Check your Credit Report to Avoid Being One of the 5%

By Michael Staten, Director

In prior issues I’ve mentioned the Take Charge America Institute’s involvement with a national study of credit report accuracy. The results of that study were released by the Federal Trade Commission earlier this spring, and have some clear implications for all consumers, and especially for personal finance educators.

First, the facts: Acting on a Congressional mandate, the Federal Trade Commission organized a team of researchers from the University of Missouri-St. Louis, the University of Arizona (Take Charge America Institute) and Fair Isaac Corp. to recruit and lead a national random sample of 1,000 consumers through a review of their credit reports from the three major credit reporting agencies (Experian, Equifax and Trans Union). About 26% of consumers found items in their credit reports that they challenged as erroneous through the Fair Credit Reporting Act (FCRA) dispute resolution process. For about 80% of these consumers (20% of the entire sample), the credit bureau(s) made changes to the credit report as a result of the dispute. For 13% of sample members, the correction of errors resulted in a change in their FICO credit score, mostly by less than 10 points. But, for about 5.5% of study participants, the change in score was large enough to mean the difference between acceptance and rejection for a loan, or a significant change in the corresponding interest rate.

Should we be surprised or concerned? Compared to unscientific studies over the past decade that reported error rates as high as 60-70%, the FTC findings are something of a relief. The FTC study was methodologically superior to prior studies because it used representative random sampling, involved consumers in a review of their own reports, utilized the FCRA’s dispute resolution process to validate alleged errors, and judged the severity of actual errors in terms of impact on the consumer’s credit score. So, we have high confidence that the results are representative of reports for consumers nationwide. But, make no mistake, there are some errors in files.

The credit reporting industry itself noted an accuracy problem with credit reports back in the early 1990s, and imposed self-regulation to fix it. Why? Inaccurate credit reports don’t predict risk very well, and lenders won’t pay as much for reports and scores that are less effective at screening out high-risk from low-risk borrowers. The competitive market for credit reports drove the credit bureaus (individually and jointly as an industry) to clean up their act or risk losing sales. The industry’s e-Oscar electronic information network and other standardized reporting processes for data furnishers were the result. But despite the industry’s efforts, the FTC report shows that some problems still exist. For nearly 95% of consumers, the problems are minor, and don’t appear to have much impact on their credit-related opportunities. But, 5% of consumers in our sample represent more than 10 million individuals economy-wide for whom errors could impose a significant cost in the form of denial of service or a significantly higher interest rate. Nobody wants to be part of that 5%.

How can this risk be reduced? Proposals for new regulation to fix the “accuracy” problem may appear in the coming months. But, there is one important and under-appreciated remedy already in place. The FCRA was built on the premise that the consumer would play a key role as quality inspector. Since 1971, we’ve all had the right to check our credit report(s) and if we find an error, dispute the item with the bureau. Since 2003, we’ve been able to check credit reports for free, once a year, at www.annualcreditreport.com. Many consumers know they have this right. But, most people don’t appreciate that the integrity of the entire reporting system depends on their active participation.

Think about the accuracy problem this way. Neither a credit bureau nor a lender can easily judge the accuracy of a consumer’s credit file. A single creditor only knows its own experience with a customer. The bureau knows only what the creditors tell it. Mistakes can be made by either party in data transmittal or file assembly. And, consumers don’t always use the same version of their name each time they apply for credit, or may omit portions of their address (e.g., 123 S. Main St, vs. 123 Main), creating an opportunity for mismatch of data. In this economy, more than 10,000 data furnishers send 2 billion account updates to each of the bureaus every month, along with 3 million Americans who move and change their address. There is ongoing exposure to mismatch. Only the consumer can easily recognize mistakes in her credit report.

Giving the consumer the role of quality inspector with the authority to demand reinvestigation and correction of errors was a brilliant stroke on the part of the authors of the original FCRA. Why do it

Continued on page 4
Family Economics & Financial Education: Meeting the Needs of Educators

By Nicole Wanago, FEFE Project Director

From Day 1, the guiding principle for the Family Economics and Financial Education program (FEFE) has been “by teachers, for teachers.” We’ve been listening to feedback from our Master Educator team members, FEFE social networks, and emails from teachers across the country. Based on all of this input, over the next few months we will be launching several new initiatives to support all aspects of teaching financial education. Here is a preview of what’s coming.

The New FEFE Website
You may have already noticed a new look to the FEFE website. The website has been re-designed to streamline the user experience and make resources more accessible. Just a few of the changes include:

• **Personalized user experience** - Users can now customize their experience by bookmarking frequently visited pages, reviewing curriculum support recommendations specific to them, and accessing the FEFE Forum to network with other educators.

• **One-click downloading** - Lesson plan materials and resources are faster to access with one-click downloading.

• **Customized instruction** - Each lesson plan download page provides resources recommendations including professional development to help educators customize instruction.

• **Time savings** - Overall site navigation is easier with simplified menus and curriculum searching.

