Summary of FTC Roundtable on Accuracy and Completeness of Credit Reports

On June 30, 2004, the FTC's Bureau of Economics held a roundtable discussion with researchers, scholars, and practitioners in the consumer reporting industry on methods for assessing the accuracy and completeness of consumer reports.[1] The purpose of the roundtable was to provide a forum for reviewing methodologies; the roundtable was not intended to address ways to improve accuracy or completeness, or the benefits and costs of any requirements pertaining to consumer reports.

The first three sessions of the roundtable focused on the various methods that have been used to study the accuracy and completeness of consumer reports: (1) consumer reviews of their own consumer reports; (2) reviews of records of consumer reporting agencies ("CRAs") and furnishers; and (3) reviews of consumer reports pertaining to the same person. In these sessions, the principal parties directly involved with the existing studies on accuracy and completeness reviewed those studies and their methodologies. In the final session, panelists summarized their views regarding an appropriate methodology for the FTC's upcoming study. Most participants agreed that the study should be based on a representative sample of consumer reports that would be statistically projectable to consumer reports nationwide, and that the study should focus on errors that have a significant impact on consumers' ability to obtain credit. The summary given below follows the order of presentations and group discussions as they occurred at the proceedings.[2]

Session I: Methodologies that Focus on Consumer Review

The panelists in the first session discussed methodologies that focus on consumers reviewing their own consumer reports, also called a consumer survey approach. The session began with a presentation by Gerard Butters from the FTC's Bureau of Economics that provided a staff overview of a nationwide consumer survey under consideration and of a proposed pilot

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[1] A Federal Register Notice announced the roundtable. Notice of Roundtable to Aid Federal Trade Commission Staff in Conducting a Study of the Accuracy and Completeness of Consumer Reports, Pursuant to Section 319 of the Fair and Accurate Credit Transactions Act of 2003, 69 Fed. Reg. 32,549 (June 10, 2004).

[2] This document, which was prepared by FTC Staff, is simply a summary of the roundtable and does not represent the views of the Commission or any individual Commissioner. Certain participants gave prepared remarks, and all participants were invited to join in the group discussion following each presentation. A full transcript of the proceedings, agenda, and list of participants are available at http://www.ftc.gov/be/workshops/methodologiesaacc/index.htm .

study. (Tr. 7-21).[3] The presentation highlighted the role of expert coaches who would help consumers understand their reports and also help facilitate contact with CRAs and data furnishers. The presentation also noted that the study would look at whether changes to information in consumer reports resulted in changes to the consumers' credit scores.[4]

Mr. Butters discussed what he viewed to be the two main advantages of a consumer survey approach. First, he stated that the consumer is the single greatest expert about his or her own credit history; to get comparable information from other sources, one might need to contact many furnishers and speak to people with no personal memory of the relevant events. Second, he stated that a study based on a consumer survey approach would fill a gap in the existing literature in that there is no nationally representative study on consumer reports using a survey approach which critically examines the consumer's recollections and judgments.

Mr. Butters also noted that a consumer survey approach would have to contend with a number of problems. First, some consumers may be confused by the way information is reported and may not recognize items that do belong to them. Second, consumers may mistakenly challenge items because they do not understand their credit obligations. Third, some accurate items may be perceived as inaccurate because of lapses in the consumer's memory or failure to maintain and consult the appropriate records. Fourth, consumer answers to a survey may be biased, either intentionally or unintentionally. For example, consumers may do a better job of remembering and confirming favorable information in their files than derogatory information.

Mr. Butters explained how expert coaching would serve to minimize these problems by helping consumers decipher their consumer reports, correcting consumer misunderstandings of their credit obligations, helping probe consumer memory, and inducing consumers to check their records. An expert coach would also facilitate a systematic and critical comparison of consumers' views with what may be contained in furnisher records. This could involve consumer contact with data furnishers, a formal FCRA dispute-resolution process, and expert coach contact with the furnishers.

