Comparing FTC and PERC Studies on Measuring the Accuracy of U.S. Consumer Credit Reports



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Contents

Abstract 6 Key Findings 7 1. Introduction 8 1.1 Earlier Generation Studies 10 1.2 The PERC study and FTC studies 11 2. Comparing the FTC report and the PERC study 12 2.1 Similarities and Differences in the quantitative results 12 2.2 Similarities and Differences in Study Design 14 3. Future research 15 3.1 Samples 15 3.2 Other Issues to Explore 16 4. Conclusion and Policy Implications 18

Abstract

This paper compares the recently released report by the Federal Trade Commission (FTC) on the accuracy of consumer credit reports maintained by the three largest nationwide Consumer Reporting Agencies (CRAs) with a 2011 PERC study on the same subject. The PERC and FTC studies share a number of similarities in their methodologies and results, as well as a few key differences. From a qualitative and practical perspective, the results from both studies are very similar, and the differences observed may be the result of small variations in methodology and, to some extent, simple sampling error. In both studies, participants reviewed their credit reports and found between 1 in 4 (FTC) and 1 in 5 (PERC) reports contained a perceived inaccuracy. However, only a small share of credit reports, 2% in the FTC study and 1% in the PERC study, saw moderate to large credit score changes (>25 points) resulting from the correction of disputed information. In terms of materiality, the FTC found that 2.2% of participants had errors in their reports that lowered their score tier by one or more tiers (e.g. move from non-prime to subprime) while the comparable figure for PERC was 0.5%. Adjusting PERC's participant dispute rate to be more consistent with the FTC's, the same figure for PERC would be a little over 1%. That is, both studies find that while the likelihood that a credit report contains an error of any kind may not be that uncommon, the likelihood that credit reports contain errors with large credit score impacts is low. The strong similarity in findings between the PERC and FTC studies—despite some methodological differences—corroborates and validates each. Given this, any serious discussion of consumer credit report accuracy must begin with the PERC and FTC studies. Interestingly, while both reports garnered substantial attention in the media, much of this attention has been on the consumer dispute resolution process, an area that was not directly examined in either study.

Key Findings

The results of the PERC study and the FTC report are very similar, particularly from a qualitative and practical perspective.

Despite methodological differences, the two studies have very similar conclusions. This is particularly true if one accounts for differences in the samples, dispute rates, and margins of errors. Both studies present greater insight regarding credit-reporting errors than previous studies. Given the low rates seen for impactful corrections, the findings from the two independent studies appear very similar from a high level. This strengthens the findings of each study, as they broadly corroborate one another.

The PERC and FTC reports are far more rigorous, scientific, and comprehensive than earlier studies on consumer credit report accuracy.

While a number of studies precede the PERC and FTC reports, earlier studies did not use samples as large and reflective, and did not engage all parties involved in the credit report. Both the PERC and the FTC studies address these concerns by engaging data furnishers, consumers, and the bureaus in their research process. Taken together, the PERC and FTC reports indicate a greater degree of accuracy in credit reports than previously believed.

Key aspects of the PERC and FTC studies are highly similar.

Both studies had similar response rates; PERC's rate was 4.1%, the FTC's was 3.9%. In the FTC study, 1,656 potential inaccuracies (potentially material and not material) were identified in the 2,968 reports examined. In the PERC study, 1,970 potential inaccuracies (potentially material and not material) were identified in the 3,876 reports examined. These produce very similar potential error rates. In the FTC study, 23.9% of reports examined had one or more potential inaccuracies, the PERC study found a rate of about 19.1%. The FTC study finds that 6.6% of credit files see credit score increases after dispute resolution. The PERC study finds this figure to be 3.1%. The FTC study finds that 2% of credit files see credit score rises of 25 or more points when disputes are resolved. The PERC study finds this figure to be a little under 1%. However, if the same dispute outcomes are assumed for those PERC study participants that did not dispute then this rises to 1.9% (the 99% confidence upper bound on this is 2.5%).

