and the credit reporting agencies. They have different types of requirements. The one thing that is really important is to explain that the Fair Credit Reporting Act is one of the nation's first leading privacy laws. It gives those consumers protections on disclosures, on oversight, on the ability to correct, but it's also a voluntary system, which a lot of people miss that nuance. So when a furnisher or a lender chooses to participate in this ecosystem, they take on the responsibilities of FCRA and they do it because the value that they get on the backend as a user of the data helps them in their underwriting process for credit, for example. They have a source that is reliable, that is comprehensive, that looks at a consumer without bias. We don't know their name, sex, origin, race, religion.

It gives us a view and a lens of their previous history, how do they perform, and what their current debts and obligations are, but it's 100% voluntary. A large lender can choose tomorrow not to furnish if they choose. So it's trying to find a balance between collecting the data so that in the backend it's usable for the lender where it's an incentive, right? I'm going to give all my information into the repository so that I can use it to better underwrite to extend credit to more consumers. So one of the core functions is accuracy. We all benefit from an accurate credit report. And so we have lots of procedures such as a consumer can dispute it directly with the lender or indirectly with the CRA, and we can then do an investigation. We have reasonable procedures. We have 30 days to do the investigation. The consumer has a portal.

They can log into and upload documentation to support their reasons for an inaccuracy. We have to do it within 30 days. If we fail to do within 30 days, we have to take that information off your credit report. We have liability provisions under FCRA. If

we fail to do certain things, we fail to make certain disclosures, if we fail to follow the law, the consumer has a private right of action. We have oversight by states and federal regulators. It is really a comprehensive law that is extremely beneficial to society as a whole. You asked about disputes. There are in the range of 350 million credit reports. So consumers may have more than one, but generally, 350 million consumers are impacted by a credit report.

Each one of them has an enormous number of trade lines. So let's just hypothetically say your credit report has 15 trade lines on it. You multiply that times 350, you have billions of data points within the credit reporting ecosystem. And so the number of disputes is significant because the amount of data is significant. It touches everybody in society. And so we do have a lot, but we take it extremely seriously. We look at each complaint, each dispute, each time a consumer identifies something they don't recognize or something they think is inaccurate, and we have a strong obligation and motivation to correct it because if that data is wrong, then the end user of the data won't rely upon it to make sound business decisions.

Alan Kaplinsky:

Right. Yeah. And I guess it's fair. People in looking at the industry seem to focus only on the number of disputes and the number of disputes that turn out to be accurate. And they don't... If you put it into perspective, Dan, it's really a very small percentage of the transactions or the infra data that's on consumer credit bureau reports. So the system works very well and any system is going to have issues. Nothing is perfect, but it's very, very small, the number of real issues that arise. Am I right?

Dan Smith:

Yes. Every consumer should have accurate information and that's what we strive towards and it's important that we shouldn't take it lightly and we don't. There are a lot of trade lines that are covered and you're going to have issues and challenges. You'll have consumers that pull their credit report and expect it to be updated instantly and that's not how the system works. So there can be time lags that cause what is seen to be an inaccuracy and it's not really wrong. It just hasn't been updated as timely as the consumer would've anticipated.

Alan Kaplinsky:

Right. All right. Well, now let's turn to the big picture. When most consumers hear the phrase credit reporting, they think about a credit score, but the consumer reporting ecosystem is, as we know, much broader than that. So you may have already answered at least part of my question, and if so, we'll move on. But could you explain what today's consumer reporting system actually encompasses and why it's so critically important to the functioning of our financial system?

Dan Smith:

I'm happy to. And I would say it is critical not just to the financial system, but in the everyday lives of every consumer. So many people call it the credit reporting system. It's probably more technically known as the consumer reporting system and they all fall under the FCRA. And so you've got one bucket is how do we use credit report information for extending credit? The other piece is how do we use consumer information to evaluate a consumers if they are applying for a job? So you could pull a consumer report and do a background check on an employee. It might include credit depending on the job, but it also could include other data points and other consumer data, background information, arrest reports, delinquencies. It could be a mixture of things.

Alan Kaplinsky:

When you want to rent an apartment, usually the landlord runs a credit bureau report.