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[3] The Commission recently issued a notice of a pilot study and a request for comment. Notice of a Pilot Study to Aid Federal Trade Commission Staff in Conducting a Study of the Accuracy and Completeness of Consumer Reports, Pursuant to Section 319 of the Fair and Accurate Credit Transactions Act of 2003, 69 Fed. Reg. 61,675 (October 20, 2004).

[4] To facilitate discussion throughout the course of the roundtable, Mr. Butters also described how, for the purpose of the contemplated national survey, the Bureau of Economics understands the following terms: (i) *inaccuracy*: an error of commission, or some reported piece of information in a consumer report that should not be there and that causes the consumer's credit score to be altered; and (ii) *incompleteness*: an error of omission, or a generally-collected piece of information that is missing from a consumer report and that causes the consumer's credit score to be altered. These characterizations are not legal definitions but only convey how certain matters may be approached by the study.

Mr. Butters also discussed his views of what would be involved in adapting a consumer survey design to a nationwide scale. He stated that nationwide participation would appear to rule out in-person interviews, leaving telephone contact and mail, supplemented by email when available, as the most realistic approach. The approach would require a fairly large number of consumer coaches and then a development of uniform selection and training procedures to ensure that the coaches adopt a consistent approach. There would also be a need to devise checks on consistency of the instructions and procedures so as to minimize coach-specific biases and to demonstrate the reproducibility of the procedures.

Mr. Butters explained that, in light of these potential difficulties, the FTC staff plans to conduct one or more pilot studies of the consumer survey approach. The pilot studies will help the FTC determine the efficacy of expert coaching and the amount of time that coaching would take per consumer. The pilot studies will also help to identify additional problems not yet considered.[5]

In the group discussion that followed Mr. Butter's presentation, various roundtable participants offered their views on consumer survey methodology. (Tr. 22–35).[6] Stuart Pratt from the Consumer Data Industry Association ("CDIA") focused on the need to affirm the materiality of any alleged error. He noted the difficulty of obtaining consistency among those who would function as expert coaches. Fred Cate with the Center for Applied Cybersecurity Research emphasized the difficulties in relying on consumers to identify errors, or to allow their judgment to be a standard for accuracy, since consumers may not remember matters that truly occurred and generally do not understand consumer reporting procedures.[7] In the course of further discussion, Paul Wohkittel from Lender's Credit Services stated that, based on his own experience in working with consumers as a professional reviewer of consumer reports related to mortgage applications, expert review and assistance is both feasible and beneficial toward obtaining reliable consumer report information.

Robert Avery from the Federal Reserve Board expressed concern about the contemplated national survey of consumers and suggested a certain alternative to sampling consumers and

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[5] Further, Mr. Butters highlighted certain sampling issues. For example, the sample could cover the entire U.S. adult population; the U.S. adult population with credit history; a sample of credit files obtained from the three nationwide CRAs; or a sample of consumer reports actually drawn for business purposes. (Tr. 15-19).

[6] For ease of summarizing the roundtable proceedings, speakers are identified only by name and organization; for identification of titles/positions in their respective organizations, see List of Participants at http://www.ftc.gov/be/workshops/methodologiesaacc/index.htm .

[7] Later in Session I, Mr. Mallory Duncan of the National Retail Federation agreed with these concerns, highlighting especially his concern with the introduction of consumer bias and his belief that the contemplated survey would not be able to achieve a "margin of error" for its reported results within a customary range of plus or minus two percentage points. (Tr. 57–60).

their credit reports. He stated that the FTC could formulate a study frame comprised of any number of trade lines from the consumer files held by the credit bureaus. He recommended focusing on items having a greater likelihood of material error and sending consumers letters that request review of specifically chosen items in their consumer reports. He believed this type of focus would determine the frequency of certain kinds of material errors, though not an assessment of these errors in general, which he noted to be far more difficult.

