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FOR IMMEDIATE RELEASE: DECEMBER 13, 2012

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STATEMENT: CFPB REPORT CONFIRMS SERIOUS FLAWS IN CREDIT REPORTING SYSTEM; POINTS TO NEEDED REFORMS

BOSTON—Consumer advocates from the National Consumer Law Center (NCLC) responded to a report released by the Consumer Financial Protection Bureau (CFPB) today by calling for reforms to the credit reporting dispute system and stricter controls on credit reporting by debt collectors. "We appreciate the CFPB's report which confirms the National Consumer Law Center's own research," said NCLC attorney Chi Chi Wu. "There are serious problems with the credit reporting system, and in particular, the dispute system is broken."

The CFPB report describes an automated dispute system in which the credit bureau often limits its role in disputes to little more than assigning codes as to what type of dispute is at issue: the credit bureaus do not examine documents, contact consumers by phone or email, or exercise any form of human discretion in resolving a dispute. The vast majority (85%) of credit reporting disputes are passed on to the company (known as a furnisher) that provided the information. However, according to the CFPB, "the documentation consumers mail in to support their cases may not be getting passed on to the data furnishers for them to properly investigate and report back to the credit reporting company."

In 2009, the National Consumer Law Center documented the same problems with the credit reporting dispute system and the potentially devastating impact on consumers who can't get errors in their credit reports corrected in *Automated Injustice: How a Mechanized Dispute System Frustrates Consumers Seeking to Fix Errors in Their Credit Reports*.

The CFPB report also indicates the need to have a different system in place for debt collectors, which generated 40% of disputes to the credit bureaus despite constituting only 13% of the accounts in credit reports. "The fact that a disproportionate percentage of disputes comes from debt collectors is telling," noted NCLC Deputy Director Robert Hobbs. "Credit reporting by debt collectors needs stricter screening, oversight, and control by both the credit bureaus and the regulators. The credit bureaus also need to kick out bad actors who continually provide inaccurate information."

Consumer advocates noted that debt collectors have little incentive to correct errors in response to a dispute as removing negative information means losing the opportunity to collect the debt. "The main objective of debt collectors and debt buyers is to get paid," added Wu. "The debtor is not their customer and they don't need to maintain a good relationship with him or her. So it doesn't matter if the amount is wrong, there is a dispute as to liability, or even if they have the wrong person – so long as they can use the credit report to pressure the consumer to pay up."

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