Dan Smith:

That's right. And it could be credit worthiness, but it could also include consumer behavior information. So you have background screening, which we refer to as either tenant screening or employment screening. You also have what is really not a topic discussed a lot is fraud and risk mitigation. A lot of the databases that fall under the FCR are an enormously valuable tool to mitigate fraud. And financial institutions, your healthcare system, they use that data for the purpose of protecting the

consumer. And so there's such value in identification, verification to make sure you are who you say you are. So I'll give you an example. You call your credit card company 800 number and you want to check on something, right? Your account got shut down, something went wrong, you want to challenge a charge. They need to make sure that the Dan Smith they're talking to is the real Dan Smith.

And so they'll often use the tools that generated from credit reporting information to verify that I am who I say I am. They may ask me a series of questions that only I know, right? And they're doing it from credit reporting, consumer reporting data often. So it's really important part of our ecosystem that allows transactions and allows the consumer to interact across all of society in a functioning way really quick.

Alan Kaplinsky:

Right, right. So let's turn now to the CFPB complaint portal. Very recently, the bureau announced significant changes to its consumer complaint portal after reporting the credit reporting complaints increased by more than 3,700% since 2019, with many complaints apparently being generated through credit repair organizations or through AI-assisted dispute tools. What prompted the bureau to make these changes and do you believe that these reforms will improve the process for consumers who have legitimate disputes?

Dan Smith:

Alan, every consumer should have the opportunity to dispute an inaccurate trade line. And if they don't believe they've gotten their issue resolved or still have a concern, then they should be able to go to the CFPB and lodge a complaint. The two are separate, right? Under the FCRA, there is an FCRA dispute mechanism that says a consumer can go directly to the lender or to the CRA and it puts in motion a bunch of legal requirements and steps. We believe every consumer should take that path when they find information that's inaccurate so that it could be corrected because fundamentally accurate and complete reports are the backbone to a well-functioning consumer reporting system. We believe that through credit repair organizations driving consumers to file a complaint through the complaint portal, going around the FCRA dispute process has created a lot of challenges within our system. We believe that we applaud the bureau for identifying what we believe are attempts to credit wash, and I'll go into what credit washing is.

It's an attempt to remove negative information, not inaccurate information, from your credit report. They're inundating the system by overloading it and acting as though they're a dispute when there really should be used for a different purpose. The complaint portal should be used for a different purpose. What happens is the credit repair organizations, which are for-profit companies that charge the consumer to improve their credit, and what they're trying to do is remove negative trade lines from their credit report. They've been in business for decades. They have found new tools to make it easier and free. They used to send letters on behalf of consumers, pallets filled of mail to the credit bureaus and to the lender, and they have to process each one of them. Now they're going to the complaint portal and acting as though it's a dispute, but it's really a complaint. And so what we're saying is those consumers that have real issues deserve the attention they deserve.

They should go through the dispute process that has been established by law and been in existence forever, that has functioned very well, and they should reserve the complaint portal of the CFPB for when they aren't getting the satisfaction they deserve. They've gone through the legal process and things haven't worked. So they should be entitled to do that, but they should go through the legal process first and it should really be for inaccurate information, not to remove negative information to artificially increase their credit score.

Alan Kaplinsky:

Right. Do we have any idea in terms of volume, how many of these so-called disputes are really AI-generated, that they're really not real disputes?

Dan Smith:

So before AI was a thing, you can literally go into the complaint portal and see where people have cut and paste identical language. Literally the same words would appear thousands of times in thousands of different complaints. With social media

and AI, it's very similar type of language, but it's clearly an attempt to inundate the system and it's not legitimate consumers with legitimate inaccurate data fields. Our members have done deep analysis of actual complaints because they are recipients of it. And we believe it's north of 95 of all of the complaints we get through the CFPB are some form of credit washing. They are not legitimate consumers that have legitimate inaccurate. So it is inundating the system. It's causing a lot of problems. It's artificially inflating some consumer score. So the lender will do an investigation. If they don't complete it within 30 days, they must take it off of their furnishing, comes off the credit report.

