

GAO

Report to the Honorable
Sander M. Levin, House of
Representatives

June 1994

CHILD SUPPORT ENFORCEMENT

Credit Bureau Reporting Shows Promise



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United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

B-257352

June 3, 1994

The Honorable Sander M. Levin
House of Representatives

Dear Mr. Levin:

Of nearly \$35 billion in child support payments owed by over 8.5 million noncustodial parents under the nation's Child Support Enforcement Program, more than \$27 billion remained uncollected at the end of fiscal year 1992. During that year, more than 5.7 million of these noncustodial parents made no payment on the child support they owed.

One central issue currently being considered by the Congress and the administration in their efforts to reduce the number of long-term welfare dependent families is how to increase the collection of child support. Of particular interest is the Department of Health and Human Services' (HHS) Child Support Enforcement Program which is the nation's principal program for collecting child support, recovering welfare costs, and preventing nonwelfare families from slipping onto welfare.

Some states voluntarily report child support debt to credit bureaus as part of their enforcement efforts. Because of your interest in the matter, you asked us to develop information to assist you in drafting legislation to strengthen the way in which child support agencies report information to credit bureaus. You specifically asked that we contact a number of states¹ to determine (1) which noncustodial parents owing child support are being reported to credit bureaus; (2) whether the child support payment data are reported to the nation's three major credit bureaus,² and the currency of the information reported; (3) how the data are reported, and the difficulty of using standardized credit bureau reporting formats; and (4) the costs incurred by the states to report such information. You also asked us to determine if these states ever evaluated whether credit bureau reporting causes or correlates with increased child support collections.

In addition to the information in this letter, we also briefed your staff in December 1993 on preliminary information you asked us to gather from credit bureaus and credit grantors, such as automobile credit companies, credit card companies, and credit unions. We asked them what child support information they would like to have reported, how they use the

¹See appendixes I and II for pertinent information on the 16 sampled states included in our review.

²The three major credit bureaus are Equifax, Trans Union, and TRW.

reported information, and whether child support delinquencies affect credit applications.

To develop this information, we selected a sample of 16 states. These states (1) represent over 60 percent of the fiscal year 1992 child support caseload, the latest year for which such data are available; (2) are made up of states with both large and small caseloads; (3) include 11 states that routinely report child support information and 5 states that report information only upon credit bureaus' requests; and (4) account for 63 percent of the child support cases with no payments and 51 percent³ of the \$27 billion of child support uncollected at the end of fiscal year 1992. We conducted structured telephone interviews with the states' IV-D directors or their designated representatives. In addition, we interviewed officials from HHS' Office of Child Support Enforcement and representatives from the three major credit bureaus. To gather the preliminary information we provided your staff in December 1993, we contacted the three major credit bureaus and a judgmental sample of six credit grantors. We did our work between October 1993 and May 1994 in accordance with generally accepted government auditing standards.

Results in Brief

Eleven of the 16 states we reviewed routinely report child support payment information to credit bureaus, and 5 states report information only upon the request of credit bureaus. Most of the states that routinely report usually report only delinquent noncustodial parents. These states generally report to all three major credit bureaus information that is less than 30 days old, and few states have experienced difficulties categorizing child support payments in an automated and standardized format for the credit bureaus. The costs to start up and operate credit bureau reporting systems appear to be nominal.

The effects of credit bureau reporting on increasing collections have not been widely evaluated by the states we reviewed, but the studies done and comments of state and credit grantor officials suggest that credit reporting is having a positive impact on enforcement. One state that reviewed credit bureau reporting suggested that its main benefits will show up over time as creditors deny credit to delinquent noncustodial parents.

³Does not include child support due and child support collected data for Indiana, which were not available.

Background

In 1975, the Congress created the federal Child Support Enforcement Program as title IV-D of the Social Security Act. The program's primary purpose is to strengthen state and local efforts to obtain child support for recipients of Aid to Families With Dependent Children (AFDC) as well as non-AFDC clients. Federal responsibility for this program lies with HHS' Office of Child Support Enforcement (OCSE). State child support enforcement agencies have responsibility for administering the program at state and local levels. The federal government and the states share program costs at the rate of 66 and 34 percent, respectively.