Media coverage sometimes misses the mark.

Coverage of the PERC and FTC reports has tended to focus on perceived deficiencies with the consumer dispute resolution process. It is worth noting that neither the PERC nor the FTC studies were designed to examine the efficacy of the extant FCRA consumer dispute resolution processes of the three nationwide consumer reporting agencies, nor do either reports contain actionable findings in this regard. While raising questions about the consumer dispute resolution process is perfectly within the domain of the media, juxtaposing the topic with examinations of academic analyses of consumer report data quality may deflect from the actual focus of the studies.

Future research is needed for better understanding the system.

The studies by PERC and FTC provide benchmark numbers, but further study will help in better understanding of the credit reporting system, and improve the available research on credit reporting. Having longitudinal data will enable objective assessments of any trends in the overall quality of the credit report databases maintained by the three nationwide consumer reporting agencies. This is important as new datasets emerge that could assist with financial inclusion and responsible lending. Integrating new datasets into consumer credit reporting databases could substantially increase the overall volume of data being processed that may in turn affect accuracy. Similarly, as we suspect, improvements in IT could also dramatically affect data accuracy over time with data furnishers, driving down even further all rates of inaccuracy. In any case, without longitudinal data from ongoing analysis no such assessments can be made. Finally, although no findings from either the PERC of the FTC study suggests that there are issues, given the media attention on the consumer dispute resolution process future research designed to examine it may shed light on improvements that have and could benefit consumers, creditors, and CRA's.

1. Introduction

In 2004, with the enactment of the Fair and Accurate Credit Transaction Act (FACT act), congress mandated that Federal Trade Commission (FTC) examine accuracy of consumer databases maintained by nationwide Consumer Reporting Agencies (CRAs). The FTC conducted two pilot studies. ¹ It was followed by another study, the results of which were presented to Congress in December 2012. The FTC report was made publicly available in February 2013.² The final report in this series is due in 2014. PERC lauds the ongoing efforts of FTC on data quality and accuracy, and found the study both informative and encouraging. The FTC study compliments an analysis of credit report accuracy undertaken by PERC that was released in May 2011.³ The PERC and FTC studies share a number of key similarities in their methodologies and results as well as a few differences. From a research perspective, this can be desirable, since comparing results derived from *completely* identical methodologies or *radically* different methodologies may produce limited insight into the impacts of specific study design elements.

³ Turner, Michael A., Robin Varghese, and Patrick D. Walker (2011). U.S. Consumer Credit

Reports: Measuring Accuracy and Dispute Impacts (hereinafter the "PERC study"). Policy and Research Council (PERC).

¹ Report to Congress under Sections 318 and 319 of the Fair and Accurate Credit Transactions Act of 2003, Federal Trade Commission, December 2006, (hereinafter "2006 FTC 319 Report") available at http://ftc.gov/reports/FACTACT/FACT_Act_Report_2006.pdf and Report to Congress under Sections 318 and 319 of the Fair and Accurate Credit Transactions Act of 2003, Federal Trade Commission, December 2008, (hereinafter "2008 FTC 319 Report") available at http://ftc.gov/os/2008/12/P044804factarptcongress.pdf. ² Report to Congress under Section 319 of the Fair and Accurate Credit

Transactions Act of 2003, Federal Trade Commission, December 2012, (hereinafter "FTC Report") available at http://www.ftc.gov/ os/2013/02/130211factareport.pdf

Measuring credit report accuracy presents significant challenges. Consequently, the use of sufficiently comparable methodologies aids greatly in designing better credit report accuracy research. While neither the PERC study nor the FTC study are perfect, nor is it likely that any future research will be perfect; comparing findings from each study should help improve future endeavors.