Following the FTC's presentation and group discussion, Edward Mierzwinski and Alison Cassady from the US Public Interest Research Group ("US PIRG") conducted a presentation on the consumer survey approach. (Tr. 35−49). They took note of US PIRG's June 2004 study, "Mistakes Do Happen," an update to their 1998 consumer report study of the same title.[8] After briefly summarizing the recent findings,[9] they presented their views on the consumer survey approach. The speakers argued that the consumer is in the best position to recognize errors in his or her consumer report and that the consumer is the most reliable expert in areas that have the most direct effect on the credit score: whether he or she has filed for bankruptcy, has ever opened a significant line of credit with a major bank, or has ever faced collections.

The speakers then described the methodology of their 2004 study. US PIRG sent emails to thousands of the organization's members across the country, requesting voluntary participation in the survey. The email directed consumers to the US PIRG website where they could indicate if they were willing to participate, and, if so, to state from which nationwide CRA(s) they planned to order their report. If a consumer volunteered to participate but did not complete a survey within seven days, they were sent a reminder email with a direct link to the survey form. US PIRG did not give monetary compensation for ordering consumer reports. Beyond asking its own staff and membership, US PIRG also asked coalition partners, friends and family to complete the survey.[10] The speakers stated that the methodology was adequate to give

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[8] National Association of State PIRGs, *Mistakes Do Happen: A Look at Errors in Consumer Credit Reports* (June 2004).

[9] US PIRG highlighted the study's finding that one in four of the surveyed consumer reports contained serious errors that could result in the denial of credit ("serious errors" defined as accounts that are incorrectly marked as delinquent, accounts inaccurately listed as being in collections, accounts listed that do not belong to the consumer whether or not in good standing, and bankruptcies, tax liens, and other judgments that do not belong to the consumer or are still listed as open even though they have been resolved). Further, the study found that approximately eight out of ten (79%) of the surveyed consumer reports contained either serious errors or other mistakes of some kind, such as missing accounts, inaccurate demographic information, closed accounts that are listed as open, inaccurate credit limits, and loans and mortgages listed more than once.

[10] Ms. Cassady noted that, in total, there were 200 consumer reports from 154 respondents in 30 states. (Some of the respondents obtained reports from several CRAs.) The ages of the respondents ranged from 20 to 81, with an average age of 40.

a representative sample of consumer reporting problems, and that the results were in general agreement with the findings of other surveys conducted by consumer groups. They also stated that the results tracked those of studies conducted by the Consumer Federation of America (CFA) and the Federal Reserve Board (FRB).

Mr. Mierzwinski and Ms. Cassady summarized the challenges they experienced in conducting a survey based on a consumer review of consumer reports. They stated that the primary challenge was securing consumer participation, which was difficult because: (a) consumers had to purchase the consumer reports themselves (generally at a cost of nine dollars for each report); (b) consumers may have been afraid to look at their consumer reports, as many may not have liked seeing their credit history in print; (c) some consumers were confused and thought that by ordering a consumer report they would lower their credit score; and (d) consumers were concerned about the privacy of personal information when transmitting it by email or sharing it with a US PIRG representative. The speakers noted the importance of crafting carefully worded questions on the survey instrument and providing detailed instructions with "frequently asked questions" about how to understand a consumer report.

US PIRG also commented on some important factors to consider regarding the population under study in a consumer survey. The first factor is the age of the participant; 21-year-old persons are much less likely to have an extensive credit history than 50-year-olds and thus are less likely to have serious errors in their reports. Most of the consumers surveyed in the 20 to 21-year-old bracket had no reported errors in their consumer reports. Second, the consumer's state of residence is important, because states that have offered free consumer reports for some time may have different error rates than other states (it is more likely for a consumer to ask for a free consumer report and examine it for errors). A third factor is marital status; consumers who are married or divorced are more likely to note that their spouse's information appeared on their consumer reports and may thus question the accuracy of their own report. A fourth factor is income. Affluent consumers have a more extensive consumer reporting history with more trade lines than less affluent consumers. Consumers with lower incomes may have more checkered credit histories, and the reporting of bankruptcies and collections offers additional opportunities for error.

