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Testimony of Amy Traub, Senior Policy Analyst, Dēmos
To the New York State Assembly
Committee on Consumer Affairs and Protection and
Committee on Banks

On the accuracy and use of consumer credit reports

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Good afternoon. 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 a national organization based here in New York City. I thank the committees for this opportunity to present testimony.

One motivation for this hearing is the recent study by the Federal Trade Commission finding that one in five American consumers identified material errors on their credit reports that were substantiated by the credit reporting agencies.[1] While not all of these errors would affect consumer borrowing, the FTC's research suggests that as many as 10 million Americans (five percent of consumers with credit reports) have errors in their credit reports so serious that they would likely pay more for auto loans or other credit -- or would be shut out of credit opportunities entirely. That's a troubling statistic for borrowers, especially given the tremendous difficulty consumers face in getting errors in credit reports resolved. But the problem with credit reporting errors may be much greater than the numbers suggest because credit reports are also widely used to screen job applicants for employment.

My own recent research finds that among low- and middle-income households that are carrying credit card debt, one in four adults who are unemployed have been asked to submit to a credit check as part of a job application.[2] One in ten unemployed people in our survey population say they have actually been turned down for a job due to their poor credit. This nationally representative scientific survey tells us that employment credit checks are common and that people are denied jobs because of them. I have submitted copies of my research along with my written testimony.

The way that credit reporting errors affect lending is straightforward: you can mathematically measure how much someone's credit score is affected by any given error. However, the impact of credit reporting errors on employment is far more difficult to assess. Unlike lenders, employers do not look at a hard number like a credit score but rather subjectively assess the credit report's list of accounts. There is no social science evidence providing that any of the data on a personal credit report is relevant to employment, so employers are on their own, subjectively deciding how much weight they give to elements such as foreclosures, late bills, or accounts in collection. What looks significant to one employer might not seem important to another.

The consequence is that a credit reporting mistake that is too small to make a difference in applying for a loan might nevertheless stand out to an employer and cost someone a job.

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[1] "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.
[2] Amy Traub, "Discredited: How Employment Credit Checks Keep Qualified Workers out of a Job," Demos, 2013. Available online at http://www.demos.org/discredited-how-employment-credit-checks-keep-qualified-workers-out-job

Unfortunately, the safeguards included in the federal Fair Credit Reporting Act (FCRA) are insufficient to protect job-seekers from credit reporting errors. Under the law, employers are required to notify job applicants before implementing a decision not to hire them based in any part on information from a credit report, but if you ask any law enforcement official with expertise in this area, they will tell you that employer compliance with this rule is nearly impossible to monitor or enforce. Many employers never tell job applicants that information in their credit report was part of the reason they were not hired. As a result, job applicants may never realize that they were not hired because of their credit report and further may not realize that their credit report contains errors.

My research suggests that even when credit reports are accurate and free of errors they are not reliable for employment purposes. We find that poor or declining credit is associated with households experiencing job loss, lacking health coverage, or having medical debt. These are factors that are largely outside an individual's control and reveal much more about someone's personal misfortune than their qualifications to get a job.

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. Our data on racial disparities is consistent with previous research.[3] For this reason, the use of credit checks in employment raises serious civil rights concerns.

In conclusion, our research indicates that credit reporting errors are an even more serious problem for employment than they are for lending. 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 such race, medical debt and household unemployment. The Dēmos study is another piece of evidence that employment credit checks are an illegitimate barrier to employment.

[3] 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.