The Child Support Enforcement Amendments of 1984 offered the states an additional tool to help enforce the payment of support by mandating that states respond to credit bureau requests for information on noncustodial parents who are \$1,000 or more in arrears and reside in the state. Before releasing this information, states must notify the noncustodial parent of the proposed report and provide the parent an opportunity to contest its accuracy. In a previous report, we surveyed the 50 states and noted that many states have gone beyond this legal requirement and are routinely reporting information to credit bureaus.⁴

Most Sampled States Routinely Report Only Delinquent Child Support Payment Information

Ten of the 11 states that routinely report child support payment information to credit bureaus report only noncustodial parents who are delinquent in their payments, while California reports all noncustodial parents, both current and delinquent. Criteria for reporting delinquent noncustodial parents varies among these states. Of the 10 states, 5 states report delinquencies over \$500; 4 states report delinquencies over \$1,000; and 1 state reports all accounts delinquent more than 60 days. While most states report only delinquent noncustodial parents, all the credit bureaus and grantors we contacted said they would prefer to receive information on all child support accounts, whether current or delinquent. Texas, 1 of the 10 that report only delinquent noncustodial parents, plans to expand its reporting to include all cases with child support orders when its new statewide reporting system is in place in February 1995.

The five remaining states we contacted report information on delinquent noncustodial parents only upon the request of the credit bureaus, as is required by law. None of these states has a statewide automated system, but they all plan to begin routine reporting of their delinquent accounts

⁴Child Support Enforcement: More States Reporting Debt to Credit Bureaus to Spur Collections (GAO/HRD-90-113, July 31, 1990).

once automated. Two of these states plan to begin reporting this summer, while the remaining three plan to be reporting by the end of 1995.

Most Sampled States Report Current Information to All Three Major Credit Bureaus on a Monthly Basis

Nine of the 11 routinely reporting states report and update their data with all 3 major credit bureaus once a month, while 1 reports every 2 months, and 1 reports quarterly. For all states, the age of the data reported is current as of the day it is run. Five states send the information to the credit bureaus within 10 days, four states within 10 to 15 days, and two states between 20 and 30 days. California and Maryland take the longest because they do not have statewide automated systems and must first consolidate data from local automated systems. Credit bureau representatives said the reported data are loaded within 7 days of receipt.

While nine states routinely report to the three major credit bureaus, New York and Texas report to two of the three bureaus. A New York child support official said that the state stopped reporting to the third bureau in the late 1980s after it experienced problems with the bureau mismatching reported data with consumer files. Texas plans to begin reporting to the third credit bureau when its system goes statewide in 1995. In addition to the three major credit bureaus, four states also report to one or more smaller bureaus.

Sampled States Report Data in an Automated and Standardized Format

All routinely reporting states report their child support data to the three major credit bureaus by using an automated and standardized format. Nine states report their data on magnetic tape, and two states use cartridges. Ten states array their data using the Metro format—the standard for the credit reporting industry—while Tennessee reports using a non-Metro format.

Some routinely reporting states have experienced problems reflecting the child support account status in the Metro format. For example, a California child support official said that the Metro format status codes the state uses age the delinquency of payments and report them as so many days past due. However, this official said that the status codes do not accurately reflect situations in which partial child support payments are received. Although the overall account is delinquent in these cases, the status codes would reflect the payment as current.

Credit Bureau Reporting Start-Up and Operational Costs Appear Nominal

The costs to start up and operate a credit bureau reporting system appear nominal. Officials from the 11 reporting states estimated that their initial start-up costs at the state level ranged from \$12,900 in Tennessee to \$300,000 in California, with a median cost of \$41,000. Tennessee reports only its delinquent AFDC noncustodial parents owing child support, while California reports all AFDC and non-AFDC noncustodial parents with child support orders whether they are current or delinquent. A large portion of these start-up costs is sending out notification letters to the noncustodial parents who are about to be reported to the credit bureaus for the first time. Some states without automated statewide child support systems also incurred some local start-up costs.