Karlene Bowen from the Fair Isaac Corporation ("FICO" or "Fair Isaac"), the last presenter of Session I, described the factors that are important in determining a consumer's FICO credit score. (Tr. 65−73).[11] Fair Isaac begins its evaluation with over 300−400 potential characteristics or variables in a scoring system. These characteristics are pared to about 40 characteristics for the final model. In turn, these 40 characteristics can be divided into five

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[11] As indicated in the course of Mr. Butter's presentation, the proposed pilot study plans to use the FICO credit score (a matter that is also noted in the Federal Register Notice regarding the pilot study). Therefore, FTC staff believed it would be useful for readers of the roundtable proceedings to have available to them a description of the main factors that are incorporated in this score by Fair Isaac, the proprietary developer of the score.

categories to explain how the score works. In order of significance in contributing to the score, the first is payment history, making up about 35% of the weight in the scoring system. The second category is outstanding debt, or how consumers utilize their current credit, which comprises about 30% of the weight in the scoring system. Thus, payment history and utilization of current credit together comprise about 65% of the score. The third category, length of credit history, contributes approximately a 15% weight. The fourth category, pursuit of new credit, contributes another 10%. The credit mix (e.g., installment credit versus revolving credit) contributes a final 10%.

Ms. Bowen emphasized that how well a consumer has paid past credit (i.e., payment history) is very predictive of how well the consumer is likely to pay future credit. The FICO score assesses this matter in three ways. The score considers the *recency* of any delinquency (e.g., did the delinquency occur last month or did it occur a year ago); the score also considers *severity* of a delinquency (e.g., a 30-day delinquency versus a bankruptcy); and the score considers *prevalence* of delinquency, namely, the proportion of credit obligations that are reported as delinquent. On a statistical basis, the FICO score is very predictive of future payment behavior. Ms. Bowen further pointed out that the risk presented by a reported delinquency progressively diminishes over time. If a major delinquency is four years old, the predictive value is small and is almost equivalent to having no delinquency at all.

Ms. Bowen also explained that Fair Isaac has developed procedures to deal with common errors. For example, a consumer report may include two mortgage trade lines that represent the same mortgage line of credit. She explained that FICO has a procedure which assesses whether the two trade lines refer to the same item of information; if duplication is found, only the most recent trade line is incorporated into the FICO score.[12]

Session II: Methodologies that Focus on CRA and Furnisher Records

Session II focused on methodologies of studies based on reviewing records provided by CRAs and furnishers. Stuart Pratt from the CDIA opened this session. (Tr. 80-92). After emphasizing the voluntary nature of reporting by data furnishers, he summarized the main points of a 1992 Arthur Andersen Study commissioned by the CDIA's predecessor organization.[13] From a base of more than 100,000 consumers who applied for and were denied some form of credit (spread over four different geographic regions of the country), the study drew a random sample of approximately 15,700 consumer credit files. As evidenced by the files, some 1,200

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[12] Ms. Bowen also explained that the FICO score is periodically modified to compensate for changes in consumer behavior. For example, the FICO score strives to eliminate the effect of "credit shopping." (When a consumer shops for a loan, multiple lenders may request a credit report on the consumer.) She also discussed factors that do not go into the score, such as lender account reviews, prescreening inquiries, and employment and insurance inquiries. (Tr. 70-73).

[13] The Andersen study is hereinafter referred to as the "CDIA study."

consumers asked for their consumer reports after being informed of a denial of credit. Following this inspection, there were 304 disputes filed through the FCRA dispute-resolution process. Of the disputed reports, 36 led to a change in the credit decision. Mr. Pratt emphasized his belief that the study properly focused on the materiality of alleged errors, captured in the study by a change in the decision by the grantors of credit.[14] He noted that out of a sample of 15,700 consumers, about 300 (approximately 2%) disputed certain information. He further argued that upon considering the outcome regarding changed decisions, ultimately "very, very small percent-ages of files were ever implicated in a serious problem that resulted in a material effect." (Tr. 90).