Since the FTC report became publicly available in February 2013, the study has attracted considerable public attention, including a recent feature story by "60 Minutes." In media reports on its results, different error rates associated with all possible errors grabs the headlines. For instance, headlines could read "one-infive reports has a mistake" or "one-in four consumers has a credit report error" or "42 Million credit reports have errors." These are the highest and arguably the least meaningful rates. That being said, there are also examples (though to a lesser extent) of headlines citing the rates of impactful errors, such as "5 percent of consumers have material errors." To be fair, most stories on the topic, regardless of the headlines, did cover both the all-encompassing error rates and the narrower, but more meaningful material error rates to some extent.

In addition to issues around confusing different types of error rates (e.g. the perceived error rate—the share of items in a credit report that a consumer identifies as possibly being inaccurate—versus the material error rate—disputed and verified inaccuracies in a credit

report that result in a borrower migrating down one or more credit risk tiers to a lower credit risk tier), there is also confusion regarding errors per report vis-à-vis errors per individual. For example, suppose a group consists of 10 individuals. Only two of them found possible errors in their credit report. This puts the error rate per participant or consumer at 20% (2 consumer of 10 with potential errors). Now, suppose the ten individuals each looked at three reports and the two individuals found error in only one of their credit reports. Using this approach the error rate would be just 6.67% (2 potentially errant reports of 30 total reports). It is would be incorrect to compare the two results as they use different levels of analysis (per consumer and per report) and the findings have somewhat different implications.

The PERC numbers are generally reported at per report level, whereas the FTC study reports both at per consumer and per report level. Therefore, one should use caution while comparing the PERC numbers with the FTC numbers and ensure that apples are being compared to apples. While it may be a common to compare the per report numbers to the per consumer numbers and treat them interchangeably, policymakers and regulators should avoid this mistake given that there may be different implications for policy. We have noticed abundant examples of this and other apples to oranges comparisons in both media coverage and in analysis produced by advocacy groups.⁴

⁴ For instance, the headline "5% of Credit Reports Contain Costly Errors: FTC" is actually referring to consumers not credit reports (http://www.cnbc.com/id/100449912), NCLC press release (http://www.nclc.org/images/pdf/credit_reports/pr-ftc-study-credit-report-2013.pdf) appear to compare per consumer and per report rates, Business Insider (http://www.businessinsider.com/42-million-have-credit-report-errors-ftc-report-2013.2) compares an 80% figure for all types of errors (from a US PIRG survey) to a PERC 25+ credit score point error or material error rate.

However, the most significant results in both the PERC and FTC studies involve the impact of verified errors on credit scores, and in turn the impact of credit score changes on consumer standing in the credit market. While a league of earlier studies focused on the impact of credit report errors on credit scores, the detailed and comprehensive design of the PERC and FTC studies—and the extension of their analysis to include an examination of material impacts of consumer credit report errors—makes them stand apart from all earlier generation studies on this topic, without exception.

1.1 Earlier Generation Studies

There are several oft-cited older studies on consumer credit report accuracy predating the PERC and FTC studies. In 1992, the consultant firm Arthur Anderson & Company performed a study on credit report accuracy commissioned by the Consumer Data Industry Association (CDIA—then Associated Credit Bureaus or ACB)). The study focused on individuals who were denied credit. Of the 8% who requested a report, only 2% disputed the information contained. Following the dispute process, only 3% had the decision reversed, implying that reporting errors lead to the denial of credit for only 0.24% of the applicants. More recently, according to the CDIA testimony to Congress in July 2003, an estimated 10.5% to 54% of approximately four million disputes each year are due to errors on credit report. ⁵ This figure, while helpful, is hard to interpret without additional data, such as longitudinal results (e.g. is this trending upward or downward over time) and detailed information about the type of disputes and number of unique consumers involved.