Once implemented, ongoing credit bureau reporting costs are minimal. The 11 routinely reporting states estimated that their 1993 operational costs ranged from \$4,000 to \$47,000, with a median cost of \$15,100. These costs include both systems costs as well as noncustodial parent notification costs.

Nine of the 10 states reporting only delinquent noncustodial parents owing child support did not believe it would be difficult or costly to expand their reporting to include both current and delinquent accounts. On a five-point scale ranging from "very easy" to "very difficult," the nine states' responses on expanding reporting fell between "very easy" to "as easy as difficult." However, a Maryland official said expanding reporting now would be very difficult because the state has six separate local automated systems. The official believed that once statewide automation occurs in Maryland in 1995, the task will become easy.

Overall, the 10 states that report only delinquent noncustodial parents characterized the operational task of expanded reporting as fairly easy; however, they believed that more staff would be needed to handle the additional volume of complaints and inquiries from the reported noncustodial parents who are current with their payments. The estimated costs to expand reporting to include all noncustodial parents with child support orders range from \$8,600 to \$80,800, with a median cost of \$40,000.

Credit Bureau Reporting Appears to Have Positive Enforcement Impacts

While the impacts of credit bureau reporting on increasing collections have not been widely evaluated in the states we reviewed, the limited studies done and comments of state and credit grantor officials suggest that routine reporting is having a positive enforcement impact. One recent review conducted by Washington State in 1992 and 1993 evaluated the impact on collections for three separate delinquent populations for periods of 2 to 4 months after notification letters were sent to the noncustodial parents. Modest increases in collections were reported for these periods. The review summary concluded that the main benefits of credit bureau reporting will show up over time as creditors deny credit to delinquent noncustodial parents. The state plans to follow up with a longitudinal study to measure the impacts of credit bureau reporting over time.

In addition, a study done in 1989 in Fresno County, California, piloted the use of credit bureau reporting and compared, with other forms of collections, cash and check collections with prior years.⁵ Before the pilot, cash and check collections increased about 4 percent in 1987 and about 3 percent in 1988 over the previous year. In 1989, however, these collections increased 12 percent over 1988. California officials attributed this increase solely to credit bureau reporting.

Further, in 1988 and 1989, Marion County, Indiana, conducted an evaluation of credit bureau reporting that was funded by OCSE.⁶ The county reported to credit bureaus noncustodial parents who were delinquent by at least \$1,000 and measured the results using a test and control group. At the end of the 11-month study, the county reported that the percentage of current child support payments and arrearages collected were 15 and 16 percent higher, respectively, in the test group reported to the credit bureaus.

In addition to these evaluations, state and credit grantor officials we contacted commented on the effectiveness of credit bureau reporting. Six of the eight states responding to a question about whether credit bureau reporting increased collections believed they were being impacted from a "moderate" to a "great extent." In addition, five of the six states responding to a question about whether noncustodial parents' credit ratings were

⁵Audrey Bonham and George A. Grenfell, Jr., "The Fresno County DA-FSD Experience With Credit Reporting," Office of the District Attorney, Fresno, California (1989).

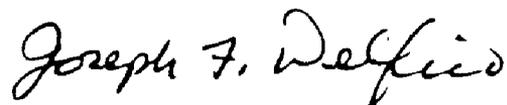
⁶Child Support Debt Information Provided to Consumer Reporting Agencies, submitted to Family Support Administration by Evaluation Research Corporation International and Pacific Consulting Group, Inc. (May 1989).

impacted by credit bureau reporting believed they were impacted to a "great extent" or more. Credit grantors also said that the delinquent payment of child support impacts credit ratings and is considered, along with other factors, in their credit granting process. In some cases, child support delinquencies alone have resulted in credit being denied.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies to the Chairman, Senate Committee on Finance; the Chairman, Subcommittee on Human Resources, House Committee on Ways and Means; the Secretary of Health and Human Services; the HHS Assistant Secretary for Children and Families; state child support enforcement directors; and other interested parties.