Robert Hunt from the Federal Reserve Bank of Philadelphia considered different ways of examining the data obtained from the CDIA study. (Tr. 92−99). His approach considered the relative (i.e., conditional) proportions for various outcomes, and he provided the following examples. For those who requested their report (approximately 1,200 people), the number of disputed reports came to about 300; thus, about 25% of the people who looked at their report subsequently disputed the report. Also, in regard to the people who looked at their report, about 3% of the associated credit decisions (i.e., 36 of 1,200) were reversed. Moreover, for people who disputed their consumer reports, the frequency with which a credit decision was reversed from "no" to "yes" came to just above 13 percent.[15]

Mr. Hunt continued with a summary of the advantages, as well as disadvantages, of the CDIA study. On the positive side, he stated that the study began with a random sample, a procedure that he noted to be rather novel for consumer credit studies at the time. He also noted that the study used a very intuitive definition of what counts as a critical error in a consumer report, namely a circumstance in which a person is wrongly denied credit based on erroneous information in the report. He also commented on the relative efficiency of the study in that it relied on data used by both lenders and the credit bureaus in their ordinary course of business. The incremental costs of participation in the study were thus relatively low. On the negative side, Mr. Hunt noted that the CDIA study reported nothing regarding several important characteristics: the type of credit being applied for (e.g., a credit card, a car loan, a mortgage); the nature of information that was disputed by the consumer; and the type of information that was ultimately corrected (i.e., whether the corrected information was in regard to credit utilization, duplication of tradelines, major derogatories, etc.).

Mr. Hunt argued that if a CDIA study were replicated today, one would want to include

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[14] The study did not address risk-based pricing, which was not prevalent at that time. When creditors use risk-based pricing, an error could harm a consumer by rendering less favorable credit terms but without causing a rejection of credit by the lender.

[15] Mr. Hunt noted that at the conclusion of the study, Arthur Andersen indicated that the creditors' review of 37 files had not yet been completed. Thus, the observed frequency with which a credit decision was reversed after a dispute was 13.5% (36 out of 267 files reviewed).

not only the characteristics listed above, but also include various control groups. In addition to consumers whose credit applications were rejected, control groups would consist of a set of consumers whose applications were accepted by the same lenders and a random sample of credit files drawn directly from the credit bureaus. These groups could be used to determine whether consumers whose applications have been rejected are representative of the larger population of consumers. By comparing all three groups, one would obtain a much better sense of the distribution of material mistakes and also the implications of those mistakes across credit bureau files.[16]

Fred Cate from the Center for Applied Cybersecurity Research (Tr. 99-105) expressed the view that direct involvement of consumers in a review of credit reports was not a promising methodology. He noted that in the CDIA study, the consumers who disputed information in their reports turned out to be correct about their dispute in about one in eight cases: 36 changed decisions out of 267 creditor-reviewed reports, or approximately 13% of those who disputed their report. He also argued that because the study focused on people who thought they had a reason to object to something in their credit report (i.e., focused on people who disputed reports in the context of a denial of credit), the study was statistically biased towards finding a higher error rate than what generally occurs.

Mr. Cate further stated that the study was correct in focusing on material errors. He recommended that, in the contemplated national survey, the FTC make every effort to ascertain the types and causes of material errors. He also noted that a material error may go beyond what can be captured by an erroneous denial of credit. He argued that an assessment of errors should not only look at harm to certain individuals (e.g., people who were denied credit but should not have been, or people who received less favorable terms than what they would have received from a correct credit report), but should equally consider harm to the system when people get credit who should not have received it, or received it on more favorable terms, due to credit reports that incorrectly favored them. More generally on this point, he argued that the FTC's study should address the efficiency and reliability of the credit reporting system as a whole.

