Banking and Finance Law Daily Wrap Up, FAIR CREDIT REPORTING—Waters bill seeks to overhaul credit reporting system, (May 20, 2016)

Banking and Finance Law Daily Wrap Up

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By Katalina M. Bianco, J.D.

Representative Maxine Waters (D-Calif), Ranking Member of the House Financial Services Committee, has introduced legislation intended to make the U.S. credit reporting system fairer, more accurate, and less confusing for consumers by taking the burden off consumers to fix credit reporting errors. According to the legislator, the Comprehensive Consumer Credit Reporting Reform Act of 2016 (H.R. 5282) would correct the "current imbalance in the system" by fixing the dispute process so that credit bureaus and furnishers, not consumers, would bear the burden of correcting errors.

"American consumers are increasingly reliant on credit information that is used to determine their ability to buy a house, open a checking account, or even get a job," Waters said. She added that it was "time to shine light into the mysterious ‘black boxes’ that generate credit scores and give victims, who are saddled with poor credit because of predatory and unfair practices, the chance for a fresh start."

According to a summary of the legislation, a 2012 Federal Trade Commission study found that one out of every five consumers has a verified error on one or more of their consumer reports and 5 percent had errors serious enough to result in them being denied credit or paying more for mortgages, auto loans, insurance policies, and other financial obligations. The credit reporting industry’s view is that the overall number of errors and their impact on consumers’ creditworthiness is small, but even a 5 percent error rate can adversely impact a large number of consumers because the three nationwide consumer reporting agencies maintain files for about 200 million consumers. The FTC’s finding indicates that 40 million Americans may have a mistake on one or more of their reports and 10 million Americans may have significant errors that can lead to them being overcharged for credit.

Legislation highlights. In addition to altering the current dispute process, H.R. 5282 would:

- shorten the amount of time that most adverse credit information stays on reports to four years;
- require that paid and settled debts are quickly removed from credit reports;
- protect the credit of victims of predatory and abusive practices related to foreclosures, private education loans, and fraudulent credit items resulting from caregivers, abusive domestic partners, or family members;
- rehabilitate credit for distressed private education loan borrowers who demonstrate consistent loan repayments for a period of time, similar to treatment of federal student loans;
- provide greater access to free consumer reports and credit scores;
- restrict the use of credit checks for employment purposes, an "unfounded and widespread practice"; and
- provide the Consumer Financial Protection Bureau with explicit authority to monitor the development of credit scoring models.

Consumer groups support bill. The Americans for Financial Reform, joined by a group of consumer, civil rights, labor, and community organizations, has asked Congress to support H.R. 5282. In a letter to members of Congress, the group noted that credit reports and scores play a major role in consumers’ economic lives. "They are the gatekeeper for affordable credit, insurance, rental housing, and sometimes unfortunately even a job." But they "suffer from unacceptable rates of inaccuracy." The legislation would help to make the system more accurate and fair, the consumer advocates stated.

Companies: Americans for Financial Reform

LegislativeActivity: CFPB CommunityDevelopment FairCreditReporting