Testimony of

John Ikard

On behalf of the

American Bankers Association

before the

Subcommittee on Financial Institutions and Consumer Credit

of the

Committee on Financial Services

United States House of Representatives

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September 10, 2014

Chairman Capito, Ranking Member Meeks, and members of the Subcommittee, my name is John Ikard, President and CEO at FirstBank, based in Lakewood, Colorado. Founded in 1963, FirstBank currently has over $13 billion in assets, over 115 locations and 2,000 employees serving Colorado, Arizona, and California. In addition, I am the Chairman-Elect of the American Bankers Association.

I appreciate the opportunity to be here to represent the ABA and discuss the importance of accurate credit reporting and the banking industry's commitment to it. The ABA is the voice of the nation's $15 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $11 trillion in deposits and extend over $8 trillion in loans.

The availability of consistent, accurate credit reports provides tremendous value to consumers and banks alike. For consumers, credit reports provide a compilation of their historical performance on obligations which enables them to shop around for credit from any lender knowing that all lenders have a similar base of detailed information. Without these reports, consumers would have to provide extensive documentation lender by lender or be limited to a financial institution that they had previously done business with. Thus, credit reports open up the options for consumers and ensure that they can shop around in a very competitive market—nationwide—for the best loan or

account that serves their needs. The greater efficiency and competition means better deals and lower prices for consumers.

For lenders, credit reports allow them to evaluate a borrower's creditworthiness even if they have not previously dealt with them. Banks benefit because an accurate understanding of a credit applicant's credit history means they are better able to predict who is likely and unlikely to repay a loan, allowing them to make better decisions on whether to grant credit and at what price. Credit reports have proven to be good predictors of how consumers will manage their finances in the future. The ability to make more accurate decisions helps lower their costs, which helps to lower prices for consumers. Accuracy within credit reports is critical, of course, to ensure that customers are evaluated and extended loans based on the history of their individual performance.

Inaccurate reports undermine the value of the system. An inaccurate report could prevent a qualified borrower from getting the credit that they deserve by making them look less creditworthy. An inaccurate report that is missing negative information could also make a borrower eligible for credit that they are ill prepared to handle. Thus, accurate credit reports ensure that credit is extended to deserving borrowers.

Banking is a relationship business, and banks like mine pride ourselves on our customer service. At their core, these customer relationships are built on trust. Banks must act as custodians of their customer's data and maintain the trust of their customers by accurately reporting their credit activities. Because banks have a vested interest in ensuring that accurate credit histories are available, they invest heavily in systems and processes to ensure they can provide accurate credit data.

Although the reporting system is very accurate, there is still the possibility for errors. This is why it is important to have a clear process for consumers to dispute their credit reports if they feel it is inaccurate. There are multiple avenues consumers can dispute their credit reports. This dispute process is quick (with the average dispute resolved in 14 days) and effective (with 95 percent satisfaction).

The dispute process, while effective, is open to abuses. Credit repair scams prey on consumers with derogatory marks on their credit histories, promising to remove these marks regardless of their accuracy. These scams often charge a large up-front fee and mislead the consumer into believing that accurate but negative information can easily be removed. Moreover, filing a dispute is something that a consumer can do themselves without resort to a credit repair service. These

services operate by repeatedly sending disputes, alleging the same issues in the hope that the data supplier drops the ball and fails to respond within the mandated window, which would result in negative (but accurate) data being expunged.

At my bank this is a real problem. Our main dispute handler addresses about 100 to 150 disputes per month. ***Of these, less than one percent call for corrective action***.

In my testimony today I would like to make the following three points:

- ➢ Accurate credit reports benefit consumers, banks, and the economy;
- ➢ Banks have robust systems and processes to ensure accurate credit reporting; and
- ➢ There is an efficient system by which consumers can dispute inaccurate credit reports.

Credit reports are a public good that provide real tangible benefits to consumers and lenders alike. Banks are invested in ensuring that credit reports are consistent and accurate. When disputes arise, banks investigate them promptly and thoroughly. Congress should be aware that this dispute process can be taken advantage of in a manner that undermines the value provided by credit reports and hurts all borrowers.

I. Accurate Credit Reports Benefit Consumers, Banks, and the Economy

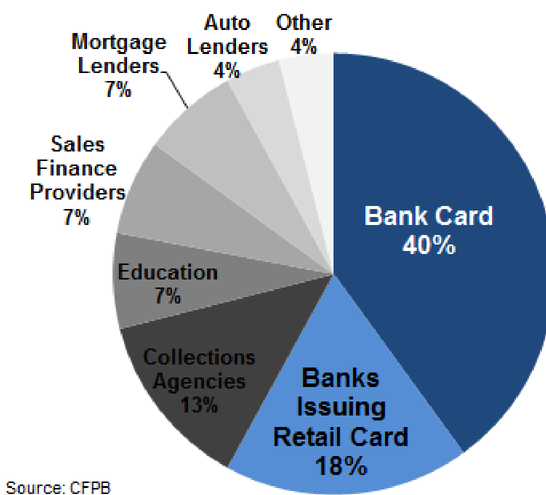
Credit Reports are an important tool allowing lenders to evaluate the creditworthiness of borrowers who they may not personally know or have dealt with in the past. They give lenders a detailed history of how individuals have managed their finances in the past and ensure that creditworthy borrowers across the country have access to the credit they deserve. As such maintaining comprehensive and accurate credit reports is in everyone’s best interest. In particular, banks rely on accurate credit reporting to make credit available to consumers.