<u>Session III: Methodologies that Focus on Consumer Reports Pertaining to the Same Person</u>

The third session discussed a study and methodology that focused on reviewing de-identified consumer reports which pertain to the same person. Terry Clemans of the National Credit Reporting Association ("NCRA") and Brad Scriber of the Consumer Federation of America ("CFA") outlined a study that was carried out jointly between the CFA and the NCRA,

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[16] He noted that a random sample of files directly from the credit bureaus would need to be augmented with permission from the corresponding consumers to have their files reviewed for the purpose of the study. He further noted that it was presently unclear how this could be achieved and that the matter may require appreciably more thought.

hereinafter the CFA study. (Tr. 130–148).[17] Mr. Clemans noted that most NCRA members are resellers of consumer reports and that the study used anonymous consumer reports obtained by members of the NCRA. The approach in this study was to compare consumer reports obtained from each of the three nationwide CRAs that pertain to the same consumer. He noted that an important consideration in approaching this study had been to obtain a very large sample for analysis, while also reviewing some reports in depth. He also noted that, to secure compliance with the Fair Credit Reporting Act ("FCRA"), the study was entirely "blind"; i.e., those conducting the study received only consumer reports from which the consumer's personal identifying information had been redacted.[18]

Mr. Scriber then described the study and its results in greater detail. The study looked at three samples of consumers:

(1) The largest sample considered approximately 500,000 consumers. The main use of this sample was to describe differences in credit scores provided by the nationwide CRAs for the same consumer. Mr. Scriber noted that a difference of more than 50 points between the highest and lowest credit score applied to a substantial portion of the sample (29%) and that the average difference between highest and lowest score was 41 points. He emphasized that these differences in scores arise largely from differences in the data on file with each of the CRAs, rather than from differences in scoring techniques.

(2) The second sample considered approximately 1,700 consumers identified as "at risk," which was defined as those having a credit score near 620 (often considered to be the threshold between the prime and subprime mortgage markets). Mr. Scriber discussed two reasons for this focus: the variation in scores (across the consumer's three reports) is somewhat greater for this group, and this group is most likely to be harmed or helped by this variation. By looking at the contents of the three reports, the authors of the study attempted to determine which one of the three reports was the most accurate and also whether the consumer had been helped or harmed by the fact that not all three contained the most complete and accurate information. For 57% of the consumers, the authors were unable to make any determination. For the remaining consumers, the authors found that half were harmed by the variation, and half were helped by the variation.

(3) The third sample was a subset of 51 out of the 1,700 reports for "at-risk" consumers. These reports were analyzed in depth in an attempt to identify types and sources of errors. For many of these 51 consumers, the authors found that one CRA report was missing an account that was present in another of the consumer's reports. For example, they found that about 78% of these

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[17] Consumer Federation of America and National Credit Reporting Association, *Credit Score Accuracy and Implications for Consumers* (Dec. 17, 2002).

[18] This methodology also meant that consumers were not contacted for a review of information in their consumer reports.

consumers were missing a revolving account in good standing, and about 20% were missing a medical collection account. The authors also found discrepancies across the CRAs regarding specific accounts.

Mr. Scriber concluded with suggestions on how to conduct the FTC's contemplated study. He suggested that consumer interviews would add important information for the analysis that the CFA study was able to achieve, including further information on the sources of errors and omissions, as well as the groups most affected by errors and omissions. He also commented on studies that focus on disputed data, such as the CDIA study. Mr. Scriber noted that 92% of consumers in the CDIA study did not review their consumer reports, and he emphasized that an interpretation of the study relies heavily on what assumption is made about the reports that were not disputed.[19] He further stated that focusing on credit denial is too limited, because certain errors lead to higher interest rates charged to the applicant (under risk-based pricing), but not to an outright denial of credit. He argued that future tracking of trends in dispute rates could offer insight into changes in error rates. Finally, he emphasized the dynamic nature of the consumer reporting industry, and urged the FTC to design the study in such a way as to accommodate changes in the industry that may occur over the next eleven years.

In the discussion that followed (Tr. 148–159), Evan Hendricks from *Privacy Times* expressed strong support for the CFA study, calling it the "best study of credit report accuracy ever done," and further urged the Commission to build on this methodology. In contrast, Mr. Pratt from CDIA argued that the study had overemphasized "errors of omission," and that missing data should not be characterized as an "error" since missing data are not the result of a failure of the system but simply reflect the voluntary nature of data reporting.

