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Highlights

Highlights of GAO-03-1036T, a statement for the record to Senate Committee on Banking, Housing, and Urban Affairs

July 31, 2003

CONSUMER CREDIT

Limited Information Exists on Extent of Credit Report Errors and Their Implications for Consumers

Why GAO Did This Study

Accurate credit reports are critical to the credit process—for consumers attempting to obtain credit and to lending institutions making decisions about extending credit. In today's sophisticated and highly calibrated credit markets, credit report errors can have significant monetary implications to consumers and credit granters. In recognition of the importance of this issue, the Senate Committee on Banking, Housing, and Urban Affairs asked GAO to (1) provide information on the frequency, type, and cause of credit report errors, and (2) describe the impact of the 1996 amendments to the Fair Credit Reporting Act (FCRA) on credit report accuracy and potential implications of reporting errors for consumers.

What GAO Recommends

The lack of comprehensive information regarding the accuracy of credit reports inhibits any meaningful discussion of what could or should be done to improve credit report accuracy. Because of the importance of accurate credit reports to our national credit system, it would be useful to perform an independent assessment of the accuracy of credit reports. Another option for improving the accuracy of credit reports would be to create more opportunities for consumers to review credit reports. Such added reviews would likely help further ensure the overall accuracy of consumer credit reports.

www.gao.gov/cgi-bin/getrpt?GAO-03-1036T.

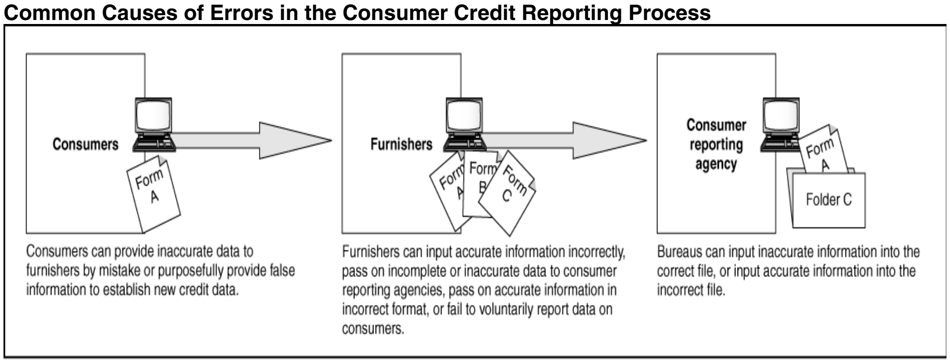
To view the full product, including the scope and methodology, click on the link above. For more information, contact Rick Hillman at (202) 512-8678 or Harry Medina at (415) 904-2220.

What GAO Found

Information on the frequency, type, and cause of credit report errors is limited to the point that a comprehensive assessment of overall credit report accuracy using currently available information is not possible. Moreover, available literature and the credit reporting industry strongly disagree about the frequency of errors in consumer credit reports, and lack a common definition for "inaccuracy." The literature and industry do identify similar types of errors and similar causes of errors. Specifically, several officials and reports cited collection agencies and governmental agencies that provide information on bankruptcies, liens, collections, and other actions noted in public records as major sources of errors. Because credit report accuracy is essential to the business activities of consumer reporting agencies and credit granters, the credit industry has developed and implemented procedures to help ensure accuracy. However, no study has measured the extent to which these procedures have improved accuracy. While the Federal Trade Commission (FTC) tracks consumer complaints on FCRA violations, these data are not a reliable measure of credit report accuracy. Additionally, FTC has taken eight formal enforcement actions directly or indirectly related to credit report accuracy since Congress enacted the 1996 FCRA amendments.

Neither the impact of the 1996 FCRA amendments on credit report accuracy nor the potential implications of errors for consumers is known. Specifically, because comprehensive or statistically valid data on credit report errors before and after the passage of the 1996 FCRA amendments have not been collected, GAO could not identify a trend associated with error rates. Industry officials and studies indicated that credit report errors could either help or hurt individual consumers depending on the nature of the error and the consumer's personal circumstances. To adequately assess the impact of errors in consumer reports would require access to the consumer's credit score and the ability to determine how changes in the score affected the decision to extend credit or the terms of the credit granted. Ultimately, a meaningful independent review in cooperation with the credit industry would be necessary to assess the frequency of errors and the implications of errors for individual consumers.

Common Causes of Errors in the Consumer Credit Reporting Process



Source: GAO analysis of credit industry and Federal Reserve interview data.