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CONSUMER CREDIT

Limited Information Exists On Extent of Credit Report Errors and Their Implications for Consumers

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Highlights

Highlights of GAO-03-1036T, a statement for the record to Senate Committee on Banking, Housing, and Urban Affairs

Why GAO Did This Study

Accurate credit reports are critical to the credit process—for consumers attempting to obtain credit and to lending institutions making decisions about extending credit. In today's sophisticated and highly calibrated credit markets, credit report errors can have significant monetary implications to consumers and credit granters. In recognition of the importance of this issue, the Senate Committee on Banking, Housing, and Urban Affairs asked GAO to (1) provide information on the frequency, type, and cause of credit report errors, and (2) describe the impact of the 1996 amendments to the Fair Credit Reporting Act (FCRA) on credit report accuracy and potential implications of reporting errors for consumers.

What GAO Recommends

The lack of comprehensive information regarding the accuracy of credit reports inhibits any meaningful discussion of what could or should be done to improve credit report accuracy. Because of the importance of accurate credit reports to our national credit system, it would be useful to perform an independent assessment of the accuracy of credit reports. Another option for improving the accuracy of credit reports would be to create more opportunities for consumers to review credit reports. Such added reviews would likely help further ensure the overall accuracy of consumer credit reports.

www.gao.gov/cgi-bin/getrpt?GAO-03-1036T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Rick Hillman at (202) 512-8678 or Harry Medina at (415) 904-2220.

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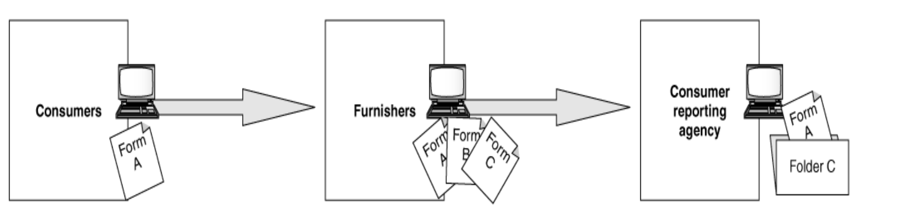
Limited Information Exists on Extent of Credit Report Errors and Their Implications for Consumers

What GAO Found

Information on the frequency, type, and cause of credit report errors is limited to the point that a comprehensive assessment of overall credit report accuracy using currently available information is not possible. Moreover, available literature and the credit reporting industry strongly disagree about the frequency of errors in consumer credit reports, and lack a common definition for "inaccuracy." The literature and industry do identify similar types of errors and similar causes of errors. Specifically, several officials and reports cited collection agencies and governmental agencies that provide information on bankruptcies, liens, collections, and other actions noted in public records as major sources of errors. Because credit report accuracy is essential to the business activities of consumer reporting agencies and credit granters, the credit industry has developed and implemented procedures to help ensure accuracy. However, no study has measured the extent to which these procedures have improved accuracy. While the Federal Trade Commission (FTC) tracks consumer complaints on FCRA violations, these data are not a reliable measure of credit report accuracy. Additionally, FTC has taken eight formal enforcement actions directly or indirectly related to credit report accuracy since Congress enacted the 1996 FCRA amendments.

Neither the impact of the 1996 FCRA amendments on credit report accuracy nor the potential implications of errors for consumers is known. Specifically, because comprehensive or statistically valid data on credit report errors before and after the passage of the 1996 FCRA amendments have not been collected, GAO could not identify a trend associated with error rates. Industry officials and studies indicated that credit report errors could either help or hurt individual consumers depending on the nature of the error and the consumer's personal circumstances. To adequately assess the impact of errors in consumer reports would require access to the consumer's credit score and the ability to determine how changes in the score affected the decision to extend credit or the terms of the credit granted. Ultimately, a meaningful independent review in cooperation with the credit industry would be necessary to assess the frequency of errors and the implications of errors for individual consumers.

Common Causes of Errors in the Consumer Credit Reporting Process



Consumers can provide inaccurate data to furnishers by mistake or purposefully provide false information to establish new credit data.

Furnishers can input accurate information incorrectly, pass on incomplete or inaccurate data to consumer reporting agencies, pass on accurate information in incorrect format, or fail to voluntarily report data on consumers.

Bureaus can input inaccurate information into the correct file, or input accurate information into the incorrect file.

Source: GAO analysis of credit industry and Federal Reserve interview data.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to provide this committee with information on the accuracy of consumer credit reports. Accurate credit reports are critical for all consumers attempting to obtain credit and for lending institutions in making appropriate and timely decisions about extending credit. Information from credit reports is used to compile credit scores, which in turn are used as the basis for deciding whether to extend credit, and for setting rates and terms for mortgages and other consumer loans. Thus, inaccurate credit report data could have significant monetary implications for individual consumers and credit granters in today's sophisticated and highly calibrated credit markets.