The US Public Interest Research Group (PIRG) conducted studies in 1998 and 2004 where they asked consumers to review their own reports.⁶ The 2004 PIRG study cited that 79% of the surveyed credit reports contained errors.⁷ It is uncertain how reflective the samples used in these studies were of the CRA databases and it is not clear whether those participants that found inaccuracies were more likely to submit survey results. Consumer Union used a similar model in 2000, where their own staff reviewed their personal credit reports to find inaccuracies.⁸

In another study initiated by mortgage lenders, the Consumer Federation of America (CFA), along with National Credit Report Association, examined credit reports.⁹ This study looked at differences in the credit score reported by each CRA, finding that 29% of the files had a difference of 50 points or more. 4% of the re-

⁵ Stuart K Pratt, July 10, 2003. " Statement of Stuart K Pratt, Consumer Data Industry Association, Washington DC, before the Committee on Banking, Housing and Urban Affiairs, United States Senate on The Accuracy of Credit Report Information and the Fair Credit Reporting Act." Consumer Data Industry Association, Washington DC. Available at http://www.banking.senate. gov/03_07hrg/071003/pratt.pdf

⁶ Golinger, John and Edmund Mierzwinski (1998). PIRG: Mistakes do happen: Credit Report Errors Mean Consumers Lose. U.S. PIRG.; Cassady, Alison and Edmund Mierzwinski (2004). Mistakes do happen: A Look at Errors in Consumer Credit Reports. National Association of State PIRGs (U.S. PIRG).

⁷ "Mistakes do happen: A look at Errors in Consumer Credit reports." June 2004. National Association of State PIRGs

⁸Consumer Reports (2002). Credit reports: How Do Potential Lenders See You?

⁹ Consumer Federation of America and National Credit Reporting Association (2002). Credit Score Accuracy and Implications for Consumers.

ports saw a difference of 100 points or more.¹⁰ However, this methodology is only able to identify differences, not rates or impacts of inaccuracy. That being said, this sort of methodology may be very good at examining inconsistencies that can result from inaccuracies.

The Government Accountability Office (GAO) identified the earlier studies, i.e. U.S. PIRG and Consumer Union studies, as having limited value in determining the error rates in credit reports.¹¹ The issues mentioned by the GAO included non-representative samples, unreliable statistics on consumer disputes, and controversial assumptions used in analyzing data. The GAO also raised concerns regarding the 2003 Federal Reserve Board (FRB) studies reliance on reports from only one CRA.¹²

1.2 The PERC study and FTC studies

To address the various shortcomings of the earlier studies, the FTC's Bureau of Economics conducted two pilot studies as part of the FTC FACTA Section 319 study. These pilots were ostensibly designed to test methodological questions such as consumer participation rates, attrition rates, and the use of multiple media in recruiting participants. The sample size was too small to generate statistically significant findings—a fact recognized by the FTC—but did yield helpful insights regarding concept and methodology design. The 2011 PERC study borrowed heavily from published findings from the two FTC pilots, as well as FTC reports to Congress regarding the direction of their full study.¹³

In May 2011, PERC published its study titled "US Consumer Credit Reports: Measuring Accuracy and Dispute Impacts." PERC's study improved upon previous studies by engaging consumers, data furnishers, and CRAs, and by submitting potential errors through the dispute resolution process.

The FTC study was congressionally mandated. It considered consumers, lenders, data furnishers, collection agencies, and the CRAs—all groups that are part of the credit reporting and scoring process. One thousand one participants reviewed 2968 credit reports. A study associate was assigned to help the consumers identify potential errors. The demographic and credit score information of the participants were matched to that of the general public to reduce sampling bias. Fair Isaac helped with rescoring of the credit files once potential errors were identified. The original scores were compared to the modified scores and score changes and tier changes were calculated.

The 2006, 2008 and 2012 reports were produced under Section 319 of the Fair and Accurate Credit Transactions Act, or FACT Act.

