SMARTMONEY MAGAZINE by Anne Kadet

Why the Credit Bureaus Can't Get It Right

A MISTAKE ON YOUR credit report can cost you literally thousands of dollars, especially in this economy. So what can you expect from a big credit bureau if you ask them to investigate and correct the error?

The answer, for many consumers: About 50 cents worth of effort, conducted by offshore workers at third-party firms. That's just one of the findings from SmartMoney's investigation into why credit-report errors continue to pop up so frequently—and why consumers often have so much trouble getting them fixed.

To follow what one consumer advocate calls an "electronic hot potato," SmartMoney pieced together a depiction of the dispute process through information from trial depositions, internal company memos and the bureaus' own employee manuals—much of which the bureaus and their trade group subsequently confirmed. The process may be efficient, but it remains a mystery to most consumers, and a source of bitterness for some.

The Wrong Kind of Thrills

For Brandon and Amanda Mendelson, it had all the elements of a paperback thriller: the innocent newlyweds, the mysterious account held by an obscure bank in Boca Raton, the faceless corporation controlling everything behind the scenes. But when the Mendelsons discovered the strange overdue loan mistakenly listed on Amanda's credit report, they weren't exactly thrilled. The Glens Falls, N.Y., couple had never done business with that bank, and the error spoiled Amanda's credit history. Making matters worse, their call to a national credit bureau yielded nothing more than a form letter stating that the accuracy of the entry had been "investigated" and "verified." Now they can't help but wonder: investigated how? Verified by whom? Brandon studied organizational leadership in school, but even he can't imagine how the bureau failed to fix such an obvious mistake. "Maybe it fell through the cracks," he says.

Or maybe the process worked pretty much as it was designed to. Although they generally decline to discuss specific cases, the three major credit bureaus—Experian, Equifax and TransUnion—each attest to their commitment to accuracy and accountability in their record keeping. But while consumers might assume that each bureau employs an army of dedicated sleuths who carefully investigate and correct errors, all the bureaus actually process most disputes using a system that's almost entirely automated—and where human beings are involved, they're often working at a harried pace. The bureaus say the system, dubbed with the Muppety acronym e-OSCAR, is the most efficient way to handle the more than 20,000 disputes a day they receive. In practice, most complaints are electronically zapped straight to the lender, and according to consumer advocates, many lenders respond by simply rereporting the erroneous data.

Credit-report accuracy is profoundly important now, because an error can wreak more havoc than ever on your financial life. Before the nation heard the words credit crisis, just about anyone with a pulse could get a loan. Now many banks are refusing credit to anyone who looks remotely risky. And as legions of anxious job hunters know, a growing number of employers routinely check credit reports before they make a hire. It's no wonder, then, that the National Foundation for Credit Counseling says call volume is up 31 percent in the past 12 months. "Credit is on consumers' minds more than ever before," says Curtis Arnold, CEO of CardRatings.com.

But according to a 2007 survey by pollster Zogby, 37 percent of consumers who obtain their credit reports find errors, and half of those said they could not easily correct the mistakes. An earlier study by the U.S. Public Interest Research

Group, a nonprofit consumer advocacy organization, found that one in four reports contained “serious errors.” For its part, the Consumer Data Industry Association, the industry’s trade group, says only 11 percent of consumers who get their credit report file a dispute and just 5 percent of those challenge the results. “That’s an excellent satisfaction rate,” says the group’s president, Stuart Pratt. Still, even some industry insiders say there’s a problem. Testifying before Congress, one CEO of an independent Arizona credit bureau likened the dispute process to “having an IRS audit, brain surgery, getting a tooth pulled or going to your own funeral.”

And when the dispute process fails, consumers say they are left feeling powerless. Martha Soto, a 63-year-old Antioch, Calif., shipping manager, says she couldn’t get the mortgage she needed last fall because Experian listed her as the defendant in an unpaid court judgment. She says she’s faxed records proving that she’s actually the plaintiff; Experian says they’re the wrong records, and the dispute is still unresolved, leaving Soto increasingly frustrated. “They’re defaming you, and you can’t do anything about it,” says Soto. “It’s scary to think an agency like that can control your life.”

