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Some Consumer Protection Issues in Credit Reporting and Scoring

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Some of the terms used in this presentation have specific statutory definitions. In the interest of brevity, those definitions will not be presented. Definitions of terms given here do not necessarily follow the statutory definitions.

OUTLINE OF TALK

Overview of Credit Reporting and Scoring

Potential Consumer Protection Problems in Credit Reporting

FTC Study of Credit Report Accuracy

Potential Consumer Protection Problems in Credit Scoring

FTC and CFPB Studies of Scoring

Credit Reporting: collecting information from

- Creditors
- Public records
- other sources

and compiling that information into credit reports.

Credit reports are used by

- Lenders
- Insurance companies
- Utilities
- Landlords
- Employers

Credit Scores: numerical summaries of the relatively likelihood of default, or similar outcome, based on the information in a credit report.

Numerous different scoring models are in use.

- FICO scores
- Vantage scores
- Proprietary scores
- Credit-based insurance scores

The customers for credit reports are primarily lenders. Consumers benefit from credit reporting, but they are not the customers.

Lenders care about accuracy, but costs of inaccuracy are not symmetric.

Costs to consumers of inaccuracy are external to the consumer reporting agency's decisions.

So: absent regulation, simple theory suggests we should expect to see "too much" inaccuracy, and inaccuracy in the direction of over-inclusion of negative information.

FTC Study of credit report accuracy

1. Review credit reports with 1,300 consumers.
2. Identify items the consumer believes to be errors , and focus on those that would have a significant impact on a credit score.
3. Consumers then dispute those items with the Consumer Bureau.

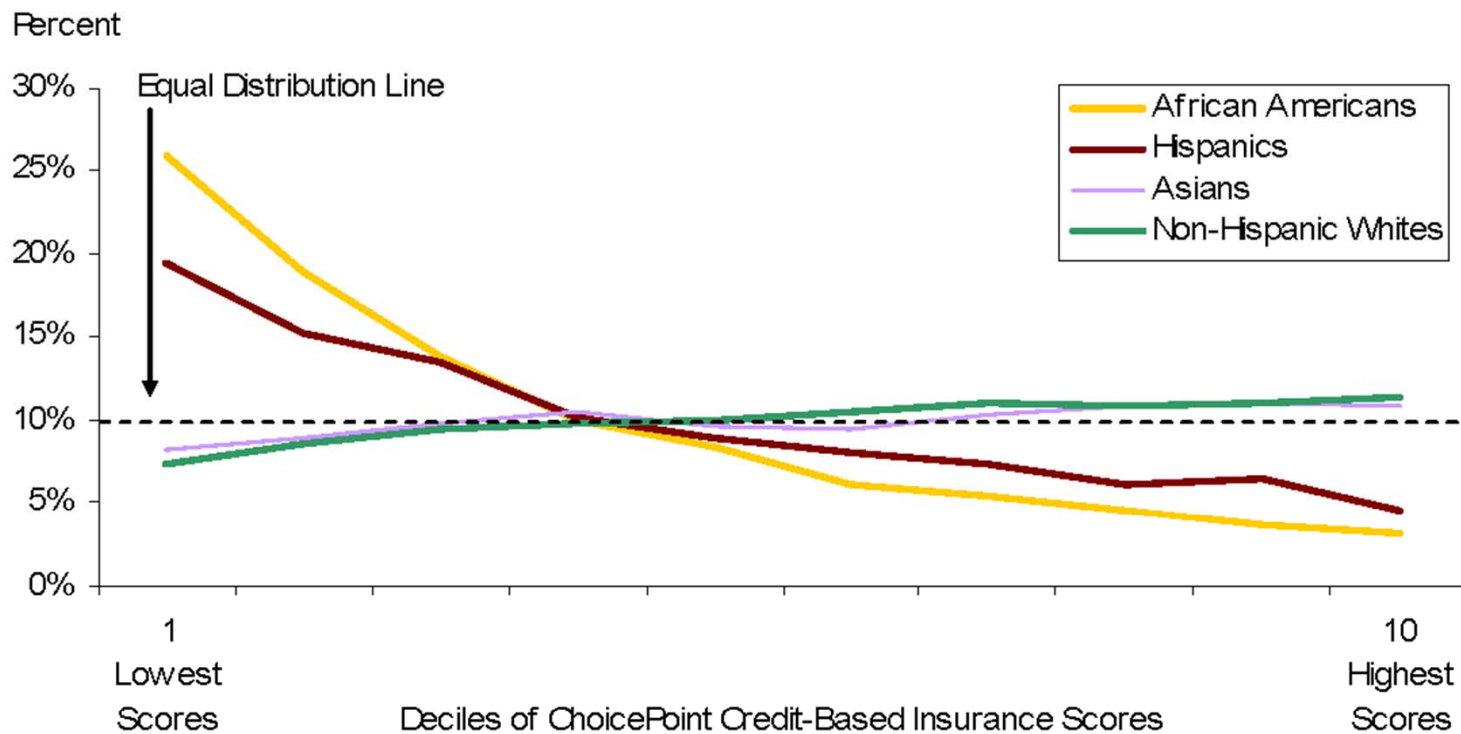
Study due in December of next year.

Two primary concerns about credit scores

Transparency – scores have a large impact on consumers, but consumers do not know how scores are developed or used.

Relatively low scores of racial and ethnic minorities, immigrants, low-income consumers, and others.

Distribution of Scores, by Race and Ethnicity



Source: **FTC 2007 Study of Credit-Based Insurance Scores**

Transparency - CFPB Study of Differences between Credit Scores Sold to Consumers and Those Sold to Creditors

Potential consumers confusion about which score he is buying.

Potential for a consumer to have different view of creditworthiness than a lender would have.

Apply for “wrong” credit products.

Not apply for credit at all.

CFPB follow-up analysis

Data: from each of the Big 3 Credit Bureaus

- 200,000 credit reports
- FICO scores
- VantageScores
- Scores sold to consumers
- Detailed credit report

Analysis

- Absolute comparisons of scores
- Comparisons of relative scores
- Analysis of sub-populations