¹⁰The differences were attributed to differences in the information contained rather than the differences in the scoring model by the CFA study. A large sample (>500,000 files) for general analysis as well as a smaller sample (1,500 files) for more in-depth analysis was used. ¹¹General Accounting Office, Report No. GAO-03-1036T, Consumer Credit: Limited Information Exists on the Extent of Credit Report Errors and their Implications for Consumers

⁽July 31, 2003) (hereinafter "GAO Report").

¹² Names or other personal identifiable information were not used for individuals and creditors. Instead, they were assigned unique codes .This was used for all credit files about an individual, and creditor data across files for analysis. See 2003 FRB Study, supra fn 4.
¹³ Turner, Michael A., Robin Varghese, and Patrick D. Walker (2011). U.S. Consumer Credit Reports: Measuring Accuracy and Dispute Impacts (hereinafter the "PERC study"). Policy and Research Council (PERC).



2. Comparing the FTC report and the PERC study

While some differences between the PERC and FTC studies is likely due to sampling error, larger differences likely result, at least partially, from methodological differences. Figure 1 compares the sets of newer results obtained by the 2011 PERC and 2012 FTC studies.

Figure 1: PERC and FTC Results: Percent of Credit Reports Impacted

Horizontal lines depict the 99% upper and lower confidence intervals for each estimate.



As depicted in Figure 1, in the PERC study, consumers identified potential inaccuracies in slightly fewer than one-in-five credit reports examined. The FTC found between one-in-four and one-in-five potential inaccuracies in the credit reports their study examined. In the FTC study, about 2% of credit report corrections (from the dispute process) resulted in 25+ point credit score increase. In the PERC study, this was found to be about 1%. Given the confidence intervals, and the low rates seen for impactful corrections (material errors), the findings from the two independent studies appear very similar. This strengthens the findings of each, as they broadly corroborate one another. Taken together, the PERC and FTC reports indicate a greater degree of accuracy in credit reports than most previous studies have suggested.

In the next section, there is a more detailed comparison of the FTC study and the PERC study where the similarities and differences are highlighted including the study design. Section 3 highlights future research and Section 4 is the conclusion.

2.1 Similarities and Differences in the quantitative results

Comparing results between the PERC and FTC studies under different methodological assumptions may illuminate the degree to which methodology may influence study differences. Although differences in the precise definition of figures and differences in credit scores and credit tiers used prevent a perfect comparison, the results suggest a similarity of findings. Below are some key similarities.

- » The PERC and FTC studies had very similar response rates. PERC's rate was 4.1%; the FTC's rate was 3.9%.
- » Where the FTC had 1,001 consumers review 2,968 credit reports, PERC had 2,338 consumers review 3,876 credit reports.
- » In the FTC study, 1,656 potential inaccuracies (potentially material and not material) were identified in the 2,968 reports examined; in the PERC study, 1,970 potential inaccuracies (potentially material and not material) were identified in the 3,876 reports examined. These produce very similar rates of about one potential inaccuracy for every two credit reports examined.
- » In the FTC study, 23.9% of reports examined had one or more potential inaccuracies, the PERC study found a rate of about 19.1%. Given the large sample size of reports these results are statistically different (for instance the 99% confidence upper bound for the PERC estimate is around 21%), So, these figures are not likely different due to sampling variation alone. Reweighing, the PERC data to better match the FTC credit score distribution in their 2012 report adds, perhaps, another percentage point to the PERC figure, this suggests that other (methodological) differences likely account for some of the differences. But, for practical purposes, these estimates are similar, essentially ranging be-

tween one-in-four and one-in-five. Both the FTC and PERC studies found dramatically different perceived error rates than earlier generation studies, that found between 4 in 10 and 7 in 10 credit reports contained potential errors.¹⁴¹⁵

