

# Consumer Credit Reporting Overview

Three national credit reporting agencies:

- Maintain records on 200 million individuals and 1.5 billion credit accounts.
- Update those files with 2 billion items of trade-line information and 2 million public record items each month.
- Process 1.2 million household change of addresses every month.
- Issue 2 million credit reports a day.

# Content of Credit Reports

1. Personal identification information (e.g., name, address, birthdate, Social Security Number);
2. Open trade lines (e.g., credit card accounts, auto loans, first and second mortgage accounts, personal loans, etc.) with data such as outstanding balance, credit limit, date account opened, date of last activity, and payment history;
3. “Public record” items related to the use of credit (e.g., bankruptcies, legal collection judgments and liens) and collections information; and
4. Inquiries on the credit file, including date and identity of inquirer, for the previous two years.

# Information Not Found in Credit Reports

- Income
- Race, ethnicity, or gender
- Lifestyle indicators
- Account passwords or mother's maiden name
- Discreet purchase transactions
- Criminal or arrest records
- Health information
- Credit scores

# Sources of Credit Report Content

- Public records;
- Creditors (e.g., commercial banks, savings associations, credit unions, finance companies, major retailers, utilities, and other businesses); and
- Collection agencies.

N.B. Information is supplied voluntarily.

# Survey of 248,000 Credit Reports

(Avery et al, June 1999)

- Credit account 87.2%
  - Open and active (within past year) 80.0
  - Bank 44.7
  - Finance company or credit union 19.8
  - Retailer 24.8
- Public record data 12.3
- Collection agency data 30.2
- Inquiry (past two years) 57.6
- No derogatory information 85.3

# Use of Credit Reports

- Permissible purposes (15 U.S.C. §1681b)
  - In response to a court order;
  - In accordance with the written instructions of the consumer to whom it relates;
  - To a person who intends to use the information in connection with a credit transaction involving the extension of credit to, or review or collection of an account of, the consumer.
  - To a person who intends to use the information for employment purposes.
  - To a person who intends to use the information in connection with the underwriting of insurance involving the consumer.
  - To a person who intends to use the information in connection with a determination of the consumer's eligibility for a license or other benefit granted by a governmental instrumentality required by law to consider an applicant's financial responsibility or status.
  - To a person who intends to use the information, as a potential investor or servicer, or current insurer, in connection with a valuation of, or an assessment of the credit or prepayment risks associated with, an existing credit obligation.
  - To a person who otherwise has a legitimate business need for the information (a) in connection with a business transaction that is initiated by the consumer, or (b) to review an account to determine whether the consumer continues to meet the terms of the account.
  - To review an account to determine whether the consumer continues to meet the terms of the account.
  - To a child support enforcement agency for the determination or modification of child support payments.

## Use of Credit Reports-Continued

- Includes “prescreening” of credit information for the purpose of marketing “firm offers” of credit or insurance.
  - Credit bureaus must establish and publish a toll-free telephone number that consumers can call to opt out of prescreening.
  - 5.01 billion credit card acquisition mailings in 2001, a five-fold increase from 1991.

## Use of Credit Reports-Continued

- Sharing of any information “among persons related by common ownership or affiliated by corporate control.”
  - Provided that “it is clearly and conspicuously disclosed to the consumer that the information may be communicated among such persons and the consumer is given the opportunity, before the time that the information is initially communicated, to direct that such information not be communicated among such persons.” (§ 681a(d)(2)(A)(iii))
- Joint-user exception—under limited circumstances allows a user of a credit report to transfer that report to another party involved in the same transaction. 16 CFR pt. 600, App. § 603(f)-8.

# Benefits of Credit Report Data

- Credit reporting gives a comprehensive, reliable picture of demonstrated consumer behavior.
- Substitutes data for prejudice or guesswork.
- Makes those data available nationwide and affordably.

# Benefits of Credit Report Data-Continued

## 1. Nationwide competition

## 2. Lower costs and prices

- U.S. mortgage rates are as much as 2 percentage points lower because it is possible to securitize and sell mortgage loans. Consequently, American consumers save as much as \$120 billion a year on \$6 trillion of outstanding mortgages.
- 11 million homeowners refinanced their home mortgages to take advantage of lower interest rates during a 15-month period in 2001 and early 2002, thereby saving an estimated \$3.2 billion annually in mortgage payments.
- Between 1991 and 1992 the proportion of all revolving bankcard balances in the United States being charged an APR greater than 18% plummeted from 70% to 44% in 12 months.
- Between 1992 and 2001 the average interest rate for revolving customers falls from 17.4% to 14.2%. Adjusted by the 6-month Treasury bill rate, the average rate decreased 3.3%.

