

# Mistakes Do Happen:

A Look at Errors in Consumer Credit Reports

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National Association of State PIRGs

## Executive Summary

The most valuable thing we have is our good name. The most common reflection of our reputation as a trustworthy consumer is our credit report. Unfortunately, the information contained in our credit reports, which are bought and sold daily to nearly anyone who requests and pays for them, does not always tell a true story.

Credit bureaus collect and compile information about consumer creditworthiness from banks and other creditors and from public record sources such as lawsuits, bankruptcy filings, tax liens and legal judgments. The three major credit bureaus—Experian, Equifax, and Trans Union—maintain files on nearly 90 percent of all American adults.<sup>1</sup> Those files are routinely sold to credit grantors, landlords, employers, insurance companies, and many others interested in the credit record of a consumer, often without the consumer's knowledge or permission.

Several studies since the early 1990s have documented sloppy credit bureau practices that lead to mistakes on credit reports—for which consumers pay the price. Consumers with serious errors in their credit reports can be denied credit, home loans, apartment rentals, auto insurance, or even medical coverage and the right to open a bank account or use a debit card. Consumers with serious errors in their reports who do obtain credit or a loan may have to pay higher interest rates because the mistakes falsely place them in the sub-prime, high-cost lending pool.

We asked adults in 30 states to order their credit reports and complete a survey on the reports' accuracy. Key findings include:

- ◆ Twenty-five percent (25%) of the credit reports surveyed contained serious errors that could result in the denial of credit, such as false

delinquencies or accounts that did not belong to the consumer;

- ◆ Fifty-four percent (54%) of the credit reports contained personal demographic information that was misspelled, long-outdated, belonged to a stranger, or was otherwise incorrect;

- ◆ Twenty-two percent (22%) of the credit reports listed the same mortgage or loan twice;

- ◆ Almost eight percent (8%) of the credit reports were missing major credit, loan, mortgage, or other consumer accounts that demonstrate the creditworthiness of the consumer;

- ◆ Thirty percent (30%) of the credit reports contained credit accounts that had been closed by the consumer but remained listed as open;

- ◆ Altogether, 79% of the credit reports surveyed contained either serious errors or other mistakes of some kind.

States have long taken the lead in protecting consumers' privacy and ensuring the accuracy of credit reports. In 1992, Vermont was the first state to pass a law providing a free annual credit report on request, followed by Colorado, Georgia, Maine, Maryland, Massachusetts, and New Jersey. California adopted other comprehensive reforms in 1994 and later became the first state to require disclosure of credit scores.

Congress eventually followed the states' lead, adopting some credit reporting reforms in 1996 and criminalizing identity theft in 1998. In December 2003, Congress passed the Fair and Accurate Credit Transactions Act (FACT Act). With the FACT Act, the financial industry won its primary goal: permanent preemption of stronger state credit and privacy laws. The FACT Act also included several modest consumer reforms,

borrowing from state laws already enacted, including the right to a free annual credit report on request. Although these consumer reforms came at the unacceptable price of a state's right to protect its consumers, the law includes a number of provisions designed to enhance the accuracy of credit reports.

Despite recent federal action, we need to do more to protect consumers' financial privacy and ensure the accuracy of credit reports. Policy-makers should:

- ◆ Strengthen a consumer's private right of action to seek redress through the courts when a credit bureau or a creditor fails to protect personal information or comply with an investigation.
- ◆ Limit or prohibit the use of a consumer's Social Security number for transactions, credit

applications, or on drivers' licenses and other identification.

- ◆ Give consumers more control over who has access to their credit reports and when, better information about when their reports are accessed or when negative information is added to their reports, and the right to control the use of credit scores for insurance purposes.
- ◆ Give identity theft victims more power to easily clear their names.

Consumers should:

- ◆ Order their credit report every year from the three national credit bureaus (Equifax, Experian and Trans Union) to identify and correct inaccurate information before it causes problems.