- » The FTC study finds that 6.6% of credit files see any credit score rises when disputes are resolved. The PERC study finds this figure to be 3.1%. But in the PERC study, fewer participants disputed inaccuracies. If the same dispute outcomes are assumed for those that did not dispute, then the 3.1% figure rises to 6.4% (the 99% confidence upper bound on this is 7.4%).
- » The FTC study finds that 2% of credit files see credit score rises of 25 or more points when disputes are resolved. The PERC study finds this figure to be a little under 1%. If the same dispute outcomes are assumed for those that did not dispute then the PERC figure rises to 1.9% (the 99% confidence upper bound on this is 2.5%).
- » For Credit Score Tier migration the FTC study finds that 2.2% of credit files see any credit score tier rise (in a tier examined) when disputes are resolved. The PERC study finds this figure to be a little under 0.6% for the ABC Tiers. If the same dispute outcomes are assumed for those that did not dispute then the PERC figure rises to 1.2% (the 99% confidence upper bound on this is 1.7%).

 ¹⁴ "Mistakes do happen: A look at Errors in Consumer Credit reports." June 2004. National Association of State PIRGs
 ¹⁵ Consumer Federation of America and National Credit Reporting Association (2002). Credit Score Accuracy and Implications for Consumers.

The adjustments to PERC results accounting for those participants who did not dispute and an oversampling of higher score consumers were discussed in the 2011 PERC study, with many of the above figures taken from those discussions (in that report see page 47 of Section 4.3 and Section 4.5: Accounting for Those Planning to Dispute and Others Who Did Not Dispute).

Figure 2 shows many of the above points graphically. The initial PERC and FTC findings are shown in the unfilled squares and PERC results adjusted for credit score distribution and the participant dispute rates are shown in the solid blue squares.

Figure 2: PERC and FTC Results: Percent of Credit Reports Impacted



Figure 2 shows that differences in participant dispute rates and credit score distribution offer a potential explanation for the differences between the PERC and FTC studies. Unfortunately, it is impossible to know the precise outcomes of those who did not dispute, making it difficult to isolate the impact of dispute rates and score distributions. Other differences in study design, such as the FTC's use of study associates to assist participants, further conflate analysis. The results do suggest that such elements need further attention, as they may impact results.

2.2 Similarities and Differences in Study Design

Given some of the qualitative similarities in the results of the PERC and FTC studies, it is worth highlighting commonalities in the design of the two studies that may determine which factors drive differences between the two.

First, both studies relied on consumer participation to identify potential errors. Other approaches, such as identifying inconsistencies within a credit bureau's database and/or between databases, provide little insight on the general rate of inaccuracy, but do provide other valuable information and are able to identify important inconsistencies, some of which may only result from an inaccuracy.

Second, participants in both studies were recruited, asked to review their credit reports and if they did they were then asked whether inaccuracies were found. This helps mitigate against a potential bias that those who continue to participate in a study (or return a survey) would more likely be those that found potential inaccuracies. For instance, it may be the case that people are more likely to return a survey if they found something (potential inaccuracies) than if they did not. Not finding an error (or an important error) may seem uneventful to the participant, but it is a significant finding for purposes of assessing credit report accuracy. Third, both the PERC and FTC studies incorporate some means to verify potential inaccuracies and gauge their impact. For instance, in less than 10% of cases did a potential inaccuracy in a credit report translate to a moderate or larger credit score impact or a credit tier increase following dispute resolution.

Again, it should be noted that the PERC study and the FTC study use different generic scoring models. Some of the differences in findings between the two studies, e.g., material impact, may be attributable to differences in the generic scores used in the studies.



3. Future research

3.1 Samples

Ideally, samples for studies of credit file accuracy should be reflective of the US adult population or rather the population in the databases of the credit bureaus. Given the difficulty (low response rates and rates that vary by consumer characteristic) of finding consumers willing to review their credit reports and dispute inaccuracies in the context of a study, obtaining a fully reflective or representative sample often proves costly. Reweighting provides a means of adjusting a sample that does not reflect important characteristics of the population. As such a reweighing of the sample may be part of a cost effective study design.

