

Credit Scoring as a Financial Education Instrument: Discipline, Rewards and Punishment

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agenda

- Aims.
- Credit score.
- The empirics and policy process in Israel.
- Puzzle.
- The U.S credit scoring industry- problems and challenges.
- Credit scoring v.s financial literacy.

Aims

- Understanding of the policies, the implications, and the political rationality behind credit score.
- Understanding the regulatory framework behind constituting, prohibiting and encouraging certain type of practices and technologies of financial control over the citizens.

Credit score



The empirics and policy process in short

- A policy processes that started in the end of the 1990s and continues nowadays.
- Three major efforts:
 - The Credit Data Services Law of (2002[2004])
 - The Financial ID Report (2011-2014)
 - The Committee for Improvement of the System for Cooperation in Credit Data [2014-2015]
- Three main concepts:
 - “Liberation” of financial information
 - The logic of “more information more competition
 - credit scoring encourages wiser financial behavior among civilians.

Puzzle

- Improves responsible lending, accountability and better financial habits on the one hand and it enhance the Financialization of the markets and easy-credit policies on the other hand.

*Is credit rating an effective
educational tool?*

The U.S credit scoring industry

- 1956- the invention of credit score model
- Three monopoly companies: Experian, Equifax, Transunion.
- Hold information on over 200 million citizens and produce over 3 billion credit scores in one year.

(CFPB, 2012)

Legal framework

שם החוק	שנת החוק
The Fair Credit Reporting Act	1971
Consumer Credit Reporting Reform Act	1996
Consumer Reporting Employment "Clarification Act"	1998
The Gramm-Leach-Bliley Act	1999
" Fair and Accurate Credit Transactions Act of 2003 (FACT Act)"	2003
Consumer Protection Act	2010

Use and abuse

- Insufficient customer service
- Illegal bargaining in personal information
- Inadequate security information systems
- Mistakes
- Discrimination and inequality

Hoofnagle, 2013; Rodriguez & Attorney, 2003

Dose the U.S citizens has high literacy level?

- Only 40% of the citizens following after their balance of their income and expanses.
- One of every three Americans testified that he is constantly in debt
- Every one of ten testified that his debt constantly is over 25,000\$

(Poll, 2015)

Credit score vs financial literacy

- Transparency information.
- Accessibility (Poll, 2015).
- Commercial tool .

Self- confident (Courchane, Gailey, & Zorn, 2008).

Thank you

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