Put simply, a credit report is a list of credit actions that an individual has taken in the past. Whenever an individual takes out a loan—be it a credit card, mortgage or any other loan—their lender reports their payment activity to a nationwide credit reporting agency (NCRA). There are three key NCRAs in the United States, including Equifax Information Services, TransUnion and Experian Information Solutions. These NCRAs collect data from over 10,000 sources, compiling it into 200 million individual credit reports. These reports contain the following information:

- Personal Information – name, addresses, social security number and date of birth
- Credit History – a history of an individual's loan activity, including payments, credit limits, etc.
- Public Records – bankruptcies, tax liens, judgments
- Accounts placed into collections
- Credit inquiries

These detailed reports allow consumers to prove their creditworthiness to lenders who they have not dealt with before. Without credit reports there would be less competition and fewer choices for consumers. Without the reports, consumers would have to provide detailed payment information to any lender (which the lender would have to verify with each applicant's creditors) or rely on lenders who they had previous experience dealing with. Credit reports provide an efficient and cost-saving way to help analyze creditworthiness, thereby reducing the ultimate cost to consumers. Now, consumers can access credit almost instantly across the country as lenders have access to reliable, consistent reports to assess a borrower.

This accurate information promotes access to credit that a consumer can afford to repay. Credit access is an important driver of our economy, allowing consumers to buy goods and businesses to invest, hire and expand to meet that demand. Credit allows consumers to achieve life goals such as an education and home ownership.



Accuracy is an important component of these credit reports, ensuring that credit is properly distributed to borrowers that are mostly likely to pay back their debts. An inaccurate credit report can make a borrower appear less creditworthy than they are, limiting their access to credit. Alternatively, an inaccurate or incomplete credit report can also artificially boost their credit rating,

meaning some borrowers can gain access to credit that they may be unlikely to manage appropriately.

Banks are a key partner in the credit reporting process as both furnishers of data as well as end users. Banks have a vested interest in ensuring the accurate reporting of credit histories to the NCRAs. In fact, 58 percent of all trade lines in an NCRA's files come from bank cards or banks that issue retail cards. These banks are not required to submit credit history data, but each invests considerable resources to ensure that they can report accurate histories.

Most importantly, banking is a relationship business. Consumers are increasingly savvy about checking their credit scores regularly. A bank does not want to damage a customer relationship (and potentially lose customers) by making a mistake on something as fundamental as credit reporting. We need to get our credit reporting right so that our consumers can maintain an accurate credit history.

It is important to note that a credit report is just one of the factors that banks consider when extending credit. For most banks around the country, lending is not an automatic process. At my bank, and many others like it, we do not simply put credit report data into an automated formula that accepts or rejects a loan. We want to understand our customers from top to bottom and we take time to ask extra questions. At my bank, if there are issues or concerns that arise from the credit report, we want our customers to have a chance to explain it.

II. Banks Have Robust Systems and Processes to Ensure Accurate Credit Reporting

Banks have invested heavily to build systems and processes to ensure consistent and accurate data is provided to the credit reporting agencies. With a total of 1.3 billion consumer credit accounts reporting each month, there is an immense amount of data to manage. Primarily, banks rely on automated systems for routine reporting as these systems are tried, tested and accurate. This commitment is reflected in the overall level of accuracy in credit reports.

Banks—and all other furnishers—supply data to the NCRAs monthly as a batch of electronic files. These reports are all submitted on a standard form, the Metro 2. Banks will report updates on their customers across lines of business, for example mortgage loans and credit card loans. Each update typically includes the balance owed, whether or not payments were received, changes in credit lines, and the status of the account (i.e., current, 30+ days late, 60+ days late).

We rely primarily on automated systems to handle routine reporting, such as monthly statements and payment status. Each business line reports separately as there are different systems on the back end. For two of our lines of business, we have internal systems that handle the reporting. We outsource the reporting of our credit card portfolio to a third-party vendor. We take the integrity of these systems very seriously, and last year undertook a several month project to review and document all of our internal systems.

There are times when more detailed information needs to be included in the reports. This "enhanced reporting" often occurs in the case of a credit event such as a short sale or foreclosure. In these instances, the credit officer responsible for the loan must manually enter the codes into the reporting. At our bank, the credit officers who enter this information are the same officers that originated and service the loan. This is labor intensive, but we have found that because our officers know the customers and their individual situations, they will be providing accurate and detailed information.

The accuracy of credit reports speaks to the success of banks in credit reporting. Both the Political and Economic Research Council (PERC) and Federal Trade Commission (FTC) have conducted studies that attest to the general accuracy of credit reports. PERC's report found that just 1 percent of credit reports likely contained a material error that would cause a consumer to move from a lower priced tier to a higher priced one (thus making a material difference to the borrower). Similarly, the FTC's study found just 2 percent of accounts are likely to contain a material error.