They may very likely continue to investigate and say, "Actually, that is a legitimate dispute, a trade line. We're going to resubmit it." So their score artificially goes up for 30 days and then all of a sudden it comes back down because it was an accurate trade line. So the consumer's not benefiting from that.

Alan Kaplinsky:

So what changes has the CFPB made that are going to curb all these illegitimate complaints that are being submitted to it?

Dan Smith:

So it's a fine balance to make sure that consumers have the ability to identify things that are wrong, but it needs to be the actual consumer or their legal guardian or their legal representation, not a third party credit repair organization who is using chatbots and filing thousands of complaints for the same consumer. The one thing they've already done is they put some disclosures at the beginning of the process, telling consumers go through the FCRA dispute process, the established standard, go to the lender directly, go to the CRAs directly, upload your documentation, follow the legal process.

If you still have a problem, feel free to file a complaint. So we think that alone pushes the real consumer with problems in the correct direction. I believe they are putting in place two-party authentication, screening mechanisms. They're trying to make sure that it is not being abused and that the consumers that actually need assistance get it and so that their data from the complaint portal has value. If you go from 300,000 complaints to five million complaints in a number of years, you're going to have to look and say, "Is there something technically operationally wrong?" I think that's what they're doing. They're looking at the foundation of the system to make sure it's not been compromised.

Alan Kaplinsky:

It's amazing to me that everything you said makes a ton of sense, but yet I've been reading a number of consumer advocacy organizations that have been very critical of the changes that are being made and it just doesn't make sense to me what they're doing. So let's turn to some changes, the evolution of consumer reporting, I'm going to call it, and the rise of alternative data. The consumer reporting system has changed dramatically over the past decade. What do you see as the biggest trends shaping its future? And historically, underwriting relied primarily on traditional credit bureau information. Today we're seeing rental payment history, utility payments, telecom data, subscription payments, and other recurring obligations becoming increasingly relevant. How significant is this evolution toward alternative data, and how does it fit into the broader trends that you're describing?

Dan Smith:

It's fascinating to be in this space at this time. Alternative data isn't new. It's been around. Cash flow analysis has been around, but with technology, it can be done much quicker and much simpler. What I see is the more data, the better, not less, right? It's not the traditional credit reporting versus cash flow analysis. It's both together, creating a better picture for the consumer. It allows the lender to evaluate a lot more data and get a better understanding of that consumer to allow more lending to happen. And that's what we all want. We want consumers to have more opportunity and it's doing it in a way that's controlled and balanced and you have the historical and the current and the new, and it should come together and work together to improve consumers' lives every day. We fully support it. We believe rent reporting is an enormous value that should be added into the system to evaluate a consumer's credit worthiness with the utility information.

Cashflow has a place. There isn't a this or that, it's a yes. It's a both. And so we're very optimistic. I see the credit reporting ecosystem evolving immensely over the next five to 10 years. I think AI, which we'll probably dive into, can drive this even

faster. So it's an exciting time to be in this space and lots of opportunities. I think one thing we got to remember is many lenders, they're going to be very hesitant to change dramatically. And so we have to understand that these new technologies, this new data, it'll take time for the lenders and the underwriters and the risk officers to get comfortable with it. But anytime you can bring new alternative data into the ecosystem is going to be a helpful advantage to the consumer.

Alan Kaplinsky:

Yeah. So thin file consumers, let's talk about that for a minute. Many consumers, particularly younger adults, recent immigrants and others entering the credit system have limited traditional credit histories. Do you think that alternative data helps solve the so-called credit-invisible or thin file problem? And what progress are we seeing in that area?

Dan Smith:

I testified before Capital Hill in April, and this was the number one topic both sides of the aisle talked about. How do we improve the livelihoods of every consumer in the country? And thin file being one of the biggest challenges. I think a better understanding of how the system operates and its value it brings to every consumer is critical. I think educating consumers on why it exists, how it functions, your role as a consumer in society and your responsibilities, allowing alternative datas to enter. I think you have a ongoing struggle with the FCRA and the requirements for furnishing can be a challenge for new data sets, and there's a couple that come to mind. Buy now, pay later. It's a unique new product, right? It's not in the credit reporting system at large. We would love for it to be there, but there's challenges around it.