To help promote the accuracy, fairness, and privacy of personal information assembled by consumer reporting agencies (CRAs), Congress enacted the Fair Credit Reporting Act (FCRA) in 1970.[1] Under FCRA, CRAs must "follow reasonable procedures to assure maximum possible accuracy" in credit reports. In 1996, amendments to FCRA expanded the responsibilities of data furnishers, prohibiting them from knowingly providing inaccurate consumer information to a CRA in certain circumstances.[2] Additionally, FCRA gave the Federal Trade Commission (FTC or Commission) responsibility for enforcing compliance with the act's provisions—to the extent that this authority did not overlap the authority of other financial regulators for specific institutions.

In a series of hearings this committee has recently held on FCRA issues, questions concerning the accuracy of credit reports have surfaced. In recognition of the importance of this issue, you asked us to provide the committee with information on (1) the frequency, nature, and cause of consumer credit report errors and (2) the impact of the 1996 FCRA amendments on credit report accuracy and the potential implications of credit reporting errors on consumers.

The information that we are providing is based on a review of the limited literature on the subject, and on interviews and supporting documentation obtained from the three major CRAs; the Consumer Data Industry Association (CDIA), a trade association for the consumer reporting agencies; the National Foundation for Credit Counseling (NFCC), a

[1] Pub. L. No. 91-508, (15 U.S.C. § 1681 et. seq.).

[2] Consumer Credit Reporting Reform Act of 1996, Pub. L. 104-208, 110 Stat. 3009-426.

national nonprofit credit counseling network; the Federal Trade Commission (FTC); the Federal Reserve; and five data furnishers.[3] While we asked the three major CRAs to provide data on the frequency, type, and cause of errors in credit reports, they told us that they did not have data that would specifically respond to our request. The CRAs also told us that they compete with each other on the basis of the accuracy and completeness of their credit reports and were reluctant to provide us with any data they considered proprietary. However, they did agree to provide available information on consumer disputes to CDIA, their trade association, which provided that data to us in aggregated form. Consequently, we were unable to independently verify the accuracy of this data. Except for this limitation, we conducted our work in accordance with generally accepted government auditing standards from June through July 2003.

In summary, we found that information contained in the literature and the available industry data on the frequency, types, and causes of credit report errors are limited. Moreover, there is a large variance in the frequency of errors presented by the literature and industry data. Unfortunately, we cannot determine a definitive level of credit report accuracy because of the data limitations inherent to both the literature and industry data. However, the literature and industry had identified similar types of errors in credit reports, including the inclusion of incorrect information and the exclusion or incomplete reporting of information. Additionally, the literature and industry consensus was that the causes of errors included consumers, data furnishers, and CRAs. However, several industry officials and reports identified collection agencies and organizations providing public records data—on actions such as bankruptcies, liens, and collections—as being major sources of errors in credit reports. In an effort to ensure accuracy of credit report data, the credit industry has developed and implemented procedures that standardized the manner in which information was collected and transmitted. The FTC tracks consumer complaints regarding possible FCRA violations and has taken eight enforcement actions as of July 24, 2003, directly or indirectly related to credit report data accuracy since the passage of the 1996 FCRA amendments.

[3]The consumer reporting agencies we contacted were Equifax, Experian, and TransUnion. The data furnishers that we contacted were Bank of America, Citigroup, Discover, MBNA, and JP Morgan/Chase.

We cannot readily determine the impact of the 1996 FCRA amendments on credit report accuracy or the potential implications of credit report errors on consumers. This is attributable to the lack of trend data available on credit report errors. Specifically, no entity collects or maintains the necessary data for such an assessment. Similarly, we could not determine the potential implications for consumers of credit reporting errors due to the lack of quality information on the frequency of errors. However, industry officials and studies suggested that errors and inaccuracies in credit reports have the potential to both help and hurt individual consumers. Minor inaccuracies in a consumer's credit file may not hurt a consumer if that individual had a very good credit history. On the other hand, errors or inaccuracies in the credit report of a consumer with a less than perfect credit history could result in the denial of credit or an offer of less favorable credit terms. So, the impact of any particular error or inaccuracy in a credit report is dependent on the specific circumstances of the consumer.

The lack of comprehensive information regarding the accuracy of credit reports inhibits any meaningful discussion of what could or should be done to improve credit report accuracy. Because of the importance of accurate credit reports to our national credit system, it would be useful to perform an independent assessment of the current level of accuracy of credit reports. The assessment would then form the basis for a more complete and productive discussion of the costs and benefits of making changes to the current system of credit reporting to improve credit report accuracy. Another option for improving the accuracy of credit reports would be to create more opportunities for consumers to review credit reports. When consumers see their credit reports, they have a chance to identify errors and ask for corrections, thus helping to ensure greater overall accuracy of consumer credit reports.

