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Proposed credit law changes could be dangerous for lenders

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By Tracy Becker
Special to MPA

On September 17, Rep. Maxine Waters introduced the proposed Fair Credit Reporting Improvement Act of 2014. The Fair Credit Reporting Act (FCRA) is a 44-year-old consumer protection law that regulates consumer credit, and Waters has proposed many new changes of which some are quite preposterous.

The last changes to this law were a decade ago, and the new changes were proposed after studies released by the Consumer Financial Protection Bureau. A report issued in May questioned whether medical debt (which accounts for more than half of all unpaid debt in collection) should factor into credit scores. FICO recently released a new score that ignores medical debt in response to the CFPB's studies but Fannie Mae and Freddie Mac as well as mortgage lenders will not use the new score model (read my article on the score here: goo.gl/jtHAf3). Waters felt the new score model wasn't enough of a change and the FCRA act needed an overhaul.

Some of the major changes proposed are:

- Shortening the time periods that adverse

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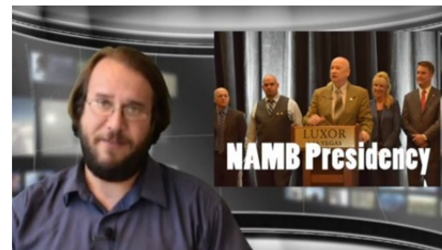

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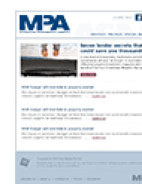

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information appears on credit reports from seven to four years. Removing any fully paid or settled debt from peoples' credit reports (including medical debt).
- Preventing companies from checking credit to screen potential employees.

Although the bill might mean well, it could cause a lot more harm than good. These changes may actually completely undermine the credit reporting process by making risky borrowers appear to have good credit. Take for example the change that removes any adverse rating from a report within 45 days of it being paid or settled. Under the old rules, somebody with $100,000 in credit card debt would have it on their credit profile as long as it takes until it is paid, which could be well over 7 years, and may appear to be a risky borrower. However, with the new law this borrower could settle their debt for $15,000 and have a clean credit report in 45 days. It's a scary thought that this person could get a huge loan, line, or credit card debt, and appear to be a good risk when they are actually very reckless financially. It would also motivate people to default on loans, lines, and credit cards since they can settle for a discount with no consequences to their credit after it's cleared in 45 days. Consumers would save money and have better credit so why bother paying creditors back in full? This change is not very well thought out and could have huge financial consequences.

In regards to employer credit checks, the credit report available to employers is different from what lenders see. Employer credit checks are called an 'employment screening' and the credit bureaus use a separate product for this purpose. They are similar to credit reports in some aspects but have some data omitted. For instance, they cannot see your credit score, and if there was some negative information the job applicant should explain that during the interview process most employers will take that into consideration if they are interested in the candidate. These screenings are done by a third party, and unlike credit reports they also verify background info and education as well. As far as positions in the financing industry, there may be stricter regulations when it comes to credit qualification. While some states have restrictions on an employer's ability to check credit, some positions like law enforcement and government are exempt from any restriction on pulling credit for applicants. That brings up the question, if the government can pull credit on any job applicant then why should any employer have a restriction on pulling an applicant's credit? It is true that some government positions might give employees access to sensitive info that needs to be protected, but how could someone's credit help to reveal a potential

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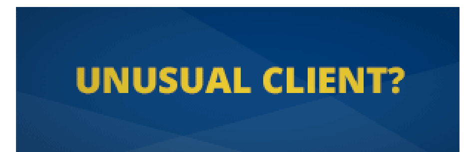

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Tracy Becker is the president of North Shore Advisory, Inc. Her latest book is Credit Score Power.

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COMMENTS

David Kelsay on 9/26/2014 9:47:22 AM

Great. This will just make it even harder for borrowers to obtain credit - rates will be higher to offset increased risk of loss, terms will become more onerous, down payment requirements will increase, etc. For consumers, merchants, and lenders - bad news. For our society, however ironic and unintended it may be, this may lead to further deleveraging. Which may be a good thing.

on 9/26/2014 10:50:36 AM

Maxine Waters is stupid..........she should be put out to pasture for that reason alone. She is so blatantly racist and is doing this for the same reason that the HMDA reflects that 29% of minorities are rejected for Conventional mortgages. It has nothing to do with race, it has everything to do with poor pay history but she seeks to massage the credit profile so more poor credit risks can qualify..........it suggests she is keenly aware of the problem and overtly trying to change the way lending of any kind is done. She's an idiot!!!

alone officer on 9/26/2014 12:19:30 PM

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