SPRINGBOARD
NON-PROFIT CONSUMER CREDIT MANAGEMENT

April 21, 2005

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FEDERAL TRADE COMMISSION
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APR 26 2005
SECRETARY

Donald S. Clark, Secretary
Federal Trade Commission
Room H-159 (Annex Y)
600 Pennsylvania Avenue, NW
Washington, DC 20580
Submitted by e-mail:

Dear Secretary Clark:

Introduction
Springboard Nonprofit Consumer Credit Management and the Institute for Consumer Financial Education (ICFE) appreciate the opportunity to submit the following comments about the effects of credit scores and credit-based insurance scores on the availability and affordability of financial products. We would like to focus these comments specifically on questions 23 and 24:

23. How does the use of credit scores affect consumers with inaccurate information on their credit reports? How does the use of credit scores affect consumers who have been the victims of identity theft?
24. Are there particular forms of inaccuracy or incompleteness in the credit reporting system, such as incomplete reporting by creditors that affect either the usefulness of credit scores to lenders or the benefits or disadvantages of scoring to consumers? What are those types of inaccuracies or incompleteness? How do they affect the usefulness of credit scores to lenders or the benefits or disadvantages of scoring to consumers?

Springboard and the ICFE both offer assistance with financial literacy and credit life empowerment through confidential counseling and debt remediation programs for financially troubled individuals. Springboard and the ICFE have direct experience with the credit reporting problems of thousands of consumers over several decades. Our experience with consumer credit reports confirms the results of recent studies that have found a high enough incidence of errors serious enough to cause consumers to be denied credit, a loan, an apartment or home loan or even a job.

From the outset we would like to emphasize that we support and validate the concept of credit scoring insomuch as this has "democratized" to a much greater degree than before its general use in the U.S. credit system and because credit scoring should provide an objective means of understanding and measuring risk and deploying credit accordingly. We applaud any efforts that will improve the accuracy of credit reports and the integrity of scoring models, and that will also improve and simplify how we handle inaccuracies and disputed items on our credit reports. It is well established that credit scores are now a cornerstone of the U.S. credit system. Credit scores determine or at least greatly influence access to housing, unsecured credit lines, insurance, utility and cell phone services, and employment. Since they are based on credit reports, it is imperative that the underlying data be correct for 1) the score to have any meaning and 2) for consumers to accept the validity of credit scoring. The growing use of credit scores has expedited the speed and efficiency of credit granting and the customized pricing of credit. However, in consumer and commercial lending, inaccurate scores can result in unfair treatment of borrowers who are denied or charged high prices for credit.

Damage has been done to the integrity of credit reporting and scoring from all sides of the credit granting and receiving spectrum: 1) from the credit bureaus who are in control of these databases and responsible for their accuracy and integrity and accountable to consumers, 2) from the creditors and collection agencies who have employed incomplete credit reporting methods as a defensive marketing tactic, or unethical and even predatory credit reporting tactics that serve to manipulate credit scores deliberately, and lastly, 3) from consumers themselves who resort to aggressive or even fraudulent methods of credit repair to create a falsely positive credit history for themselves, albeit many times out of necessity due to unresponsiveness and irresponsibility on the part of bureaus and data furnishers.

For example, recent years have seen the proliferation of junk debt buyers who prey upon consumers to collect expired debts or even debts that don't belong to a consumer. Their method of collecting has as its primary strategy the tactic of immediately stinging the credit report in order to force a settlement, often mis-representing the debt as more recent than it really is and/or reporting the debt as revolving, which is inaccurate and which causes the score to further decrease since the "utilization factor" calculates higher than it should. If the consumer goes along and settles the debt this has the perverse impact of causing the credit score to plummet further (since activity has been updated to the current time period). Credit bureaus cooperate with junk debt buyers to sell them their prescreened credit offer lists of names for comparison to their bad debt accounts. Junk debt collecting is a settlement driven business and the consumer is brought to the table by aggressive and often illegal credit reporting tactics, often in contravention of the Fair Credit Reporting Act and Fair Debt Collections Practices Act. Credit bureaus should not be allowed to prohibit "pay for delete" arrangements in their contracts with collection agencies.

The Frequency of Errors on Consumer Credit Reports

As stated above, our experience with consumer credit reports over many years confirms that there are still many errors and that deliberate manipulations of credit reports and scores are on the upswing. The Public Interest Research Group (PIRG) published a study *"Mistakes Do Happen: A Look at Errors in Consumer Credit Reports"* (www.pirg.org) in which it was found "one in four credit reports contains errors serious enough to cause consumers to be denied credit, a loan, an apartment or home loan or even a job." The Consumer Federation of America (www.consumerfed.org) in cooperation with the National Credit Reporting Association published a 2002 report that was a comprehensive review of the state of consumer credit and the relationship to credit inaccuracies, credit pricing models, and the overall effects of inaccurate negative credit items on a consumer's credit profile. That report concluded that over 41% of credit files had incorrect demographic identifying information, and 20% were missing major credit cards, loans, or mortgages. In total, 70% of reports contained an error of some kind. We also were gratified to see the August 2004 study of the Federal Reserve Board "Credit Report Accuracy and Access to Credit" in identifying the many types of data integrity issues in credit reports (http://www.federalreserve.gov/pubs/bulletin/2004/summer04_credit.pdf) and provided detail on the many types of errors or practices that result in are ambiguous, duplicative, or incomplete records. These errors and practices affect the usefulness of credit scores to lenders and degrade the benefits of scoring to consumers (although it should also be recognized that some errors and practices result in inadvertent benefit to consumers as well and this point was raised in the FR report).

The question of how to legislate or mediate credit-scoring fairness for consumers while protecting the integrity of the U.S. credit system is complicated by the fact that our credit system is based on voluntary reporting. Legislating mandatory reporting would no doubt create a multitude of unanticipated impacts and is not a desirable path. Alternative systems of analyzing credit histories are already being employed and vigorous enforcement of reporting violations under existing laws will go a long way towards stemming abuses. Thank you for your consideration of these comments.

Respectfully,

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About Springboard Nonprofit Consumer Credit Management
Springboard, a nonprofit credit counseling and education organization founded in 1974, offers assistance with financial education through a variety of confidential counseling and education programs for consumers. Springboard is accredited by the Council on Accreditation of Services for Families and Children, signifying high standards for agency governance, fiscal integrity, counselor certification and service delivery policies that ensure low-cost confidential services performed in an ethical manner. Springboard is a member of the National Foundation for Credit Counseling and is a HUD approved housing counseling agency. Springboard has counseling locations throughout Southern California offering face-to-face, online and nationwide phone counseling services for debt management, credit report correction, and money management education. For more information on Springboard, call 1-800-947-3752 ext. 702 or visit their web site at www.credit.org.

About the Institute for Consumer Financial Education
The Institute of Consumer Financial Education (ICFE) was founded in 1982 and is dedicated to helping consumers of all ages to improve their spending, increase savings and use credit more wisely. The ICFE trains and certifies Personal Finance Instructors for its own curriculum. It also trains and certifies Credit Report Reviewers and Identity Theft Prevention Specialists. The ICFE publishes the "Do-It-Yourself Credit File Correction Guide", now in its 16th printing. The ICFE is an official partner of the Department of Defense/Financial Readiness Campaign. The ICFE is also a partner in the following: the national Jump$tart Coalition for Financial Literacy, the California Jump$tart chapter, San Diego Saves (an offshoot of America Saves), the California Student Debt Resource Awareness Project (CASDRAP), and Springboard's San Diego Advisory Board. The ICFE helps consumers with mending spending, learning about the proper use of credit, budget and expense guidelines, how to set up and implement a spending-plan and also how to access financial education courses and videos and how to teach children about money. For more information on the ICFE visit their website at www.icfe.info.