Rental reporting, the far vast majority of apartments that are rented are by mom and pops that have one, two, three, four units. Are they going to take on the FCRA requirements of data accuracy, oversight by the CFPB, private right of action? So how do we lower barrier to entry into the credit reporting system, still provide consumer protections, but incentivize people to provide this data to help consumers?

Alan Kaplinsky:

Right. Okay. Well, I'm going to turn now to Adam. We're going to talk about, I know a very favorite topic of yours, and that is Section 1033 of Dodd-Frank and consumer permission data. One of the biggest developments in financial services has been consumer permission data, data sharing under Section 1033. Can you share some of the background on what Section 1033 does and how it overlaps with the credit or consumer reporting ecosystem?

Adam Maarec:

Sure. Thanks, Alan. So Section 1033 refers to the provision of the Dodd-Frank Act that gives consumers a right to request and receive electronic access to information about consumer financial products and services. Now, the CFPB took a long time to think about the policy here and finalized some pretty complex rules to implement this law in the fall of 2024. And those rules require data providers, companies that hold information about consumers' financial products and services to share that information with authorized third parties. But it's been mired in litigation since the day the rule was finalized. Now, despite the regulatory ambiguity, open banking tools have continued to proliferate. So where a consumer can delegate access to their account data to third parties, ordinarily with the help of a data aggregator that sits between the data provider and third parties.

And so as you think about this ecosystem and the flow of information, it resembles credit reporting in some ways where you have an entity in the FCRA world would be a furnisher that is providing information to an intermediary and that intermediary is analyzing, assembling, evaluating the information and then passing it along to a fourth party or a user of the information.

So the flow is similar, but it's different in that, like Dan, you mentioned earlier, furnishers are not required to share information. This is an optional ecosystem, but folks want to participate for a lot of reasons, whereas in 1033, this would be a mandatory data-sharing regime. However, it is consumer-driven, and so it's different in that regard. So lots of people here think about 1033 in terms of open banking, but increasingly, there's a view. Dan, you mentioned cash flow underwriting. There's a view that there's some complimentary and overlapping dynamics here between open banking and consumer permission data sharing and the traditional credit bureau reporting infrastructure. So Dan, I'm curious, how do you see these two worlds intersecting, overlapping, hopefully not colliding, right?

Dan Smith:

Yeah, I hope that they will compliment each other. The 1033 rulemaking issue has been around since 2014-ish. It's evolved significantly. There is some huge benefits to the consumer of cashflow analysis, the access to their data to underwrite potentially or be a tool to help. I think the development of APIs between the data aggregators and the banks could be a tool that can be latched onto. So having API systems allow for the quicker, faster transformation of information. So you can envision a world where data is furnished to the credit bureaus quicker through APIs. They haven't existed for data aggregators so you can get more timely, accurate information updated. The challenge will be, it always is when you're dealing with permission-based information, it's one person at a time. So it's going to be extremely slow and you're going to have a lot of consumers that are going to be cautious.

Am I going to give this third party my account information? I won't do it, but I'm old school. So there's always going to be that challenge with cash flow analysis through APIs out of one person at a time. I think as we think through it, how do we create a system that breaks down some of those barriers to entry and creates a better system where we can move quickly and rapidly to improve the lives of those consumers and improve those thin files directly?

Adam Maarec:

Yeah. I tend to think of consumer reporting as being of course backwards-looking, but it goes a mile wide to lots of different kinds of credit accounts and only so deep in terms of understanding the customer's payment history, but it's very wide view of that consumer's activity, whereas you touched on one of the real challenges with access to cash flow data is the consumers having to grant access to that particular account that's full of friction, privacy implications. Not every consumer is going to want to hand over the keys to their primary banking relationship, assuming one exists. But if they do, that information can be quite powerful.

And so instead of going up a mile wide and a couple of feet deep, this is very narrow, but a mile deep into the consumer's cash management patterns and the way that they handle the repayment of debt and manage their daily life and their cash flow management practices. And so how do you think that view, they are fundamentally different angles on the same objective, but how does cash flow underwriting compliment the traditional credit reporting approach and methodology, and what kinds of consumers are going to stand to benefit?