Information on Frequency, Type, and Cause of Credit Report Errors Is Limited; Industry Data and Available Studies Disagree on Frequency of Errors

Available studies and credit reporting industry data disagree on the extent of errors in credit reports. The limited literature on credit report accuracy indicated high rates of errors in credit report data. In contrast, the major CRAs and CDIA stated that they did not track errors specifically but that the data the credit industry maintained suggested much lower rates of errors. Both the literature and the data provided by the credit industry had serious limitations that restricted our ability to assess the overall level credit reporting accuracy. Yet, all of the studies identified similar types and causes of errors. While data provided by the credit industry did not address type and cause of errors, representatives from the three major CRAs and CDIA cited types and causes similar to those cited in the literature. The credit industry has developed and implemented procedures to help ensure accuracy of credit report data, although no one has assessed the efficacy of these procedures. Moreover, FTC tracks consumer disputes regarding the accuracy of information in credit reports and has taken eight enforcement actions directly or indirectly involving credit report accuracy since 1996.

Literature Raised Serious Questions Regarding Level of Credit Report Accuracy

We identified three studies completed after the 1996 FCRA amendments that directly addressed credit report accuracy, and one that indirectly addressed the topic. One of these reports, published in December 2002 by Consumer Federation of America, presents the frequency and types of errors drawn from files requested by mortgage lenders on behalf of consumers actively seeking mortgages.[4] The Consumer Federation of America initially reviewed 1,704 credit files representing consumers from 22 states and subsequently re-examined a sample of 51 three-agency merged files. In this sample of merged files, the study found wide variation in the information maintained by the CRAs, and that errors of omission were common in credit reports. For example, the report stated that about:

- 78 percent of credit files omitted a revolving account in good standing;
- 33 percent of credit files were missing a mortgage account that had never been late;
- 67 percent of credit files omitted other types of installment accounts that had never been late;

[4]Consumer Federation of America and National Credit Reporting Association, *Credit Score Accuracy and Implications for Consumers*, December 2002.

- 82 percent of the credit files had inconsistencies regarding the balance on revolving accounts or collections; and

- 96 percent of the credit files had inconsistencies regarding an account's credit limit.

A March 1998 U.S. Public Interest Research Group (U.S. PIRG) study found similar frequencies of errors in 133 credit files representing 88 individual consumers.[5] U.S. PIRG reported that 70 percent of the files reviewed contained some form of error. The errors ranged in severity from those unlikely to have negative repercussions to those likely to cause a denial of credit. For example, the report found:

- 41 percent of the credit files contained personal identifying information that was long-outdated, belonged to someone else, was misspelled, or was otherwise incorrect;

- 29 percent of the credit files contained an error—accounts incorrectly marked as delinquent, credit accounts that belonged to someone else, or public records or judgments that belonged to someone else—that U.S. PIRG stated could possibly result in a denial of credit; and

- 20 percent of the credit files were missing a major credit card account, loan, mortgage, or other account that demonstrated the creditworthiness of the consumer.

Similar to the U.S. PIRG study, a 2000 survey conducted by Consumers Union and published by *Consumer Reports* asked 25 Consumers Union staffers and their family members to apply for their credit reports and then review them.[6] In all, Consumers Union staff and family members received and evaluated 63 credit reports and in more than half of the reports, they found inaccuracies that they reported as having the potential to derail a loan or deflect an offer for the lowest-interest credit card. The inaccuracies identified were similar to those reported by the Consumer Federation of America and U.S. PIRG—inclusion of information belonging to other consumers, inappropriately attributed debts, inaccurate demographic information, and inconsistencies between the credit reports provided by the three major CRAs regarding the same consumer.

[5] U.S. PIRG, *Mistakes Do Happen: Credit Report Errors Mean Consumers Lose*, March 1998.

[6] "Credit Reports: How Do Potential Lenders See You?" *ConsumerReports.org*, July 2000.

While not specifically assessing the accuracy of credit reports, a *Federal Reserve Bulletin* article found that credit reports contained inconsistencies and cited certain types of data furnishers, including collection agencies and public entities, as a primary source for some of the inconsistencies found.[7] Among the study's findings:

- Approximately 70 percent of the consumers in the study's sample had a missing credit limit on one or more of their revolving accounts,
- Approximately 8 percent of all accounts showed positive balances but were not up to date,
- Between 1 and 2 percent of the files were supplied by creditors that reported negative information only, and
- Public records inconsistently reported actions such as bankruptcies and collections.

An important aspect of the Federal Reserve study was that it used a statistically valid and representative sample of credit reports, and received access to this sample with the cooperation of one of the three major CRAs. However, because the sample came from one CRA only, the findings of the study may not be representative of other CRAs.