Big Business, Little Service

Until the late 1980s, consumer credit records were scattered among thousands of low-profile local bureaus. But the industry gradually underwent a consolidation frenzy that left three companies controlling the data of 210 million Americans. The smallest, Chicago-based TransUnion, is owned by the Pritzker family of the Hyatt hotel fortune and boasts credit-reporting operations in 25 countries, including Nicaragua and Botswana. Publicly traded Equifax, founded in 1898 by a Tennessee grocer who sold his customers’ payment records to fellow shopkeepers, calls itself a “global leader in information solutions” with businesses as diverse as risk detection and database management. (According to its income statements, its consumer data unit remains its most profitable, boasting a 40 percent pretax profit margin.) Experian, the largest of the three and based in Ireland, is a $4 billion company that uses consumer data to help businesses send more than 20 billion pieces of junk mail every year.

Together, the three credit bureaus have amassed a spotty record on consumer care. In 2000 they jointly paid a $2.5 million Federal Trade Commission fine for blocking millions of phone calls from consumers. Three years later Equifax paid a second fine because it still hadn’t hired enough people to answer the phone. In 2005, after new federal laws forced the bureaus to give away credit reports, Experian was hit with a $950,000 FTC fine for marketing those reports through a Web site that automatically charged consumers for an $80 credit-monitoring service. Last year TransUnion agreed to pay $75 million to settle a class-action lawsuit over sales of consumer data for marketing purposes.

The bureaus, which never admitted wrongdoing in these cases, say they realize the importance of providing reliable information to lenders and consumers alike. “If we don’t, we cannot survive, either as a company or as an economy,” says Equifax spokesperson Tim Klein. But they also admit that credit-report errors can stem from glitches in their own systems. Some mistakes occur thanks to the algorithms used to match loans to individual credit reports. If the name or Social Security number on another person’s account partially matches the data on your file, the computer might attach it to your record. The credit bureaus also employ contractors who gather tax lien and bankruptcy data from courthouses and government offices. If these workers transpose a digit or misread a document, their error winds up on your report. But even if they never made mistakes of their own, the bureaus say they can’t possibly patrol the accuracy of the 3.5 billion pieces of account information they receive every month from lenders. “We’re the library,” says Maxine Sweet, Experian’s director of public education. “We don’t write the book.”

How Problems Go Global

So suppose there's a whopper of an error on your credit report. Suppose it says you're dead. That's what Ken Clark, a financial planner in Little Rock, Ark., was told when he tried to buy his wife a minivan. The auto dealer called Clark a con man because his report was marked "deceased." When Clark called the credit bureaus to report that he was still breathing, he learned that the real authority on the matter was a Utah bank that issued him a credit card and later reported him dead. To fix the error, Clark had to send a notarized letter and a copy of his utility bill to the bank, which in turn assured the bureaus that he was alive.

Clark's story sheds light on how the dispute process works. Credit bureaus say they usually need to check with the lender because 30 percent of disputes are filed by shady credit-repair companies that challenge all the negative information on a consumer's report, regardless of its validity. Bureaus also have to deal with consumers who pull stunts like concocting official-looking statements on phony letterhead; one bureau says it recently got a letter from "Banke [ed.-this "typo" is intentional, replicating the original] of America." To sort the good from the bad, the industry sends almost everything through the automated system e-OSCAR (Electronic Online Solution for Complete and Accurate Reporting), which forwards consumer disputes to lenders for verification.

Here's where the trouble begins. Rather than call the lender or send it the consumer's letter and supporting evidence, the bureaus zap the documents to a data processing center run by a third-party contractor. This system yields considerable savings. Equifax reduced its per-dispute cost from $4.50 to 50 cents by outsourcing the work to Costa Rica and the Philippines, for example. But consumer advocates say these workers are under enormous pressure to process disputes and forward them to lenders as quickly as possible. While the bureaus say quality is the overriding factor, employees deposed in civil suits describe a harried pace. One TransUnion manager testified that workers were expected to complete up to 22 cases an hour. An Equifax worker estimated she was allotted four minutes per dispute. To process the letters so rapidly, the workers summarize every complaint with a two-digit code selected from a menu of 26 options. The code "A3," for example, stands for "belongs to another individual with a similar name." The worker can also add a single line of commentary. The two-digit code and short comment is the only information the lender receives about the dispute.