Dan Smith:

Yeah, I mean, I think it goes directly to the heart of the underserved, the people without long histories, the younger generation that haven't built credit over time. I mean, the credit reporting system is based on two facets. It's your history, how did you perform over the years, your propensity to repay a loan, and your current debts and obligations. So I think on the cash flow side, you're able to look at what is their income and how much are they spending on a monthly basis? Gives you another very strong data point. I don't think you could do one without the other though. You can, but you're taking on risk. So you're going to see some players that are going to stick their toe in, they're doing it already, where they're just relying on cash flow. But if you're in the secondary market, if you're doing a mortgage, you're likely going to want to have a better, bigger picture of their past history as well as that cash flow analysis.

I think it's a great compliment for the ability to repay test, to be able to really hone in and say, "I've done this and I've looked at all facets, their cash flow, their cash analysis, their income, how much do they spend on subscriptions, how much do they spend on food? And I feel confident based on that plus their history." If it's a thin, maybe we don't have a lot of history, but I've also done the front work to say, "Here's how they behave currently and I feel confident that I can lend them money because I can see the amount of cash available in their monthly payment." So it's a compliment, and I think we're going to see a lot of increases and changes in that space in the next five to 10 years.

Adam Maarec:

Yeah, makes a lot of sense. And I alluded to privacy concerns a minute ago. And so as more financial data becomes available, these privacy concerns naturally arise. So how does consumer permission data sharing under 1033 differ from traditional credit

reporting, and what safeguards exist in that scenario and how are they different from traditional credit bureau data furnishing under FCRA today?

Dan Smith:

They shouldn't be. We believe that consumer's data is extremely important and it should be protected and the consumer should have transparency, there should be security, accountability, be able to dispute it and correct it and disclose how it's being used. So I think if it's cash flow or if it's credit reporting, there are some fundamental pieces that every consumer deserves and it won't succeed and that product will not grow unless the consumer has trust in it.

Adam Maarec:

Yeah, it's a fascinating perspective. I think the current iteration of the CFPB's 1033 rules include some basic contours around consumer rights to identify inaccuracies, but I think of it almost as like a FCRA-light type approach. And we'll see if the bureau touches this component of the rule in its forthcoming revisions to Section 1033, but definitely an interesting and very relevant and important issue for consumers and the companies that are relying on it.

Alan Kaplinsky:

Okay. Well, let's turn now to artificial intelligence. That seems to be affecting every part of financial services. We've already discussed and Dan described how there are AI-generated disputes that are being sent to the CFPB and to the credit reporting agencies. Where else, Dan, do you see AI influencing the consumer reporting ecosystem? And could AI ultimately improve the accuracy, fraud detection, or dispute resolution?

Dan Smith:

100% on all of them. I would say there are two major components where we think AI is already having significant impact and it will continue. That is data quality and data analysis. So in the data quality, you can take a data set, throw it into AI and look for anomalies instantly. It used to take a long time, individuals going through and looking for patterns through the data. You can literally put it into AI and it'll tell you, "Wait a second, that doesn't make sense. Why are you reporting this data field when it's been done this way for the last six months, and all of a sudden you've done something that just doesn't match up?" So we're hopeful that as furnishers and the credit bureaus adopt, and I would say our vendors and our consultants and the people in between, they're using AI to make the more accurate data every day.

And so I am very excited about improved accuracy because fundamentally, if our information isn't as accurate as possible, the end user's not going to purchase it and use it. So there's an incentive completely to do that. So data analysis is another area, right? We look at cash flow. We talked about a little bit about buy now, pay later. You can take a new data set and tie it into a model and immediately run an analysis that would take months for economists and modelers to run, to develop the model. You can literally take a data set and throw it in and have an answer in a half an hour on how it performs and you can run it against other models. So as we talk about new data sets and we talk about cash flow analysis and what works in rental reporting, we're actually testing it as we go and getting results and saying, "Okay, let's focus our time over here on this data set," because we know it's going to work based on the modeling.