Michael Turner from the Information Policy Institute next gave prepared remarks on the CFA study (Tr. 159–166). He stated that the findings from the first two samples had been very useful but that the size for the third sample had been much too small to draw any meaningful conclusions. Mr. Turner concurred with earlier remarks from the CDIA that "errors of omission" are often not genuine errors, but mainly reflect the voluntary nature of reporting by data furnishers. Nonetheless, he further affirmed that the extent of missing data does matter to consumers and should remain an important topic for study. He also noted that the ongoing nature of the study would be useful in giving a picture of the accuracy of consumer reports throughout the business cycle.

Session IV: Is There a Best Combination of the Reviewed Methodologies?

In Session IV, various speakers provided their views and recommendations regarding the contemplated national survey. (Tr. 187–196). Robert Avery of the Board of Governors, Federal Reserve began by noting substantial difficulties in undertaking the study, stating that in fact a

[19] Tr. 144–146. Mr. Scriber rejected the assumption that the consumers in the study who did not inspect their reports generally had correct information in their consumer reports.

number of studies might be needed to provide a reliable picture of the accuracy and completeness of consumer reports. Mr. Avery expressed reservations about using consumers to identify errors in consumer reports; nonetheless, he underscored the importance of assessing the materiality of any errors under consideration.[20] He highlighted the Federal Reserve's recent work related to materiality and noted that the FTC's future study might benefit from the simulated results on the materiality of consumer report accuracy obtained by the Federal Reserve's 2004 study.[21]

Greg Elliehausen of the Credit Research Center, Georgetown University defended the view that a survey of a representative sample of consumers would be a necessary part of any analysis of the accuracy of consumer reports. (Tr. 196–206). He argued that only the consumer can identify certain errors and omissions; discrepancies in consumer reports do not necessarily indicate errors; and the absence of discrepancies does not mean the absence of error. Indeed, he noted that omissions from consumer reports may remain completely undetected without involving the consumer. He further noted that studies that focus on certain events, such as credit denials or mortgage applications, examine an unrepresentative sample of consumers and credit histories; it is thus not possible to generalize from such studies in a reliable way. He granted, however, that a consumer survey will not be free of errors. In particular, a survey may not be completely representative, because the sample frame does not have complete coverage of the target population, and because some sampled consumers decline to participate or stop participating mid-way. Nonetheless, he viewed a national consumer survey approach as a necessary component in a reliable study of the accuracy and completeness of consumer reports.[22]

Alan Westin of *Privacy and American Business* (Tr. 206–211) expressed concern regarding the magnitude of the undertaking involved in any reliable study of consumer reports, noting that an inevitable lack of funding (required in the millions of dollars for the contemplated survey) would force various compromises fatal to a proper study. Beyond asking Congress for a

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[20] Earlier in the day (Tr. 31–32), Mr. Avery also pointed to the likelihood of a very large expense for a national survey, stating that the Federal Reserve's own Survey of Consumer Finances has a multi-million dollar price tag, incurred every three years.

[21] *See* Robert B. Avery, Paul S. Calem & Glenn B. Canner, *Credit Report Accuracy and Access to Credit*, *Federal Reserve Bulletin* (Summer 2004). The study addresses data limitations in consumer reports, such as ambiguous, duplicative, or incomplete data. For consumers whose consumer reports exhibit these problems, the study ran simulations in order to determine effects on the consumers' credit scores. The ability to successfully run such simulations was the result of an extensive analysis of 300,000 credit files. Among other things, this analysis allowed researchers to "reverse-engineer" the FICO credit score with an extremely high level of precision. In turn, they could subsequently estimate the effect of changing (adding or deleting) credit-relevant information in a consumer report.

[22] Mr. Elliehausen also commented on a number of more technical sampling-related issues not described here. (Tr. 197–205).

very substantial amount of money, he recommended a more modest approach beginning with several small studies of an experimental nature and from which no statistical conclusions would be drawn. He stressed that the study-project would have to be communicated to the public, and especially to the news media, as a work-in-progress; also, the procedure would involve second and third iterations so as to eventually reach a reliable study – or set of studies – from which certain statistical conclusions could be drawn.

