

Testimony of
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Before the U.S House Committee on Financial Services

Hearing on “A Biased, Broken System: Examining Proposals to Overhaul Credit Reporting to Achieve Equity”

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Introduction

Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for holding today's important hearing and for the opportunity to address the biases and flaws of our current credit reporting system. My name is Jeremie Greer, and I am the Co-founder and Co-executive Director of Liberation in a Generation, a national racial justice and movement support organization working to build the power of people of color to totally transform the economy. We do this by both championing transformative policy solutions and by bringing together leaders of color across the country to undo what we call the Oppression Economy, where racism is not only profitable but also fuels a cycle that suppresses the economic vitality of people of color. In its place, we also aim to build what we call a Liberation Economy where all people of color have their basic needs met, are safe from harm, are valued, and belong.

The Role of the Credit Reporting System in Determining our Place in the Economy

It is within this Oppression Economy that we find credit reporting agencies such as Experian, TransUnion, Equifax, and others, who have anointed themselves gatekeepers with the power to determine who can and cannot access the financial products, services, and capital necessary to navigate the economy. In doing so, these and other institutions have essentially created a dual financial system. On one side of this system is a wealth-building track—with products and services that include affordable mortgages, prime lines of credit, and low-cost credit cards—which make it possible for consumers to build long-term financial security. On the other side of this system is a predatory track—with products and services that include subprime mortgages, payday loans, check cashers, and auto title lenders—which largely excludes people from building wealth or strips them of the little bit of wealth they may own.

At the core of determining which side of our dual financial system a consumer may find themselves in are the scores and reports credit reporting agencies generate. Unfortunately, our history of credit discrimination, the preference of our current credit reporting system for mainstream financial products, and its unfair handling of alternative data has placed millions of Black, Latinx, low and moderate-income Asians, and Indigenous people on that predatory track I spoke of, relegated to live on the fringes of our credit system or to be ignored entirely. To this point, according to a study by the Consumer Financial Protection Bureau (CFPB), about 15 percent of Black and Latinx consumers are considered "credit invisible," meaning they have no

credit record at all, while about 13 percent of these consumers are deemed to have "thin" or "unscorable" credit files.¹ Overall, the Bureau estimates that 45 million consumers have either no credit records or have unscorable credit files, meaning that a considerable portion of the population is locked out from accessing safe and affordable financial services that can help them build financial security and long-term wealth. To put the cost of this exclusion into perspective, the Credit Builders Alliance estimates that consumers with low or nonexistent credit scores could pay \$200,000 more for lending products and services throughout a lifetime.²

As alarming as this is, the cost of exclusion extends far beyond these financial ramifications. Today, what started as a tool to measure a consumer's creditworthiness is now used as a tool to judge a range of other things—including whether someone can be employed, can rent a home, can access electricity and heat, or even be able to purchase health insurance.³ Many of these other judgments are facilitated through specific products developed and sold by Experian, TransUnion, and Equifax, which have all shown to have issues with managing and furnishing information that makes it possible for us to transact in the mainstream economy.

Our Credit Scoring System Reinforces and Exacerbates Racial Inequities

While numerous issues plague our current credit reporting system, a fundamental problem that concerns us is that the scores themselves and the process by which they are created are racially biased. For example, while the intended goal of these scores is to allow financial institutions to make an objective decision about an individual's creditworthiness, evidence suggests that there is a connection between an individual's income and their score. Such a correlation is particularly alarming, considering households of color earn far less income than white households.

According to the Federal Reserve's 2019 Survey of Consumer Finances, median Black and Latinx households earn about \$41,000, while median white households earn about \$70,000. In examining recent studies of credit score data by Experian⁴ and WalletHub,⁵ such income levels would place the typical Black and Latinx household within an average credit score range of about 643-681, which are considered "bad" and "fair" credit scores ranges, respectively. By comparison, the typical white household would be within an average credit score range of 700-737, which is considered a "good" credit score range. Similar patterns emerge when looking at neighborhoods: according to a 2017 Urban Institute study of 60 major US cities, the median

¹ Kenneth P. Brevoort, et al., "Data Point: Credit Invisibles," Consumer Financial Protection Bureau, 2015, http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

² David Newville, Anju Chopra, et al., "Alternative Data Reporting Helps Families Build Credit & Wealth," Prosperity Now, 2017, https://prosperitynow.org/files/resources/Alternative%20Data%20Fact%20File_September%202017.pdf.

³ Jennifer Brown, "Unscoreable: How The Credit Reporting Agencies Exclude Latinos, Younger Consumers, Low-Income Consumers, and Immigrants," UnidosUS, 2019, <https://financialservices.house.gov/uploadedfiles/hhrg-116-ba00-wstate-brownj-20190226.pdf>

⁴ Matt Tatham, "Can You Make Minimum Wage and Still Have a Maximum Credit Score?," