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Testimony of Amy Traub
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Thank you Vice-Chair Ehrlich and members of the committee for this opportunity to present testimony. My name is Amy Traub and I am a senior policy analyst with Dēmos. Dēmos is a public policy organization working for an America where we all have an equal say in our democracy and an equal chance in our economy. I'm pleased to be here today to testify on House Bill 1744, "An Act regulating the use of credit reports by employers."

Over the past decade, Dēmos has conducted extensive research on credit card debt among low- and middle-income households. In 2012, we surveyed a nationally representative sample of approximately one thousand low- and middle-income households that were carrying credit card debt for three months or longer. In addition to the questions Dēmos asked in the past about credit card debt I began to ask about the experience of these households with employment credit checks.[1]

My first finding is that in the survey population employment credit checks are common. Among the households in the survey population that experienced unemployment, about one in seven say that a prospective employer has asked to check their personal credit history. But it's likely that this really understates the extent of employment credit checks: people are asked to sign a lot of things when they apply for jobs and they may not remember every piece of paper.

What types of jobs require a credit check? During a brief recent search of job postings on Craigslist in a number of Massachusetts localities, I found postings for dog walkers, building superintendents, call center workers, plumbers, and retail sales people all requiring a credit check as part of the job application.[2] Today, credit checks are required for a very wide range of positions.

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[1] The source for Dēmos research cited throughout this testimony is: Amy Traub, "Discredited: How Employment Credit Checks Keep Qualified Workers out of a Job," Dēmos, 2013.
http://www.demos.org/sites/default/files/publications/Discredited-Demos.pdf

[2] Based on the author's review of Massachusetts job postings on Craigslist.org on August 15, 2013.

In my study, I found that credit checks have a real impact – people are shut out of job opportunities because of their credit. Among those in our survey population who report that they had poor credit, one in seven report that they have been advised that they would not be hired for some position because of their credit. Again, there is evidence that this understates the true extent to the problem, but it is enough to indicate that credit checks really are a barrier to employment.

Employment credit checks have become commonplace because employers are looking for a way to predict if a potential employee will be honest, if they will handle money responsibly, if they are likely to steal or commit fraud. For-profit credit reporting agencies take advantage of these concerns to market credit reports to employers. However, reviewing the social science research on this issue, I have found no credible evidence that credit reports reveal this information. In fact, a spokesperson for one of the major credit reporting agencies admitted to the Oregon State Legislature in 2010, "At this point we don't have any research to show any statistical correlation between what's in somebody's credit report and their job performance or their likelihood to commit fraud."[3]

Credit reports do not reliably predict job performance or likelihood of committing a crime, but they do reveal some very personal information. For example, my research finds that poor or declining credit is associated with households experiencing job loss. It's not surprising that families find it difficult to maintain good credit when an income-earner has been coping with extended unemployment.

I also found a number of different connections between medical debt and poor credit. I found that 55 percent – more than half – of those who report having poor credit say that "unpaid medical bills or medical debt" contributed to their poor credit. That's a very large impact. This is consistent with a study by the Federal Reserve Board which found that 52 percent of all accounts reported by collection agencies that appeared on credit reports consisted of medical debt.[4] A lot of what employers are looking at on credit reports is medical debt, but they aren't necessarily aware of that.

I also find that in our sample Latino and particularly African American households are more likely to report having poor credit and less likely to report having good or excellent credit than white households. This data on racial disparities is consistent with previous research, including

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[3] Quoted in: Andrew Martin, "As a Hiring Filter, Credit Checks Draw Questions," *The New York Times*, April 9, 2010.

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

findings by the Federal Reserve Board and the Brookings Institution.[5] A number of factors may contribute to the racial disparity in credit quality: unemployment is higher in communities of color and there's a tremendous underlying disparity in wealth and assets compared to white households. There's also a legacy of predatory lending that disproportionately impacts communities of color. All of this may contribute to worse credit. Employment credit checks can amplify and perpetuate this racial discrimination.

Finally, I'd like to address credit reporting errors. A comprehensive new study by the Federal Trade Commission finds that 21 percent of American consumers have some kind of error on their credit report.[6] They found a smaller percentage of consumers have errors that would actually make it harder for them to get a loan, but the 21 percent figure is the most relevant for employment, because employer assessments of a credit report are entirely subjective. Employers are not looking at a three-digit credit score; they're looking at list of credit accounts, how much the job applicant owes and whether they are paying as agreed or are late. There is no universally accepted way to interpret this information. As I noted earlier, there is a real lack of social science research proving that any credit information is relevant to job performance. An error that might be too small to affect the outcome in a lending scenario could stand out to an employer and make the difference and keep someone from getting hired.

In conclusion, my research finds that in the survey population employment credit checks are common and they are keeping people from getting jobs. Yet poor credit is associated with a host of factors that we don't generally see as legitimate reasons to deny people employment: it's associated with lack of health coverage, with medical debt, and with unemployment. We also find that people of color are disproportionately likely to report poor credit. And we see a high rate of errors in credit reports. The Dēmos study is another piece of evidence that employment credit checks are an illegitimate barrier to employment. House Bill 1744 would effectively remove that barrier.

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[5] Board of Governors of the Federal Reserve System, "Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit," 2007; Federal Trade Commission, "Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance," 2007; Robert B. Avery, Paul S. Calem, and Glenn B. Canner, "Credit Report Accuracy and Access to Credit," Federal Reserve Bulletin, 2004; Matt Fellowes, "Credit Scores, Reports, and Getting Ahead in America," Brooking Institution, 2006.

[6] "Report to Congress Under Section 319 of the Fair and Accurate Credit Transactions Act of 2003," Federal Trade Commission, December 2012. Released to the public February 2013.