Richard Le Febvre, of AAA American Credit Bureau & AAA Credit Expert Counseling Services, spoke about his experiences with consumer report inaccuracies in his vocation as the head of a small CRA. (Tr. 212−218). He enumerated the types of consumer reports inaccuracies he deals with on a daily basis, such as inconsistent methods of handling bankruptcy trade lines among the CRAs, duplication of trade lines regarding an account, inconsistent reporting of the length of a delinquency (beyond the different reporting cycles of data furnishers), and any number of mixed-file problems.[23] He affirmed the need of any study to assess the materiality of identified mistakes, and noted the usefulness of rapid re-scoring of a report to see the impact (or the extent of materiality) of the mistakes that he frequently encountered. Regarding the FTC's contemplated study, he pointed to the need for a clear definition of an "inaccuracy" in the context of consumer reporting, and he supported a study methodology that included an expert review of consumer reports in assessing the materiality and frequency of errors.

The next speaker, Evan Hendricks of *Privacy Times*, expressed support for an FTC study assessing the types, frequency, and causes of consumer report errors. (Tr. 219−217). He noted that the contemplated study might be an excellent vehicle to determine, among other things, the extent to which identity theft may now be a significant source of consumer report error. He also recommended that the FTC investigate mixed-file problems, including the extent to which a Social Security number may correspond to different names and addresses, thus contributing to mixed files. Mr. Hendricks further suggested that the FTC integrate the effect of the new availability of free consumer reports into its study of accuracy, and that the FTC take a close look at the FCRA dispute-resolution process. In closing, he argued that the current practice of risk-based pricing underscores the importance of report accuracy and also the more subtle nature of consumer harm that arises out of inaccurate consumer reporting.

The final panelist of the session was Joseph Duncan from the Information Policy Institute. (Tr. 227−232). He focused his remarks on four areas of concern: (1) proper overall design of a national study; (2) proper educational and instructional tools for consumers and study experts; (3) a sample design that may involve several studies; and (4) a clear definition of accuracy.

On overall study design, Mr. Duncan emphasized the need for "longitudinal research," stating that this could be accomplished in two ways. He stated that one method is to do cross-

[23] A "mixed-file problem" refers to a situation in which information collected about one consumer is incorrectly placed in another consumer's credit file.

sectional research involving the demographics of the population and consumer reports for a number of different years (e.g., every two years), and to compare the results. Mr. Duncan stated that a second method is to identify a panel of participants who are tracked over time. He recommended that the combination of these two approaches would provide an enhanced perspective on consumer report accuracy.

In reference to consumer surveys, Mr. Duncan noted that, on the one hand, consumers are in the best position to know about the transactions they have engaged in. On the other hand, he stated that consumers often do not understand what is involved in consumer reporting and may be confused about information in a consumer report. Mr. Duncan supported the notion of expert coaching and stressed the need to achieve consistency in this approach. He recommended computer-aided instructional material for the expert coaches so as to achieve uniformity in what the various coaches would be communicating to consumers. Also, in taking a sample of consumers, Mr. Duncan argued that one study sample would not likely be sufficient; he believed that a number of "study modules" may be needed in order to address the variety of issues and lenders. In total, the combination of these modules would likely comprise a very large sample, thus giving rise to cost considerations. He maintained that the FTC would need to commit itself to such a large sample if it intends to deal credibly with the complex issues inherent in consumer reporting.

Finally, Mr. Duncan pointed to the need for a clear definition of "accuracy" and a related method for measuring it – matters that would need to be settled before a national study could begin. He stressed that without this up-front delineation, there would be no possibility of a reliable ongoing assessment of the issues that pertain to consumer reporting.

After the prepared remarks of the panelists, various participants made observations in light of the discussions throughout the day. Most participants agreed that the FTC's future study of accuracy and completeness – in whatever manner it would be conducted– should be based on a representative sample of consumer reports that would be statistically projectable to consumer reports nationwide, and that the study should attempt to measure the materiality of the errors identified.