If you have any questions about this report, please contact David P. Bixler, Assistant Director, at (202) 512-7201 or Kevin Kumanga, Senior Evaluator, at (518) 452-4984. James Lawson also was a major contributor to this work.

Sincerely yours,



Joseph F. Delfico
Director, Income Security Issues

States in GAO Survey That Routinely Report to Credit Bureaus

	Date started	Reporting to all three major credit bureaus?	State's arrearage threshold for reporting obligors ^a	Statewide automated system	Initial start-up cost ^b	1993 system operating cost
CA	1990	Yes	All cases	No	\$300,000 ^c	\$4,000 ^c
CT	1992	Yes ^d	Over \$1,000	Yes	\$49,700	\$30,600
FL	1988	Yes ^d	Over \$500	Yes	\$41,000	\$15,500
GA	1989	Yes	Over \$500	Yes	\$15,050	\$15,100
IA	1991	Yes	Over \$1,000 or 30 days	Yes	\$32,040	\$17,040
MA	1992	Yes	Over \$500	Yes	\$35,000	\$47,000
MD	1994	Yes	Over 60 days	No	\$93,000 ^c	\$14,400 ^c
NY	1989	No ^e	Over \$1,000	Yes	\$80,000	\$12,000
TN ^f	1991	Yes	Over \$500	No	\$12,900	\$11,600
TX	1986	No ^e	Over \$500 or new orders over 40 days past due	Yes	\$46,000	\$31,000
WA	1993	Yes ^d	Over \$1,000	Yes	\$15,000	\$12,100

**Appendix I
States in GAO Survey That Routinely Report
to Credit Bureaus**

Format	Reporting		Age of data when last reported to credit bureaus	View on difficulty of reporting all obligors ^a	Estimated additional costs to report all obligors ^b	View on credit bureau reporting's impact on collections	View on credit bureau reporting's impact on credit rating
	Media	Frequency					
Metro-232	Tape	Monthly	30 days	None—reports all cases	None—reports all cases	Great extent	Not known
Metro-272	Tape	Monthly	5 days	Very easy	\$8,600	Moderate extent	Very great extent
Metro-232	Tape	Monthly	11 days	As easy as difficult	\$10,800	Moderate extent	Some extent
Metro-272	Tape	Monthly	11 days	Very easy	\$80,800	Moderate extent	Great extent
Metro-232	Cartridge	Monthly	1 day	As easy as difficult	\$28,930	Not known	Great extent
Metro-272	Tape	Monthly	13 days	Easy	\$47,000	Great extent	Great extent
Metro-232	Cartridge	Monthly	23 days	Very difficult	\$51,200	Not known	Not known
Metro-272	Tape	Monthly	3 days	As easy as difficult	Minimal	Not known	Not known
State format	Tape	Quarterly	12 days	As easy as difficult	\$50,680 AFDC only	Moderate extent	Great extent
Metro-272	Tape	Monthly	2 days	As easy as difficult	\$40,000	Little extent	Not known
Metro-272	Tape	Every 2 months	1 day	As easy as difficult	\$12,800	Some extent	Not known

^aAn obligor is a noncustodial parent who owes child support.

^bAmount includes system development costs as well as other costs, such as notification letters.

^cEstimates are based on state-level cost; local costs are not included.

^dState also reports to one or more smaller credit bureaus.

^eState reports to two of the three major credit bureaus.

^fWith one exception, all states report AFDC and non-AFDC noncustodial parents who owe child support. Tennessee reports AFDC noncustodial parents only.

States Reporting Upon Credit Bureaus' Request

State	Reporting agency	State's arrearage threshold for reporting obligors^a	Statewide automated system	Target date for statewide routine reporting
Illinois	State	Over \$1,000	No	10/95
Indiana	County	Over \$1,000	No	8/94
Michigan	County	Over \$1,000 or 1 month	No	7/94
Mississippi	County	Over \$1,000	No	1/95
Pennsylvania	County	Over \$1,000	No	10/95

^aAn obligor is a noncustodial parent who owes child support.

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