While it is the case that larger samples are better (more precise results), as just mentioned, working with consumers can be costly, particularly if greater consumer/participant interactions are involved. The confidence intervals for the PERC and the FTC results are very small, and the impacts on the results from methodological differences appears to be much larger than differences that could arise from sampling error. A very high level of precision may not be necessary. In some cases it might be preferable to have a smaller sample size for particular results and test alternate methodologies. With smaller sample sizes, differences in results would only be statistically significant if the differences found were large, but these may be the only such differences that would be of practical importance. For instance, if Methodology A produces a consumer identified inaccuracy rate of 22% and Methodology B produced a rate of 23%, then it would be necessary to have large samples to show that this was very likely due to the methodological differences and not just sampling error. But who would care? Using a large sample to show this would likely be a waste of resources. On the other hand, if Methodology A produced a rate of 21% and Methodology B produced a rate of 60%, then the results may be of great practical significance. In this case, a small sample size would be sufficient.

It may be the case that future research will examine differences in methodology that could produce potentially, large differences in results. In these cases, very large sample sizes are not needed. After methodological impacts are explored then larger sample might be desired to produce more precise results. And this would be particularly true if one wanted to measure changes in inaccuracy rates over time. If snapshots were taken ever few years that employed the same methodology, then a large sample would be useful to discern whether any changes observed were meaningful.

3.2 Other Issues to Explore

The PERC and FTC studies offer a promising starting point for new research on the impacts of data, data flows, and data accuracy on consumers seeking credit. Some areas that are in need of future research to provide a better understating include the following.

First, a better understanding of how well consumers identify potential errors would be useful. Adding inaccuracies to credit reports, and seeing how well consumers can spot the errors, offers one interesting way to address this question. The technique also provides insight on how well consumers identify beneficial and harmful errors. It would also be interesting to see how the age of the data impacts detection. But since older data has less pronounced impacts on credit scores, it may be that older errors in older data have less impact as well. In any case, it is likely that consumers do not identify every inaccuracy.

Second, consumer disputes of true derogatory information offers another important avenue of future research. Determining whether a consumer or a data furnisher is correct provides a major obstacle to such research. Some data furnishers have a default policy of changing the data when it is disputed regardless of what records indicate. By contrast, records of the data furnisher may trump, e.g., the bank records of the consumer. Each of these distorts the actual rate of errors. Automatic changes of data when disputed would imply a greater rate of mistakes than what truly obtains, and the failure to change the data that consumers have evidence for could understate. Which practice is more prevalent is unclear. In many ways this is currently a he said/ she said scenario, requiring in-depth auditing and investigation to resolve. However, engaging the process would provide insight regarding the costs involved in dispute resolution process and possible costs involved in modifying it. While making such evaluations completely objective will prove challenging, the analysis could offer many positive benefits, including insights on how to make the process more efficient, how to increase consumer satisfaction, and the incentives of consumers, data furnishers, and CRAs.

And it may be the case that the above issues differ according which channel credit reports are viewed (mail or online), how information is presented, and how information is disputed (mail, phone, or online).

These types of analyses would be more like examinations or diagnostics of the dispute process than accuracy itself. And while the results produced may not be as headline grabbing as those relating to credit report accuracy, the results may be of greater practical use in improving the dispute process.

Research into how inaccuracies arise could also be of great practical use. The Nationwide CRAs and other data aggregators no doubt currently examine this internally, but knowing how errors arise at an industry level might help pave the way for improved standards, policies, and procedures. In addition, there are several niche issues worthy of exploration, such as mixed files and fragmented files.

And while PERC and the FTC studies do look at credit tier impacts, actual impacts from inaccuracies are likely impacted by (1) whether a lender reviews three reports and takes an average or middle credit score, (2) whether a lender has the option of using a spouse's credit reports, (3) the rate that consumers review their credit reports prior to (or during the process of) seeking large extensions of credit, (4) rates of seeking credit (by relevant segments). Examination of these issues would help further bridge the gap between potential and actual impacts.

