

LVG Opening Statement for March 24, 2010 FI Hearing
“Keeping Score on Credit Scores: Credit Scores, Credit
Reports and Their Impact on Consumers”

As we begin this hearing on credit scores and reports, we must recognize that the American consumer faces a very different landscape than that of 30 years ago. Credit cards are so widespread that they are routinely marketed to college students; your local bank (that is, if you are lucky enough to have one in your neighborhood) is more than likely owned by some faceless Wall Street Corporation and you can even shop for loans and car insurance online, something that wasn't even imagined thirty years ago.

In large part, what has made all this possible are the now ubiquitous credit scores and reports created and provided largely by the companies that sit before us today. Driven by an increasingly impersonal and homogenized lending environment, lenders, insurance companies, utilities and even cell phone companies are relying more and more on credit scores and reports

to determine whether a consumer is worthy of their attention and their services. I know the increased use of credit scores has expanded credit to previously ineligible borrowers and the standardization of this system has minimized some of the bias present in any economy, but this system has created new concerns and dangers for consumers, especially for Blacks and Latinos that we have to address.

A good credit score and a correspondingly favorable credit report have become the passport to a stable economic future for today's consumer. But these “passports” are being issued by thousands of private, for-profit companies that few can identify, using opaque formulas that are hidden from the American people and hidden from Congress.

In a democracy, there is something unseemly in having one's life judged and possibly even guided, no matter how benignly or unintentionally, by private, for-profit companies through a system where it is impossible for one to opt out of. This fact alone causes me to doubt the fairness of the current system and structure!

For instance, as Mr. Hendricks will mention in his testimony, consumers are not commonly allowed access to the scores that lenders and other institutional consumers of data actually use to make lending decisions. Instead, you are sold an “educational score” that is not the score used by the lender to determine your credit cards rates can be very different from that used to determine the rate they qualify for. So what's going on is they're selling you a product that is never actually used to make any decisions about your creditworthiness. How is that educational!?

On top of that, lenders use their own private data to further determine what rate or fee they want to charge a consumer. For an industry that is supposed to be focused solely on accuracy and predictability, there seems to be quite a bit of effort going on behind the scenes to prevent consumers from seeing how things really work. Americans do not know where these scores are coming from and how they're created!

I have strong reservations about allowing the use of credit reports to determine employability and insurance fees. For example, 22% of Latinos have 'thin files' and are given a worse rate for loans and insurance and can even lead to them being rejected for a loan! At a time when Americans are dealing with 10 percent unemployment rates (which in fact is actually higher in many of our communities), I don't believe that our constituents should have to worry about whether or not their credit report is entirely accurate or even worry about it at all when they should be focused on finding a way to pay their rent and feed their kids.

We shouldn't allow the secrecy of the current system to affect consumers' livelihoods without their knowing the rules of the game and what they can do about it before it's too late. Consumers should know that a medical debt they already paid off will affect their credit for 7 years to come, or that being away on military service might not be much of a mitigating factor for the credit bureaus and institutional consumers of credit scores and reports, or that recent immigrants' creditworthiness is often lower

than the general population, regardless of how good their credit history was in their home country. These are just some of the concerns that make it clear that the current system has not reached acceptable levels of fairness or transparency.

Finally, I have serious concerns that with banks and others taking credit away from consumers due to the bank's own problems (not the consumers), your formulas are not accurately predicting a consumer's true likelihood of default. Just because some bank is consolidating the credit lines they have out there for ALL their customers doesn't mean that every single one of them is a greater credit risk.

There are many legislative proposals circulating right now on credit scores and reports, some that I have cosponsored and some that I plan to introduce myself. We will be holding further hearings on these proposals after we give a harder look at credit-based insurance scores in the near future. Many of the concerns that I have are with the institutional consumers of credit scores and reports, so I can assure you that we will be inviting them to sit

down and have their own 'pleasant' discussion with our
subcommittee about this as well.