Inaccuracies in Credit Reports
By ADR Staff

The Federal Trade Commission (FTC) and the Consumer Financial Protection Bureau (CFPB) have both recently published results of studies of the U.S. credit reporting industry. The FTC report is the first major study that looks at all the primary groups that participate in the credit reporting and scoring process: consumers; lenders/data furnishers, the Fair Isaac Corporation (FICO scores), and the national credit reporting agencies (CRAs). It is based on work with 1,001 participants who reviewed 2,968 credit reports with a study associate who helped them identify and correct possible errors on their credit reports. The CFPB report describes the credit reporting infrastructure at the three largest nationwide consumer reporting agencies (NCRAs) – Equifax Information Services LLC (Equifax), TransUnion LLC (TransUnion), and Experian Information Solutions Inc. (Experian) – with a special focus on the infrastructure and processes currently used by the NCRAs to collect, compile, and report information about consumers in the form of credit reports.

The numbers are staggering. According to the CFPB, the NCRAs each maintain credit files on over 200,000,000 adults and receive information from approximately 10,000 furnishers of data. On a monthly basis, these furnishers provide information on over 1.3 billion consumer credit accounts or other "trade lines." The 10 largest institutions furnishing credit information to each of the NCRAs account for more than half of all accounts reflected in consumers' credit files. Likewise, retail and network-branded revolving credit cards account for nearly 60% of all trade lines.

The CFPB report shows the NCRAs have designed a number of processes to standardize, automate, and perform quality controls on incoming data. When data files are received, the NCRAs perform quality checks prior to adding the data to credit files. The "matching" process by which the NCRAs assign incoming trade line data to consumer-specific credit files represents the central step in the organization of credit data to permit the creation of credit reports on individual consumers.

Given the number of transactions reported, the thousands of data sources involved, and the complexity of the matching process, it is not surprising that inaccuracies occur. The FTC reports that five percent of consumers had errors on one of their three major credit reports. The errors are significant enough to lead to them paying more for products such as auto loans and insurance. Overall, the FTC study found that one in five consumers had an error on at least one of their three credit reports. The FTC study further revealed:

- One in four consumers identified errors on their credit reports that might affect their credit scores;
- One in five consumers had an error that was corrected by a credit reporting agency (CRA) after it was disputed, on at least one of their three credit reports;

- Four out of five consumers who filed disputes experienced some modification to their credit report;
- Slightly more than one in 10 consumers saw a change in their credit score after the CRAs modified errors on their credit report; and
- Approximately one in 20 consumers had a maximum score change of more than 25 points and only one in 250 consumers had a maximum score change of more than 100 points.

The CFPB study attributes the cause of most errors to the following:

- Consumers provide inaccurate data when applying for a loan.
- The creditor who furnishes data to the credit bureau inputs consumer information to its systems inaccurately.
- CRAs match information about a consumer from a particular data furnisher to the wrong individual consumer's file.
- Data based on errors or the lack of identifying information in government records.
- Errors occur because the individual has been a victim of identity theft or fraud.

Creditors, including dealers who engage in financing or third-party financing, are required to provide Adverse Action Notices when a request for credit is denied based upon CRA data. In addition, dealers who set material terms of a credit offering (i.e. APR) based upon information in the credit report are required to provide either a Risk-Based Pricing Notice or a Credit Score Exception Notice in specific situations. These notices are intended to alert the consumer to the fact that the credit report contains information adversely affecting his credit application, and to encourage him to review and verify the information contained therein.