CRA and CDIA Data Indicate Consumer Disputes Rarely Identified Errors

Representatives of the three major CRAs and CDIA told us that they do not maintain data on the frequency of errors in credit reports. However, the industry does maintain data that suggest errors are infrequent in cases of an adverse action.[8] CDIA stated that the three major CRAs provided or disclosed approximately 16 million credit reports, out of approximately 2 billion reports sold annually in the marketplace. According to CDIA data, 84 percent of the disclosures followed an adverse action and only 5 percent of disclosures went to people who requested their reports out of curiosity. Out of these disclosures, CRA officials stated that an extremely small percentage of people identified an error.

[7]Robert Avery, Paul Calem, Glenn Canner, and Raphael Bostic, "An Overview of Consumer Data and Credit Reporting," *Federal Reserve Bulletin*, February 2003.

[8]When a creditor or lender decides not to extend credit to an individual or not to extend credit on the terms the individual requires and the individual does not accept a counteroffer, this is considered an adverse action. After an adverse action, consumers have the right to a free copy of their credit report.

An Arthur Andersen study, conducted in 1992, found a similar infrequent rate of errors arising from adverse actions. Under commission by the Associated Credit Bureaus (now CDIA), the study reportedly found that only 36 consumers—out of a sample of 15,703 people denied credit—disputed erroneous information that resulted in a reversal of the original negative credit decision.[9] Similarly, in an attempt to respond to our data request, CDIA produced data gathered by a reseller over a two-week period that indicated that out of 189 mortgage consumers, only 2 consumers (1 percent) had a report that contained an inaccuracy. In our conversation with data furnishers, we discovered that two conduct internal audits on the accuracy of the information they provide to the CRAs. These data furnishers indicated that the information they provide and the CRAs maintain is accurate 99.8 percent of the time.

While consumer disputes do not provide a reliable measure of credit report accuracy, CRA representatives told us that disputes provide an indicator of what people perceive as errors when reviewing their credit files. A CDIA official stated that five types of disputes comprise about 90 percent of all consumer disputes received by the three major CRAs. These five dispute types are described as:

- Claims account has been closed;
- Dispute present or previous account status, payment history, or payment rating;
- Dispute current balance;
- Dispute related to disposition of account included in or excluded from a bankruptcy; and
- Not my account.

Although CDIA could not provide a definitive ranking for all five types of disputes, it did state that "not my account" was the most frequently received dispute. After receiving a consumer's dispute, FCRA requires a CRA to conduct a reinvestigation. The purpose of reinvestigation is to

[9] This study found that 1,223 of their sample of 15,703 consumers who were denied credit had requested their credit reports. Of those that had requested their credit reports, 304 consumers found and disputed errors. At the time of the study, 36 of those disputes had resulted in a reversal of the original negative credit decision.

either verify the accuracy of the disputed information, or to confirm and remove an error.

CDIA provided data on the disposition of dispute reinvestigations by categories of those received by the three major CRAs in 2002. CRA officials explained that the data represents the first 3 quarters of 2002, and that each CRA reported data on a different quarter. CDIA declined to provide the total number of consumer disputes. Table 1 shows the frequency of these four disposition categories. Specifically, the table indicates that over half of all disputes required the CRA to modify a credit report in some way, though not necessarily to remove an error.[10]

Table 1: Disposition of Consumer Disputes

Result of Dispute	Percent of Disputes
Information verified as reported	46
Data modified/updated per furnisher's instructions	27
Data deleted per furnisher's instructions	10.5
Data deleted due to statutory time limit	16

Source: CDIA.

Notes: As provided by CDIA, percentages do not total to 100.

It is important to emphasize that not every dispute leads to identifying an error. Indeed, many disputes, as the table indicates, resulted in a verification of accuracy or an update of existing information. Additionally, CRA and CDIA representatives stated that many disputes resulted in the CRA clarifying or explaining why a piece of information was included in the credit report. For example, if recently married consumers obtained a copy of their files, they might not see their married names on file. In such cases, the files still accurately reflected the most current information provided to the CRA, but the consumer may have perceived the less-than-current information as an error while the CRA would not. The CRA representative cited another example of a consumer seeing an account

[10]"Information verified as reported" encompasses disputed information found to be accurate after reinvestigation. "Data modified/updated per furnisher's instructions" encompasses disputed information that a CRA modified or updated after reinvestigation. According to CDIA, the information in this category was not necessarily inaccurate. "Data deleted per furnisher's instructions" encompasses information identified as inaccurate through reinvestigation. "Data deleted due to statutory time limit" encompasses information that a CRA had to delete because the reinvestigation process exceeded the time limits set by FCRA.

listed with a creditor he or she did not recognize. However, the account in question was with a retailer that subsequently outsourced its lending to another company. In this case, the information was correct but the consumer was not aware of the outsourcing. One CRA representative indicated that over 50 percent of the calls they received resulted in what they consider "consumer education."

