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FOR IMMEDIATE RELEASE: JULY 16, 2012

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Advocates Applaud CFPB Move to Supervise Big Credit Reporting Agencies

WASHINGTON–Consumer advocates at the National Consumer Law Center (NCLC) applauded today's announcement by the Consumer Financial Protection Bureau (CFPB) that the agency would begin oversight of the nation's largest credit reporting agencies on September 30. "The fact that the CFPB will oversee the large credit reporting agencies is a game changer," stated Chi Chi Wu, staff attorney at National Consumer Law Center. "This could potentially improve the economic lives of millions of Americans by improving the accuracy of the system and its responsiveness to consumers."

A credit report is a record of how a consumer has borrowed and repaid debts. About 200 million Americans have their credit reports on file with the three largest credit reporting agencies (CRAs)– Equifax, Experian and TransUnion (also known as the "Big Three"). These reports also form the basis of credit scores, the three-digit numbers from FICO and VantageScore.

Credit reports and scores have an enormous impact on the economic lives of Americans, because they are used by the vast majority of lenders in the U.S., as well as by insurers, employers, landlords, and others. Yet until today, these three companies were not subject to supervision by any federal agency. The Federal Trade Commission (FTC) had the ability to take law enforcement actions against the Big Three CRAs, but such actions were difficult, rare, and costly.

"The CFPB will have far stronger tools to regulate the Big Three CRAs," explained Lauren Saunders, managing attorney of National Consumer Law Center's office in Washington, D.C. "The CFPB will have the authority to examine the policies and procedures of these companies, to go deep in its supervision, and to require changes much more quickly through the supervision process than the FTC could."

Wu expressed hope that oversight by the CFPB would lead to better accuracy and a better credit reporting system. She noted that there have been longstanding complaints about the accuracy of credit reports, as well as the handling of disputes over errors. Studies by consumer groups have found errors in 25% of credit reports serious enough to cause a denial of credit, while studies funded by the industry have claimed that this rate was less than 1%. Even an error rate of 1% is problematic, given that means that two million consumers would be affected. Consumers can check their credits reports for errors and are entitled to one free report from each of the Big Three CRAs each year, available through www.annualcreditreport.com.

As for the dispute process, the Fair Credit Reporting Act (FCRA) requires that credit reporting agencies conduct a "reasonable investigation" when a consumer files a dispute over an error in their credit reports. Yet a 2009 report by NCLC (http://www.nclc.org/images/pdf/pr-reports/report-automated_injustice.pdf) found that the Big Three CRAs have turned the FCRA dispute process into a travesty by conducting investigations in an automated and perfunctory manner. The Big Three translate the detailed written disputes submitted by desperate consumers into two or three digit codes, and limit their role to little more than selecting and sending these codes off to the creditor or other entity that furnished this information.

“This week, the CFPB celebrates its one-year anniversary, and it is the bureau that is giving the American public a great birthday gift,” noted Wu. “We are thrilled that consumers finally have a government agency on their side whose mission is to make sure that the credit reporting system works for them.”

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