The New FEFE Curriculum
Later this summer, and just in time for the new school year, educators will have access to the newly developed advanced level curriculum for their grade 10-12 classrooms. FEFE’s award-winning, ready-to-teach curriculum will include several new features that benefit young adults and educators alike. A sneak peak at several features include:

• Streamlined lesson plan topics to focus on core curriculum principles and those essential concepts that meet national standards.

• New topics such as financing higher education, financial well-being, and taxes.

• Activity-based instruction techniques include enhanced technology integration, but can still be customized to any environment via scenario-based learning.

Stay tuned: these new curriculum and support materials should be released through the FEFE website by August.

Online Professional Development – the FEFE Video Library
We’ve been developing a video library as a professional development resource for classroom educators. Videos feature industry experts, leading scholars, and classroom educators who provide their perspective on important topics and trends. These short and informative videos are available at a time convenient for educators; anytime day or night! A variety of videos about saving, investing, and funding higher education have been posted. Watch for more in the coming months.

We look forward to the upcoming year and continuing to work with educators to make the FEFE program relevant, effective, and easy to implement. Don’t hesitate to contact me at chinadle@email.arizona.edu with your questions, suggestions or concerns. And please let us know when one of our lessons or tools works particularly well for you.
On Saturday, April 20, 2013, over two hundred students from across Southern Arizona came together to compete in the Arizona Financial Face-Off sponsored by Hughes Federal Credit Union, Tucson Association of REALTORS®, Citi, and Long Realty Cares Foundation. This year marked the 4th Annual AFF competition, and the biggest one yet! With more sponsors, more teams, and more schools, the Credit-Wise Cats made a big splash in the Tucson community for financial literacy.

The day started off with teams facing off – in games like Financial Football, World Cup, Budget Ball, Who Wants to be a Financially Savvy Millionaire and Financial Feud. These morning sessions tested teams’ personal finance knowledge! They answered questions about credit scores, spending plans, and many other topics. These games enabled each team to build their financial portfolio.

After lunch, the teams with the best financial portfolio went on to meet with a local Realtor from the Tucson Association of REALTORS® to buy or rent a house. Each team had to take into account their financial situation and a family scenario that was given to them. While seven of the teams were buying a house, the remaining nine teams prepared to face-off again in a jeopardy showdown. With a bracket-style Jeopardy competition ahead of 9 of the teams, the competitive spirit of the teams was strong. Every team walked away from AFF with a minimum of $100 (generously sponsored by Hughes Federal Credit Union), however the team who won the Jeopardy bracket, took home $200.

By the end of the day, the judges listened to the top seven teams give their presentation on which house they had either bought or rented and the nine other teams had duked it out playing Jeopardy. The intense closing ceremony ended with the Holy Family Home Educators team taught by Mrs. Ana Castro-Eubanks and led by Credit-Wise Cat Scarlett McCourt announced as the 2013 AFF Champion. Congratulations to all the teams who competed! We look forward to seeing you all next year!
this way? A simple but effective analogy would be the prevention of product defects in the production of cars, computers and consumer electronics. It is often cheaper for the seller to let the consumer detect the error as they use the product, and promise to fix it for them, rather than incur the costs of preventing 100% of defects up front. As consumers, we’ve long been comfortable with the concept of product warranties that work exactly this way. The FCRA gives consumers the same role in the production of accurate credit reports.

Unfortunately, too few consumers exercise this important role. A 2012 survey sponsored by the National Foundation for Credit Counseling found that only 38% of consumers said they had requested a copy of their credit report within the past 12 months. Using credit bureau data, a Consumer Financial Protection Bureau report in December 2012 concluded that only 20% of consumers actually followed through and viewed a credit report in the prior 12 months.

What happens when consumers do file disputes? At least one news account of the FTC’s report (60 Minutes, aired Feb 10) left viewers with the impression that bureaus don’t thoroughly reinvestigate disputes and leave files unchanged. Our study disproves that claim: nearly 80% of consumers who filed disputes were successful in getting their credit reports corrected.

What is the primary message for consumers from the study? Avoid being part of the 5% with serious errors by checking your credit report. Doing so lowers your risk and raises the integrity of the credit reporting system. For a copy of the FTC’s final report to Congress, see http://ftc.gov/os/2013/02/130211factareport.pdf

2013 Calendar of Events

- July 23-25: Arkansas Department of Education FEFE Training
- July 25: North Carolina Department of Education FEFE Training
- July 30-August 1: National Financial Educator Training Events; Stevenson University in Owings Mills, Maryland (https://fefe.arizona.edu/pro-dev/training/national-financial-educator)
  - July 30-August 1: National Financial Educator Training: Deep Dive
  - July 31-August 1: National Financial Educator Training: New and Improved Resources
  - July 30-July 31: National Financial Educator Training: Elementary Education (in partnership with Junior Achievement of Central Maryland)
- August 6-8: Iowa State University FEFE Training