Literature and Industry Data Have Serious Limitations

We cannot determine the frequency of errors in credit reports based on the Consumer Federation of America, U.S. PIRG, and Consumers Union studies.[11] Two of the studies did not use a statistically representative methodology because they examined only the credit files of their employees who verified the accuracy of the information, and it was not clear if the sampling methodology in the third study was statistically projectable. Moreover, all three studies counted any inaccuracy as an error regardless of the potential impact. Similarly, the studies used varying definitions in identifying errors, and provided sometimes obscure explanations of how they carried out their work. Because of this, the findings may not represent the total population of credit reports maintained by the CRAs. Moreover, none of these groups developed their findings in consultation with members of the credit reporting industry, who, according to a CDIA representative, could have verified or refuted some of the claimed errors.

Beyond these limitations, a CDIA official stated that these studies misrepresented the frequency of errors because they assessed missing information as an error. According to CRA officials errors of omission may be mitigated in certain instances because certain lenders tend to use merged credit report files in making lending decisions, such as mortgage lenders and increasingly credit card lenders. CRA officials explained that while complete and current data are necessary for a wholly accurate credit file, both are not always available to them. For instance, credit-reporting cycles, which dictate when CRAs receive data updates from data furnishers, may affect the timeliness of data. CRAs rely on these updates, which may come daily, weekly, or monthly depending on the data furnisher's reporting cycle. If a data furnisher provided information on a monthly basis there would be a lag between a consumer's payment, for example, and the change in credit file information. Likewise, if a data

[11]The *Federal Reserve Bulletin* article did not address the frequency of errors, although it did discuss findings of inconsistencies.

furnisher reported to one CRA but not to another, the two reports would differ in content and could produce different credit scores. It is important to note that reporting information to the CRAs is voluntary on the part of data furnishers. While the *Federal Reserve Bulletin* article noted inconsistencies as an area of concern, it recognized that all credit reports would not contain identical information.

Along with misrepresenting error frequency by counting omitted information, industry officials believed that the literature misrepresented the frequency of errors because the literature defined errors differently than the credit industry. The CRAs and CDIA stated that they consider only those errors that could have a meaningful impact on a person's credit worthiness as real errors. This distinction is critical to assessing accuracy, as, according to the CDIA, a mistake in a consumer's name might literally be an inaccuracy, but may ultimately have no impact on the consumer.

The data provided by CDIA and the CRAs have serious limitations as well. For example, neither CDIA nor CRA officials provided an explanation of the methodology for the collection of data provided by CDIA and for the assessments cited by the CRAs. Moreover, because these data related primarily to those errors that consumers disputed after an adverse action, they excluded a potentially large population of errors. Specifically, these data excluded errors that would cause a credit grantor to offer less favorable terms on a loan rather than deny the loan application. The data also excluded errors in cases where consumers were not necessarily seeking a loan and therefore did not have a need to review their credit reports. Additionally, as stated earlier, only a small percentage of consumers requested credit reports simply out of curiosity. While the CDIA representatives felt that these data were useful for assessing a level of accuracy, they agreed that by focusing on these data only, the industry did not consider a potentially large set of errors.

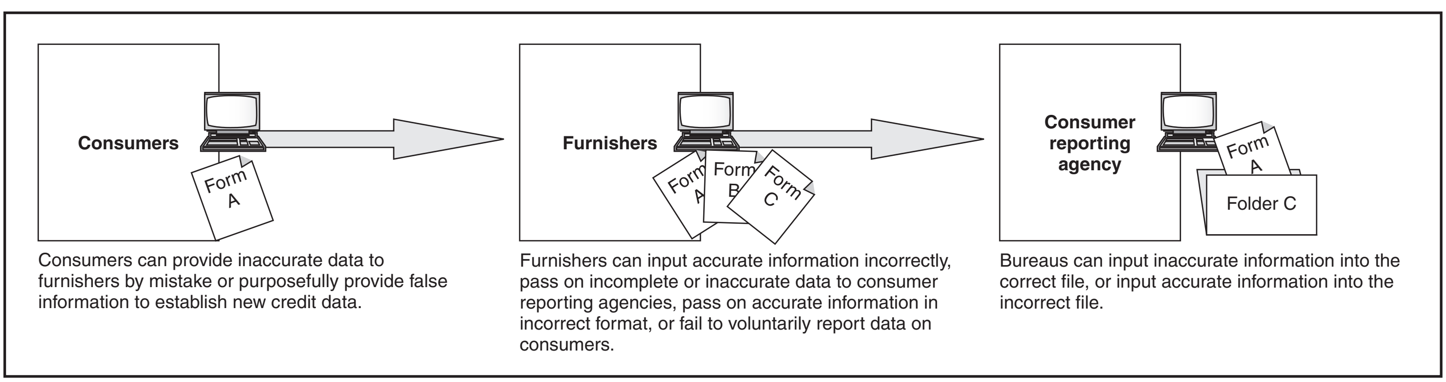
Both Literature and Industry Identified Similar Types and Causes of Errors

While both the literature and credit industry representatives cited similar types and causes of errors, neither the literature nor the credit industry data identified one particular type or cause of error as the most common. All respondents stated that error type could range from wrong names and incorrect addresses to inaccurate account balances and erroneous information from public records.