III. There is an Efficient System For Consumers to Dispute Inaccurate Credit Reports

Despite the overall accuracy of credit reports, it is important that consumers have an avenue to address any inaccuracies that may arise. Although rare, a significant error on a credit report can have real consequences for a consumer. Banks are committed to ensuring that consumers have avenues to correct any inaccuracies in their report. In fact, there are multiple avenues a consumer can use to correct an error. Banks take these credit history disputes very seriously and dedicate significant resources to ensuring that all disputes are thoroughly investigated. The data show that these dispute resolution programs are extremely effective. Unfortunately, there are also abuses of

this dispute resolution system that undermine the system and take resources away from providing service to all our customers.

Under the FCRA, consumers have two options to dispute the accuracy of information within their credit report. First, they can directly contact the furnishers of the information, for example, the bank. Their other option is to contact the NCRAs directly via the electronic e-OSCAR portal. Generally, disputes have to be investigated and resolved within 30 days.

When banks receive notification of a credit report dispute—either directly from the customer or via e-OSCAR—an individual at the bank will investigate the claim. Every dispute is thoroughly researched. This is a labor-intensive review and is not a rubber-stamp exercise. This research may include an account history review, payments history review, and often will involve speaking directly with the loan officer handling the account. The bank will notify the reporting agency about its findings and ensure that the report is accurate. When my bank receives direct disputes, we reach out directly to our customers and inform them of the outcome of our investigation. Any corrections are shared with all NCRAs to whom the information was originally furnished.

We dedicate significant resources to ensuring that this system works. Currently we have three employees who are responsible for handling credit report disputes. There is one employee dedicated to disputes with mortgage loans, one dedicated to credit cards, and another who addresses all other disputes. Our main dispute handler spends 60 to 75 percent of her time just handling disputes. In a typical month, she will handle 40 to 50 direct disputes as well as 90 to 100 via e-OSCAR. As I mentioned above, ***less than one percent of these call for corrective action.***

This highlights the fact that while the system of dispute resolution is extremely important it is also susceptible to abuses by those who want to misrepresent past consumer credit experiences. Credit repair scams seek to take advantage of consumers who have negative marks on their credit reports. Sadly, the vast majority of disputes that we see at our bank come from such scams.

These scams promise to remove accurate, but negative and predictive data from a consumer's credit report. The Credit Repair Organizations often file illegitimate disputes on behalf of consumers, charging them a high price for a service that usually results in no benefit to the consumer as the negative—but accurate—information is not removed from the report. We often see disputes repeated month after month. These often come in a generic envelope, with mass produced address information, on standard form letters that come from a third party who is signing our

customer's name. These disputes allege the same issue that has already been researched and addressed.

The strategy employed by these credit repair scams is to bombard information providers with requests in the hope that those providers will drop the ball and fail to respond to a request within the 30-day window. If a dispute is not handled within this 30-day window, the derogatory mark is automatically removed from the consumer's report.

Just to give you further details on the example I provided above, in 2014, we already have one customer who has filed 7 direct disputes and an additional 5 via e-OSCAR. Another customer has filed 11 identical e-OSCAR disputes to date. It is not unusual to have multiple unfounded disputes from the same party.

While FCRA was amended to recognize this kind of abuse and not require re-investigation for repeated disputes of the same information, furnishers must still respond to each of those disputes. FCRA could further be amended to allow the ability to truncate repetitive unfounded dispute requests. This would stop at least some resources from being wasted on repetitive unsubstantiated requests and does nothing to prevent customers to invoke arbitration or to file for an independent review through the regulatory agency complaint process.

These credit repair scams undermine the efficacy of the dispute system that is in place. They take money from unsuspecting consumers making promises they cannot keep. It can also lead to providers deleting accurate predictive data, thereby undermining the value of the credit reporting system. These repeated unfounded claims also take resources away from serving our customers with their financial needs.

Conclusion

Credit reports are an important part of our modern, efficient financial system. They help to ensure that borrowers get the best loans at the best prices from any lender in the country. Having such an efficient system is critical to credit availability for all deserving borrowers and is a key driver of economic growth, competition, lower prices, and better deals for consumers.

Because the benefits to both customers and lenders are so large, it is in the best interests of both parties to ensure that credit reports are as accurate as possible. Banks have invested heavily in systems and processes to report accurate data and contribute to this important public good. The

system would be unworkable without accurate information that all parties can rely upon. Having an effective dispute mechanism is critical to this process. But any process can also be abused. Repeated unfounded disputes absorb resources that hurt everyone. Changes can be made that would help to stop such abuses without hurting legitimate claims to correct errors.

The good news is that the significant investment in the dispute resolution process made by banks and other reporters like us has paid off. Both the FTC and PERC have conducted surveys that show 95 percent of consumers who submit a dispute are satisfied with the results. While current law dictates that disputes must be processed within 30 days, the average time for a resolution is just 14 days. This level of success is possible only because consumers know that every request is individually and fully investigated.