

HOME > RESOURCES > WHAT EMPLOYERS CONSIDER WHEN LOOKING AT JOB CANDIDATES CREDIT REPORTS

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Give Employers Some Credit

by Romy Ribitzky Oct 22 2010

A growing number of job applicants find themselves having to agree to a credit check before they get hired. What are employers looking for, and is it fair or discriminatory?

Bad Credit, Bad Hire?



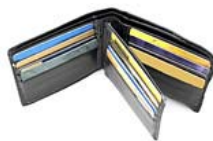
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The Importance of Credit to Small Business

The SBA comes out with a new survey that looks at how many small-business owners rely on credit to keep their businesses going. What's somewhat surprising is how long the borrowing trend has been going on. [Read More](#)

Credit Line



Small-business owners and entrepreneurs need capital to bring their vision to market. And if they're not sitting on cash, credit is often the way to go. Which



Employers are looking to protect themselves from financial wrongdoing, and that's why many more are using credit checks as a candidate screening tool.

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cards to consider and who gets approved. [Read More](#)

It's difficult enough these days to find work. For some, the news, politics, culture, and technology: candidates are finding that what's keeping them unemployed is their credit.

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So far, four states—Washington, Hawaii, Connecticut, and California—have passed legislation limiting how employers can use credit reports, 20 more states have pending bills, and [Congress is now looking at the legality](#) of the practice as well.

While the numbers vary, employment experts say that anywhere from 35 to 50 percent of employers are using credit reports as part of the hiring process. Why are they doing so, and is a credit report indicative of future job performance? S. Preston Ricardo, a litigation partner at [Golenbock Eiseman Assor Bell & Peskoe LLP](#), a New York City-based law firm, says that employers are trying to protect themselves. "Some people argue that employers are concerned that poor credit can be a character issue that points to a person's judgment, responsibility, and propensity for theft. The broad-based question here is: If you can't handle your credit responsibly, how can you manage your job properly?" he says. "But on the flip side, if an employer uses the credit report as the sole basis of a hiring decision, that can cross the line into discrimination."

Advocates for continuing the use of these reports in the hiring process are quick to say that companies typically only screen candidates whose job or responsibilities include managing money, a budget, or payroll.

But that's simply not true, John Singer, co-founder and employment attorney at [Singer Deutch LLP](#) in New York, told [CNBC's Power Lunch](#) Thursday. He said that 35 to 45 percent of employers are using credit reports to screen potential candidates from low-level jobs to mid- and high-level positions.

So what are employers looking for?

"Red flags include past-due amounts in excess of \$2,500, charge-offs—meaning a debt was written off by the lender due to lack of payment—the number of collections on a candidate's record, and whether there are any judgments against them such as tax liens," says Richard Seldon, president of [Sterling InfoSystems](#), the fourth-largest provider of employment-screening services in the United States.

Seldon, whose company counts more than 6,000 clients, explains that what companies won't be able to access are an individual's credit score. And that bankruptcies due to divorce or medical bills tend to be acceptable to employers—provided the candidate can explain why they're on the report. "If you declared bankruptcy because you went on a \$100,000 shopping spree at Bloomingdale's, then as a potential employer, I'm going to question your judgment. But if you've gone through a divorce, or were caring for a sick family member, I'd be more willing to listen to the situation," he says.

Small businesses need to consider the data even more so, argues Alexis A. Moore, founder of [Survivors In Action](#), a national advocacy organization based in Washington. That's because when a team is smaller, each person is responsible for a larger share of the liability, whereas a large firm can have multiple people responsible for the same area, and that provides financial checks and balances.

Tracy Becker, president of [North Shore Advisory](#), a credit-repair agency based in Tarrytown, New York, advises job candidates to be up front about any potential problems employers are going to find. Since companies have to disclose when they're running a credit check on an applicant, candidates can be proactive—to a point. "There isn't a hard-and-fast answer for this, but if you know that your credit is bad and you have a valid reason for why that happened, it's good to clue potential employers into the situation," she says. "Obviously, you don't want to disclose too much information, but if you handle the situation with honesty and integrity, those traits are going to shine through, and they're desirable traits."

Some experts argue that job candidates are unnecessarily worried about the impact a credit check can have on their future employment. To some degree, unless the job involves being a treasurer, comptroller, or payroll specialist, employers can use the report as a way of verifying a résumé. That's because lenders typically verify employment when a candidate applies for a credit card.

But what about the seemingly double-edge sword of the economic downturn?

"One thing that's so hard now is that the economy has forced many good people out of their jobs and that leads to them being late or slow on their bills. And that can lead some employers to overlook them," says Becker.

Seldon's solution is to explain the situation in the interview. "You can tell them that as they can see from your