Based on the literature we reviewed and on our discussions with CRA and data furnisher officials, we could not identify any one cause or source most responsible for errors. However, the Consumer Federation 2002 study, the Federal Reserve Bulletin article, and a representative from the National Foundation for Credit Counseling stated they felt data furnishers often caused more errors than did CRAs or consumers. According to several respondents, this was particularly true for data furnishers, such as collection agencies and public entities that did not rely on accurate credit reports for lending decisions. For example, while a bank needs accurate information in assessing lending risk, and thus attempts to report accurate information, a collection agency does not rely on credit reports for business decisions, and therefore has less of an incentive to report fully accurate information. Data furnishers told us that they did not consider CRAs as a significant cause of errors, but stated that difficulty in matching consumer identification information might cause some errors. Data furnishers also stated that the quality control efforts among data furnishers might vary due to the extent of data integrity procedures in place. They explained that some smaller data furnishers might not have sophisticated quality control procedures because implementing such a system was expensive.

On the other hand, errors might occur at any step in the credit reporting process. Consumers could provide inaccurate names or addresses to a data furnisher. A data furnisher might introduce inaccuracies while processing information, performing data entry, or passing information on to the CRAs. And, CRAs might process data erroneously. Figure 1 shows some common causes for errors that might occur during the credit reporting process.

Figure 1: Common Causes of Errors in the Consumer Credit Report Process



Source: GAO analysis of credit industry and Federal Reserve interview data.

CRAs and data furnishers also cited other causes of errors. For example, collection agencies and public records on bankruptcies, tax liens, and judgments were cited as major sources of errors. CRA officials and data furnishers said the growing number of fraudulent credit "repair" clinics that coach consumers to make frivolous reinvestigation requests in an effort to get accurate, though negative, information off the credit report also might cause errors, as disputed information a CRA cannot verify within 30 days is deleted from the consumer's credit report. File segregation, a tactic in which a consumer with a negative credit history tries to create a new credit file by applying for credit using consistent but inaccurate information, was another reported cause for inaccurate credit data.

Industry Has Implemented Procedures to Ensure Data Consistency and Accuracy, but Efficacy of Procedures Not Known

The credit industry has been working on systems to help ensure accuracy since the "reasonable procedures" standard took effect under FCRA in 1970. Within the last decade, CDIA has led efforts to implement industry systems and processes to increase the accuracy of credit reports. In commenting upon accuracy, representatives from CDIA, the CRAs, the Federal Reserve, and the data furnishers stated that credit score models were highly calibrated and accurate and, on the aggregate level, credit reports and scores were highly predictive of credit risk.[12]

During the 1970s, the Associated Credit Bureaus (now CDIA) attempted to increase report accuracy by introducing Metro 1, a method of standardizing report formats. The goals of Metro 1 were to create consistency in reporting rules and impose a data template on the industry. In conjunction with the industry, in 1996 CDIA created Metro 2, an enhancement of the Metro 1 format that enables a finer distinction for reporting information. For example, Metro 2 allowed CDIA to implement an "Active Military Code" to protect the credit reports of troops serving overseas. Since active military personnel are legally entitled to longer periods to make credit payments without penalty, this new code ensured that data furnishers did not incorrectly report accounts as delinquent.

While use of the Metro format is voluntary, CRAs currently receive over 99 percent of the volume of credit data—30,000 furnishers providing a total of

[12]Because many credit grantors are also data furnishers, it is generally in their best interest to report accurate information to the CRAs, as they rely on credit reports received from the CRAs in assessing risk. Likewise, the CRAs depend on ensuring accuracy in their credit reports in order to provide a quality product to their customers, the credit grantors.

2 billion records per month—in either Metro 1 or Metro 2 format, with over 50 percent sent in Metro 2. One data furnisher who recently switched from Metro 1 to Metro 2 found that data accuracy improved overall as evidenced by the reduction in the number of data rejections by the CRAs and dispute data. Those data furnishers that do not use the Metro formats provide data on compact disc, diskette, tape, or other type of electronic media. While use of standardized reporting formats ensures more consistent reporting of information, because the industry has never conducted a study to set a baseline level of error frequency in credit reports, and does not currently collect such data, no one knows the extent to which these systems have improved accuracy in credit reports.

FTC Has Taken Enforcement Actions Related to the Accuracy of Credit Reports Since 1996 FCRA Amendments

FTC has taken eight formal enforcement actions since the passage of the 1996 FCRA amendments against CRAs, data furnishers, and resellers that directly or indirectly relate to credit report accuracy.[13] FTC receives and tracks FCRA complaint data against CRAs by violation type and uses this data to identify areas that may warrant an enforcement action. While these data cannot provide the number of violations or frequency of errors in credit reports, since each complaint does not necessarily correspond to a violation, they can give a sense of the relative frequency of complaints surrounding CRAs. We discuss complaint data in more detail in the next section.