Alan Kaplinsky:

Let's talk about the regulatory outlook here. Looking ahead over the next several years, what regulatory developments should banks, FinTech companies, consumer reporting agencies and furnishers be watching most closely?

Dan Smith:

From where I sit, so it's going to be a little self-serving, right? There is a tendency to not pay attention to the bigger picture when it comes to credit reporting. Our system is a nationwide credit reporting system and the ability of a lender to look at a credit report anywhere in the country and compare it to other people of like mind because the data's consistent is fundamentally critical. We have federal agencies in the past that believed that preemption was not what Congress said it was.

We have state legislatures that are trying to pass laws that they can determine what can and can't be on credit reports. And so if you have 50 different states with 50 different laws with 50 different credit reports, good luck to any lender trying to figure out how to lend to somebody. They can't determine the difference between a California credit report and a Nevada credit report. So standardization is critical.

Alan Kaplinsky:

Yeah, I get it. So we're drawing to the end of our show for today, so let me throw out this last question. I'm going to ask you, Dan, to answer first, and then give Adam the opportunity to chime in if he'd like. If you're advising a financial institution today, what investments or strategic priorities should they be considering in order to prepare for the next generation of consumer reporting? And what should financial institutions and consumer reporting agencies be doing to help consumers understand and use the dispute process effectively, particularly as manufactured disputes and AI-assisted tools create growing confusion?

Dan Smith:

Okay. So I think on the first piece is change is coming. Our system is evolving. Technology is creating opportunities. The entire ecosystem is going to expand and grow rapidly, right? If it's through cash flow analysis or AI. Don't wait. Don't sit there and say, "Well, this is not my responsibility. I'm the data furnisher guy. That's somebody else's job." If your institution isn't looking at adopting and changing, you're going to get run over by the guys that are doing it. There's a lot of people in this space that are looking to the future and how data can help make better informed decisions. So I'd say don't wait. Put the resources and the time and the expertise to understand what the future state looks like in lending. The second is we have a different consumer than we did 15 years ago.

When I was at the bureau, time of free credit scores came out. Everybody's chasing the credit score now. Everybody wants to know, what's my score this week? They have access to it in probably six or seven different locations in their wallet. They can go to their Chase card and pull up their credit score. Why is it 780 this week? It was 795 last week. So you have a more informed consumer base, right? It's important to take advantage of that opportunity when consumer cares and be able to educate them on why they should care, not just what the score is, but what do I need to do to make that score go up and what do I not do so it doesn't go down? So it's a really big opportunity as consumers take that next step in their learning of the credit ecosystem to make sure they are getting the best information so that we have more consumers getting loans.

Alan Kaplinsky:

Adam, I'm going to give you the last say here.

Adam Maarec:

All right. I think my overarching message here is that companies need to be testing and learning. The pace of innovation right now is so fast and the tools that are available are changing and they're getting very good. And so companies need to be willing to test and learn from these new products that are available in the marketplace. We talked about real time access to data. There can be lots of gaming of the credit reporting ecosystem. And so having access to real time data can be very helpful and complimentary, right? There's an overlapping role for real-time transactions data to live besides consumer reporting data. I think using AI to analyze the disputes and other information that financial institutions are getting is critical, and developing the right risk management protocols to deploy these tools in a way that's safe and doesn't present risk to consumers in the financial institution is really important.

This is such an evolving space that folks can't be expected to get it right every time, but there is also risk to not deploying these tools and that has to be a consideration as well.

Alan Kaplinsky:

Well, thank you, Adam, and Dan, special thanks to you. I found this an exceptionally informative discussion today. The consumer reporting system is evolving at an extraordinary pace. And as you've discussed, issues involving data accuracy,

dispute resolution, AI, alternative data, cash flow underwriting, consumer permission data sharing, and privacy are reshaping how credit decisions are being made and how consumers interact with the financial system. At the same time, policy makers and regulators continue to examine how these developments fit within the Fair Credit Reporting Act and the broader consumer financial protection framework. We very much appreciate your perspectives and helping our listeners better understand these critically important developments. And to our listeners, thank you for joining us on today's episode of the Consumer Finance Monitor Podcast. And I hope everybody enjoys the remainder of their day. That's it.