For instance, in the FTC study, while 4.1% of consumers had at least one credit report with a 30+ point credit score change resulting from dispute resolution, only 1.6% of consumers saw an average change of 30+ points across their three reports. So, whether the average score of their three reports impacts consumers more than the score from just one report (with the maximum score change) makes a difference.

Neither the FTC report nor the PERC study focused on the dispute resolution process in detail or many other equally as important aspects of credit reporting and data accuracy. Moreover, the ideas presented above do not represent an exhaustive list. There is, indeed, much room for future research. But the FTC study and the PERC study did establish a general understanding of credit report error rates, and provide a benchmark for future work addressing improvements to the credit reporting system. Both studies show that credit reports are not as plagued by highly impactful errors as was considered by earlier studies. This, in and of itself, is an important finding. Policymakers could use such results and place more focus on other aspects of the credit reporting system, such as how to increase the value of the system as a tool for financial inclusion and responsible lending.



4. Conclusion and Policy Implications

Initial reaction to the FTC's findings from both industry and consumer advocates suggests a general agreement with the overall findings. As with any detailed report on a topic that is complicated to study and is of legal, public policy, consumer, and industry interest, we realize that concerned parties will gravitate toward the figures and interpretations that best suit them and their interests. For instance, some may view the report as confirming what they knew all along--that inaccuracies in credit reports are "very common" or that credit reports are "riddled with errors." On the other hand, others may see the report as confirming that serious inaccuracies resulting in large credit score changes or that impact the terms of credit are rare. Despite differing

interpretations, current discourse reflects a major improvement over some of the public discussions of the recent past on this topic that were driven by alarmist earlier generation research. This new understanding of the realities of credit report data quality, by itself, will not bridge all gaps, but it will act as a good starting point going forward.

There is solid evidence that considerable effort is given to maximum possible adherence to the FCRA guidelines by the credit reporting industry. The CRAs are working closely with the data furnishers to improve the quality of credit reports.

One major point with credit reporting that should be understood is that a CRA aggregates information from other databases. To elaborate with an example, let us consider an individual who has data coming, for example, from 10 different sources. Say each source has an error rate of 1%, that is 1% of individuals have an error in their record with a furnisher. The CRA does the job of accumulating data from 10 different sources and simple calculation then puts the error rate for the credit bureau at close to 10%. Thus, the error rate is higher in the credit reports due to aggregation alone. This could provide a misleading view of accuracy if more data enters consumers' accounts over time. For instance, it could be that total information in a CRA doubles and that some per file or per consumer error rates went up from 4% to 4.5% over some period of time. It could easily be interpreted that error rates have increased. But a more accurate gauge might be to look at rates of errors per account or unit of information. The problem with comparing per file or per consumer error rates over time is that they could change simply because the volume of data changed.

Related to this is the fact that per consumer rates of error depend on the number of CRAs examined. For instance, if Innovis and NCTUE reports were also examined in the studies, per consumer error rates would rise. Moreover, this would have nothing to do with the accuracy of the data. And if Experian and Equifax were to merge, and only two CRA reports were examined, then per consumer error rates would fall.

While useful for directing future research, the limited scope of the PERC and FTC studies provide a poor basis for any near-term policy action. Neither study provides much insight into the specific mechanisms that create errors, nor do they say anything about specifics on how the dispute process, data furnishing, or data merging could be improved. Setting up strict guidelines for reporting, for instance, may actually discourage data furnishers from reporting their data, decreasing the overall predictiveness of credit scores. For example, a policy that might cut the error rate in half, but triples the impact of errors made, would hardly constitute an advancement of consumer interests. Nonetheless, these studies represent necessary first steps in a better understanding of credit reporting. There is now a clear understanding of the magnitude of inaccuracies and their potential impacts. This information is highly useful to policymakers prioritizing policy efforts.



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