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Proposal:	Interagency Advance Notice of Proposed Rulemaking: Procedures to Enchance the Accuracy and Integrity of Information Furnished to Consumer Reporting Agencies under Section 312 of the Fair and Accurate Transactions (FACT) Act
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Comments:
May 21, 2006 Jennifer J. Johnson Secretary Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue, NW Washington DC 20551 Submitted by e-mail: Dear Secretary Johnson: Introduction Springboard Nonprofit Consumer Credit Management appreciates the opportunity to submit the following comments on the procedures to enhance the accuracy and integrity of Information furnished to consumer reporting agencies under Section 312 of the Fair and Accurate Credit Transactions Act. Springboard offers assistance with financial literacy and credit life empowerment through confidential counseling and education programs for financially troubled individuals. Our experience with consumer credit reports confirms the results of prior 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. We would urge regulators to formulate and enforce rules that strictly govern the practices of all data furnishers, and would encourage a special focus on junk debt buyers and any sellers of bad debts. They should be subject to strict standards of accuracy and integrity and onerous remedies for unlawful behavior. In general, we advocate that the Federal Reserve Board take the approach that direct dispute processes with all data furnishers need to be enhanced and not restricted. Junk debt collecting is a settlement driven business model and the consumer is brought to the table by aggressive and often illegal credit reporting tactics. These tactics include failure to report the original creditor, the original open date and the date of last activity. These tactics can extend the reporting of the collection. Also, duplicative reporting of the same collection account after it has been sold to a 2nd or 3rd debt buyer is an issue. 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). Medical service providers, health clubs and other future service providers are also selling their charged-off accounts to junk debt buyers. We are especially concerned about junk debt buyers as a particular class of data furnisher and user of credit reports because of the disproportionate impact we are seeing on disadvantaged consumers who lack understanding and resources for dealing with the U.S. credit reporting systems. These disadvantaged groups include minorities, our nation’s youth, low moderate income consumers, non-English speaking consumers, our military, and bankruptcy filers. Youth are vulnerable to abusive credit reporting practices. For example, our nation’s youth has grown up with cell phones. Recent years have seen cell phone and other telecom providers become very active in the junk debt markets, selling off their charged off debt to this breed of collection agency who then subverts the credit bureau reporting systems for their own collection purposes. This has caused a lot of “pollution” to appear in the U.S. credit reporting system, which then proliferates for years beyond the reporting statutes of limitation. For example, a college student may cancel their cell phone service and be charged a “termination fee”. One could argue that this is not a true extension of credit and does not belong in the credit reporting system. The “service” is not being used anymore – thus there is no real non-payment for goods and services that have been used. There may have been a commitment to use future services, however, this is not an extension of credit in its true sense and youth are usually not fully cognizant of the impacts of contracts that cell phone providers deploy and deceptive sales practices are common in this industry. This agency sees many students whose credit reports and credit scores have been damaged in a predatory fashion by these operators. In addition to the inappropriateness of having this type of account in the credit bureau reporting systems in the first place, many of these accounts are far beyond the statutes of limitations for either collecting or reporting. When consumers dispute inaccurate, obsolete or erroneous information to the consumer reporting agencies, they must send proof of their identity, such as driver's license, proof of address and copy of social security card. The response often received from the consumer reporting agency is a stalling tactic type of letter requesting the same information that was just provided - which delays the investigation process and requires the consumer to re-send their dispute letter with proof of identity at the consumer's time and expense. In 2005 two million households filed for bankruptcy. This was an astounding statistic and inaccurate reporting of bankruptcy is rampant on the part of credit grantors, collection agencies, and other data furnishers. For example, oftentimes an account is shown as an open charge-off when it was included in a bankruptcy filing and discharged and thus should be shown at a zero balance. Junk debt buyers will exploiting the unprecedented bankruptcy wave that occurred in 2005. These filers will face severe credit report impacts from their bankruptcy for many years that will be compounded by duplicative reporting of discharged items that are still showing as open. In addition to negligent reporting, we predict that there will be more instances of deliberate and predatory practices by certain collection agencies and credit grantors who contact bankruptcy filers to try to get them to repay debts lawfully discharged through the U.S. bankruptcy system. We applaud any efforts that will improve the accuracy of credit reports and that will improve and simplify how we handle inaccuracies and disputed items on our credit reports. Credit reports and the scores derived from them determine or at least greatly influence access to housing, unsecured credit lines, insurance, utility and cell phone services, and employment. It is imperative that the underlying data be correct for credit scores to have any meaning and for consumers to accept the validity of credit reporting and scoring. 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, collection agencies, and junk debt buyers 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. Enhancement of consumer protections and consumer empowerment through broadened direct disputing means and remedies will be a powerful tool for regulation. We urge you to use it. We also urge you to continue to seek the engagement of community based organizations and consumer and privacy advocates as rules are formulated. Thank you for your consideration of these comments. Respectfully, Dianne L. Wilkman President Springboard Nonprofit Consumer Credit Management 4351 Latham Street Riverside, CA 92501 951-781-0114, ext. 702 951-781-9896 fax dianne@credit.org 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, is a HUD approved housing counseling agency and is also approved by the Executive Office of the U.S. Trustees as a bankruptcy counseling and debtor education provider. Springboard has counseling locations throughout Southern California offering face-to-face, online and nationwide phone counseling and education services. For more information on Springboard visit their web site at www.credit.org.