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**Credit Building or Credit Crumbling?
A Credit Builder Loan's Effects on Consumer Behavior,
Credit Scores and Their Predictive Power***

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Abstract

There is little evidence on how the large market for credit score improvement products affects consumers or credit market efficiency. A randomized encouragement design on a standard credit builder loan (CBL) identifies null average effects on whether consumers have a credit score and the score itself, with important heterogeneity: those with loans outstanding at baseline fare worse, those without fare better. Selection, treatment effect, and prediction models indicate the CBL reveals valuable information to markets, inducing positive selection and making credit histories more precise, while keeping credit scores' predictive power intact. With modest targeting changes, CBLs could work as intended.

(100 words)

Other keywords: subprime; thin file; credit scoring; screening; credit invisibles; household finance; consumer finance;

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* Jeremy.burke@usc.edu, juliamon@gmail.com, karlan@northwestern.edu, kmihaly@rand.org, jzinman@dartmouth.edu. The credit bureau that provided data to us had the right to: (a) review the paper to ensure that the analysis using credit scores was depersonalized, aggregated, and that the scores merited the correct trademark attribution; (b) offer comments about the paper, which the authors agreed ex-ante to consider in good faith. We thank: the St. Louis Community Credit Union, and especially Paul Woodruff, for cooperation; the Consumer Financial Protection Bureau (CFPB), in particular Sarah Binkton Kahn and Daniel Dodd-Ramirez for their assistance; participants at many conferences and seminars for comments; Innovations for Poverty Action, in particular Anna Cook, Lucia Golin, Nora Gregory, and Kayla Wilding, for research support. We gratefully acknowledge research funding provided by the Consumer Financial Protection Bureau (under competitive award CFP-13-Z-000200002). The views expressed are those of the authors alone and are not necessarily shared by the CFPB or any other arm of the U.S. government. Institutional Review Board approval for human subjects protocols from Innovations for Poverty Action (no. 14January-001) and RAND Human Subjects Protection Committee (no. 2013-0660). This study was registered with the AEA RCT Registry with the ID number AEARC-TR-0000441.

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