Consumer advocates say these summaries omit the background banks need to understand a complaint, and banks agree. "We've met with [the credit bureaus] and said, 'Look, we need more information,'" says Nessa Feddis, vice president and senior counsel for the American Bankers Association. But the bureaus say their codes provide accountability and accuracy. "People talking to people? That's the last thing consumers want," says Experian's Maxine Sweet. She suggests that consumers with complex cases resolve their disputes directly with their lenders. But that can put consumers in a catch-22. Currently, banks have no obligation to investigate a dispute unless it's forwarded by a credit bureau. What's more, consumer attorneys say some lenders do little more than check the disputed information against their own records—even if those records were the source of the error. "It's a closed loop," says Michigan lawyer Ian Lyngklip. And some lenders rely on software rather than people to do some of the checking.

Not every dispute sent to a credit bureau gets the e-OSCAR treatment. Some complaints get extra attention. Experian says it sends disputes to its "special assistance service" department when consumers have "unusual problems" or an elected official requests consideration for a constituent; Equifax says it handles disputes relating to public figures and court cases with "additional processing procedures." TransUnion declined to provide details on its VIP service, but its employee manual instructs workers to use "priority processing" if a letter comes from a "judge, senator, congressman, government official, attorney, paralegal, professional athlete, actor, director, member of the media or a celebrity." If your case is assigned this status, it may be given to a dedicated rep who will make phone calls on your behalf. But there's no guarantee of a successful resolution. "I have a lot of cases that go to special services, and they still mess it up," says Robert Sola, a Portland, Ore., attorney.

Better Times Ahead?

The Consumer Data Industry Association, the trade group, reports that 72 percent of disputes result in an update or correction, suggesting that the e-OSCAR system fixes plenty of errors. However, when the system fails, the consumer has few options. If he files a second dispute without providing new information, the bureau can dismiss it as "frivolous." The FTC is supposed to enforce laws requiring the credit bureaus to conduct a "reasonable investigation" into consumer disputes, but it hasn't taken any action on that front since the start of the decade. (The agency says its recent reviews of consumer complaints yielded no reliable conclusions about report accuracy or the dispute process.)

That leaves the courts. But consumers can't sue a bureau over an error until they can prove the error is already creating problems. "It's a system designed to make sure the horse is out of the barn," says Santa Fe, N.M., attorney Richard Rubin. And even a successful lawsuit won't necessarily fix a mistake. Just ask Chino, Calif., marriage counselor Jeff Christensen. In 2003 the cable company Charter apologized to him for reporting a collections account in error and directed the credit bureaus to delete the information. Experian refused, so Christensen took the bureau to court. In 2005 a judge ruled that Experian was violating the law and fined the company $2,500. Experian paid the fine, but it didn't correct the error until December 2008—when SmartMoney called—saying it never got the right paperwork. Turns out, the courts can issue fines, but they can't demand corrections. "You have no right to an accurate credit report," says Lyngklip, the attorney. Consumer advocates estimate that bureaus pay just $25 million a year in court fines—a minor expense for the $7 billion industry.

The credit bureaus say they have no immediate plans to change the dispute process. They note that turnaround time is at an all-time low, and consumers have embraced a new online dispute-filing feature. "The possibility of errors is at its lowest point ever and continues to decline," says Equifax's Klein. Consumer advocates have their own ideas. They want Congress to amend the Fair Credit Reporting Act so that judges can demand corrections. They'd like the bureaus to establish an appeals process and require proof from lenders who rereport disputed information. And everyone seems to have their hopes pinned on regulations expected this year that will require lenders to address complaints received directly from consumers. Says Pratt, the trade group president, "That may allow consumers a better route to resolve a stickier dispute."