



**Testimony of Amy Traub, Senior Policy Analyst, Dēmos
To the New York City Council Committee on Civil Rights**

In support of Intro 857: The Stop Credit Discrimination in Employment Act

April 11, 2013

Good morning. 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. We are based here in New York City. I want to thank the Committee on Civil Rights and Chairperson Debi Rose for this opportunity to testify in support of the Stop Credit Discrimination in Employment Act.

Over the past decade, Dēmos has conducted extensive research on credit card debt among low- and middle-income households. As part of this research, we have become increasingly concerned with how families are being financially penalized for being in debt, making it difficult, if not impossible, for them to ever get out of debt. In 2012, we surveyed a nationally representative sample of about a thousand low- and middle-income households that were carrying credit card debt for three months or longer. I was the principal researcher on that study. 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.

I also found that credit checks have a real impact – people are shut out of job opportunities because of their credit. Under the terms of the federal Fair Credit Reporting Act employers are required to provide official notification if a credit report played any role in a decision not to hire someone.² The problem is that this is hard to enforce, so many job applicants may never find out that their credit report was the reason they were denied work. Nevertheless, some people are informed, and among those in the 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. This indicates that credit checks really are a barrier to employment.

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 15 U.S.C. §1681b (b) (3).

What does a credit report really reveal about someone? I found that poor or declining credit is associated with households experiencing job loss, lacking health coverage, or having medical debt.

New York City recently passed landmark legislation outlawing job discrimination against people who are currently unemployed. Unfortunately, employment credit checks are another means of discrimination against people who are out of work: it's hard to maintain good credit when your household has been coping with extended unemployment. That's exactly what I found in this research.

I 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 huge impact. That includes people who have health insurance of one kind or another. But among the uninsured in our sample, the impact on credit appears even more powerful. Households that include someone who is uninsured are more than twice as likely to describe their credit as poor and are also more than twice as likely to say that their credit score has declined significantly over the past three years, compared to households where everyone has insurance coverage. 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.³ A lot of what employers are looking at on credit reports is medical debt, but they don't know that.

We 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. For example, 65 percent of white households in our sample describe their credit as “good” or “excellent” compared to just 44 percent of African American households. Latino households tend to fall somewhere in the middle. Unfortunately our sample sizes were too small to have statistically significant data about other racial or ethnic groups.

Our data on racial disparities is consistent with previous research, including findings by the Federal Reserve Board and the Brookings Institution.⁴ Other researchers have pointed out that a number of factors 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.

³ Robert Avery, Paul Calem, Glenn Canner and Raphael Bostic, “An Overview of Consumer Data and Credit Reporting, Federal Reserve Bulletin, 2003.

⁴ 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,” Brookings Institution, 2006.

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.⁵ They found a smaller percentage of consumers have errors that would actually affect their credit score in a way that would make it harder for them to get a loan, but I think this 21 percent number is the most relevant for the employment context, 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. Credit reports were developed to guide lenders, not employers. 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, we find that in our 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. . Employers may not realize this is what they are looking at on a credit report, but to a large extent, it is. The Dēmos study is another piece of evidence that employment credit checks are an illegitimate barrier to employment. And so I urge the Committee on Civil Rights to stop this discrimination by passing Intro 857. Thank you.

⁵ "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.