According to FTC staff, accuracy in the context of FCRA means more than the requirement that CRAs establish "reasonable procedures to assure maximum possible accuracy of their reports." They explained that the statute also seeks to improve accuracy of credit reports by a "self-help" process in which the different participants comply with duties imposed by FCRA. First, creditors and others that furnish information are responsible

[13] Prior to 1996, FTC carried out actions involving procedures to ensure the accuracy of credit reports against TransUnion in 1983, TRW (which would later become Experian) in 1991, and Equifax in 1995. According to FTC, these "omnibus" actions differed in detail but generally covered a variety of FCRA issues including accuracy, disclosure, permissible purposes, and prescreening. While we limited this review to FTC's accuracy-related efforts, we are currently conducting additional work as part of another ongoing engagement looking at FTC and the banking regulator's enforcement of FCRA. A number of other federal agencies have responsibilities under FCRA including the Office of the Comptroller of the Currency, Federal Reserve Board, Office of Thrift Supervision, National Credit Union Administration, Federal Deposit Insurance Corporation, Department of Transportation, and Department of Agriculture. Each entity can pursue FCRA enforcement actions against their respective regulated institutions as identified in FCRA.

for accuracy. Second, credit bureaus must take reasonable steps to ensure accuracy. Finally, users of credit reports must notify consumers (provide adverse action notices) about denials of a loan, insurance, job, or other services because of something in their credit report. FTC staff stated that it is crucial that consumers receive adverse action notices so that they can obtain their credit reports and dispute any inaccurate information. For that reason, the Commission has made enforcement in this area a priority.

FTC staff stated that their primary enforcement mechanism is to pursue action against a CRA or data furnisher that showed a pattern of repeated violations of the law identified through consumer complaints. According to FTC staff, the Commission has taken eight enforcement actions against CRAs, furnishers, or lenders, since 1996 that directly or indirectly addressed credit report accuracy.[14] One case pertained to a furnisher providing inaccurate information to a CRA, two cases pertained to a furnisher or CRA failing to investigate a consumer dispute, and two actions were taken against lenders that did not provide adverse action notices as required by statute. The remaining three cases were against the major CRAs for blocking consumer calls and having excessive hold times for consumers calling to dispute information on their credit reports.[15] In addition to enforcing FCRA, FTC also provides consumer educational materials and advises consumers on their rights (such as the right to sue a CRA or data furnisher for damages and recoup legal expenses).

[14]The eight cases are First American Real Estate Solutions LLC, Docket No. C-3849 (1999); U.S. v. Unicor Funding, Inc., Civ. No. 99-1228 (C.D. Cal. 1999); U.S. V. Equifax, No1:00 CV-0087 (C.D. Ga. 2000); U.S. v. Experian, No. 3-00CV0056-L (N.D. Tex. 2000); U.S. v. TransUnion, 00C 0235 (N.D. Ill. 2000); U.S. v. Performance Capital Management, Inc., No. 01-1047 (C.D. Cal. 2001); U.S. v. DC Credit Serv. Inc., Civ. No. 02-5115 (C.D. Cal. 2002); Quicken Loans Inc. Docket No. 9304 (Apr. 8, 2003).

[15]FTC has also investigated landlord's compliance with their duty to provide FCRA required notices to consumers who suffered adverse action based on their consumer reports in connection with apartment rental applications. The Commission did not bring any formal actions, but published a consumer alert and a business education brochure for landlords that resulted from this enforcement effort.

Impact of 1996 FCRA Amendments on Credit Report Accuracy and the Potential Effects of Errors on Consumers Is Not Fully Known

To date, no comprehensive assessments have addressed the impact of the 1996 FCRA credit report accuracy amendments or the potential effects inaccuracies have had on consumers. In addition, because it has not conducted surveys, FTC was not able to provide overall trend data on the frequency of errors in credit reports. Industry officials as well as two studies we reviewed suggest that errors and inaccuracies in credit reports have the potential to both help and hurt individual consumers, while in some instances errors or inaccuracies may have no effect on the consumer's credit score. The impact of any particular error or inaccuracy in a particular credit report will be dependent on the unique and specific circumstances of the consumer.

Information on the Impact of FCRA Amendments on Credit Report Accuracy Was Not Available

Data on the impact of the 1996 FCRA amendments on credit report accuracy was not available. For instance, we could not identify impact information from the literature we reviewed and industry officials with whom we spoke said they did not collect such data. Furthermore, FTC could not provide overall trend data but did provide FCRA-related consumer complaint data involving CRAs.