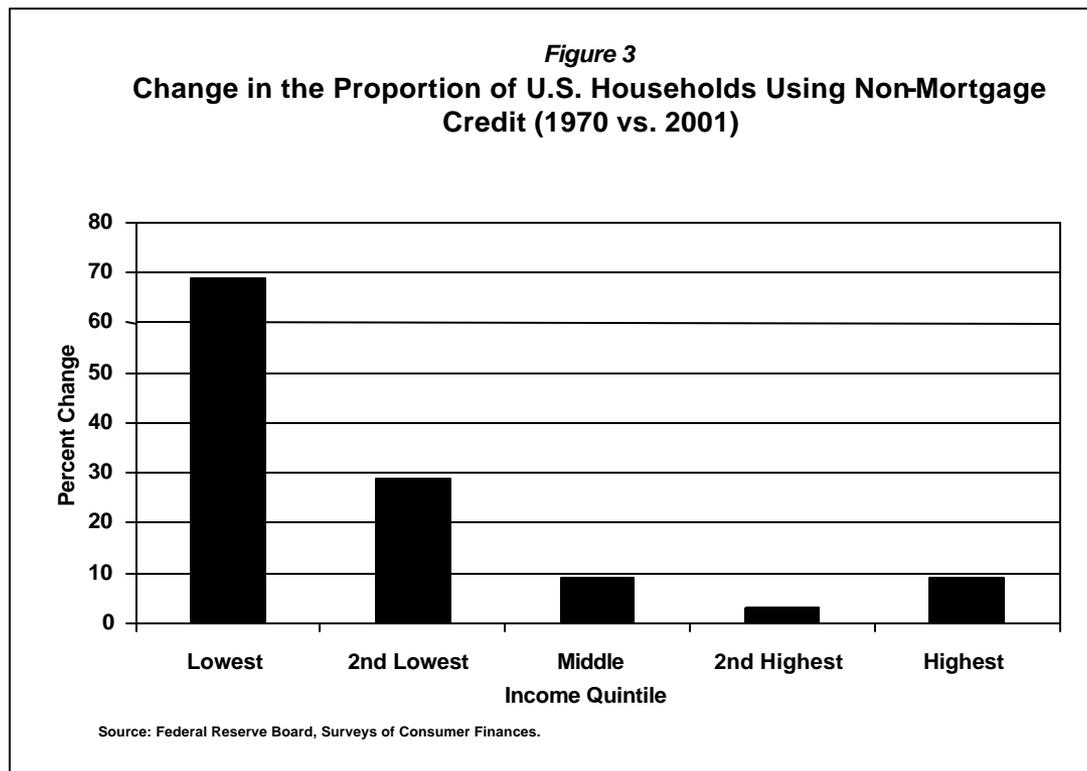
# Benefits of Credit Report Data-Continued

## 3. More people have access to more credit

- In 2001, 75% of U.S. households participated in the consumer and mortgage credit markets.
- 68% of U.S. households owned their own homes, and nearly two-thirds of these homeowners had some type of mortgage loan.
- Nearly a third of all households had automobile loans or leases.
- About 73% of all households owned at least one general purpose credit card (e.g., Visa, MasterCard, Discover, American Express) in 2001.
- The average U.S. consumer-borrower had 11 open accounts (7 credit cards, 4 installment or real-estate-secured loans).

# Benefits of Credit Report Data-Continued

- Market segmentation allows products and services for a broader range of people. This is especially important for the young, poor, and traditionally disadvantaged



# Benefits of Credit Report Data-Continued

4. More accurate credit decisions means fewer delinquencies
  - The June 1999 survey of 248,000 credit reports showed 85.3% with no derogatory information.
  - In the fourth quarter of 2002 only 3.9% of all mortgage borrowers in the United States were delinquent 30 days or more.
  - Only 4.6% of all credit card borrowers were delinquent 30 days or more on their accounts.
  - A scan of 200 million credit reports revealed that 60% of U.S. borrowers had never had a payment delinquent 30 days or more in the previous 7 years.

## Benefits of Credit Report Data-Continued

5. Gives families and the economy as a whole a “cushion”
  - Economist Walter Kitchenman has described the “almost universal reporting” of personal information about consumers as not only the “foundation” of consumer credit in the United States,” but also as the “secret ingredient of the U.S. economy’s resilience.”
6. Helps make relocation easier.

# Benefits of Credit Report Data-Continued

## 7. Greater speed, choice, and convenience

- According to FTC Chairman Timothy J. Muris: “Many fail to appreciate that the average American today enjoys access to credit and financial services, shopping choices, and educational resources that earlier Americans could never have imagined. . . . What I personally find most astounding is . . . the ‘miracle of instant credit.’ . . . “This ‘miracle’ is only possible because of our credit reporting system.”
- In 2001, 84% of U.S. automobile loan applicants received a decision within an hour; 23% of applicants received a decision in less than 10 minutes.
- Many retailers open new charge accounts for customers at the point of sale in less than 2 minutes.

# Benefits of Credit Report Data-Continued

8. Fraud prevention and detection, identity verification, public safety protection
9. Makes the financial services sector more transparent, resilient, and subject to legal oversight.
  - Federal Reserve Board Chairman Alan Greenspan: access to personal credit history data makes individual financial institutions “more creditworthy and efficient,” and the U.S. financial services sector “more transparent and stronger in general.”

# Sources

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