FTC staff could not say what the trend in the frequency of errors in credit reports has been since the 1996 amendments because that data is not available. However, FTC officials provided consumer complaint data that shows from 1997 through 2002, the number of FCRA complaints involving CRAs received annually by FTC increased from 1,300 to almost 12,000. The most common complaints cited against CRAs in 2002 pertained to the violations are listed below:

- Provided inaccurate information (5,956 complaints);
- Failed to reinvestigate disputed information (2,300 complaints);
- Provided inadequate phone help (1,291 complaints);
- Disclosed incomplete/improper credit file to customer (1,033 complaints); and
- Improperly conducted reinvestigation of disputed item (771 complaints).

Consumer complaint data involving CRAs and FCRA provisions represent 3.1 percent of the total complaints FTC received directly from consumers on all matters in 2002. The FTC staff explained that their knowledge was limited to complaints that came into the agency and that they did not conduct general examinations or evaluations that would enable them to project trends. FTC staff cautioned that it would not be appropriate to conclude that since the complaints against CRAs were on the rise, accuracy of credit reports was deteriorating. They stated that the increase in the number of complaints could be due to greater consumer awareness of FTC's role with respect to credit reporting, as well as a general trend towards increased consumer awareness of credit reporting and scoring.

Errors May Result in Both Positive and Negative Impacts on Consumers

CRAs and the literature suggest that credit-reporting errors could have both a positive and negative effect on consumers. One CRA stated that errors occur randomly and may result in either an increase, decrease, or no change in a credit score. Another CRA stated that information erroneously omitted from a credit report such as a delinquency, judgment, or bankruptcy filing would tend to raise a credit score while that same information erroneously posted to the report would tend to lower the score. The Consumer Federation of America study cited earlier also analyzed 258 files to determine whether inconsistencies were likely to raise or lower credit scores. In approximately half the files reviewed (146 files, or 57 percent), the study could not clearly identify whether inconsistencies in credit reports were resulting in a higher or lower score. The study determined that in the remaining 112 files there was an even split between files that would result in a higher or lower score. The *Federal Reserve Bulletin* article previously mentioned also concluded that limitations in consumer reporting agency records have the potential to both help and hurt individual consumers. The article further stated that consumers who were hurt by ambiguities, duplications, and omissions in their files had an incentive to correct them, but consumers who were helped by such problems did not.

Impact of Errors May Be Influenced by Other Factors in a Credit File

Industry officials and the literature we reviewed suggested that the impact of an error in a consumer's credit report was dependent on the specific circumstance of the information contained in a credit file. CRA and data furnisher officials further pointed out that a variety of factors such as those identified by Fair Isaac, a private software firm that produces credit score models, might impact a credit score.[16] According to the Fair Isaac

[16]Fair Isaac Corporation produces software used by many consumer reporting agencies, including the three main U.S. consumer agencies, to produce FICO scores, which according to industry sources, is a commonly used credit score in the United States.

Web site, their credit score model considers five main categories of information along with their general level of importance to arrive at a score. These categories and their respective weights in determining a credit score include payment history (35 percent), amounts owed (30 percent), length of credit history (15 percent), types of credit in use (10 percent) and new credit (10 percent). As such, no one piece of information or factor alone determines a credit score. For one person, a given factor might be more important than for someone else with a different credit history. In addition, as the information in a credit report changes, so does the importance of any factor in determining a credit score. Fully understanding the impact of errors on consumer's credit scores would require access to consumer credit reports, discussions with consumers to identify errors, and discussions with data furnishers to determine what impact, if any, correction of errors might have on decisions made based on the content of a credit report.

Observations

The lack of comprehensive information regarding the accuracy of consumer credit reports inhibits any meaningful discussion of what more could or should be done to improve credit report accuracy. Available studies suggest that accuracy could be a problem, but no study has been performed that is representative of the universe of credit reports. Furthermore, any such study would entail the cooperation of the CRAs data furnishers, and consumers to fully assess the impact of errors on credit scores and underwriting decisions. Because of the importance of accurate credit reports to the fairness of our national credit system, it would be useful to perform an independent assessment of the accuracy of credit reports. Such an assessment could be conducted by FTC or paid for by the industry. The assessment would then form the basis for a more complete and productive discussion of the costs and benefits of making changes to the current system of credit reporting to improve credit report accuracy.

Another option for improving the accuracy of credit reports would be to create the opportunity for more reviews of credit reports by consumers. One way this could be accomplished would be to expand the definition of what constitutes an adverse action. Currently, consumers are only entitled to receive a free copy of their credit reports when they receive adverse action notices for credit denials or if they believe that they have been the victim of identity theft. When consumers see their credit reports, they have a chance to identify errors and ask for corrections to ensure the accuracy of their credit reports. Expanding the criteria for adverse actions to include loan offers with less than the most favorable rates and terms would likely increase the review of credit files by consumers. Such added review of credit files would in all likelihood help to further ensure the overall accuracy of consumer credit reports. However, the associated costs to the industry would also need to be considered against the anticipated benefits of increasing consumer access to credit reports.

Contacts and Acknowledgement

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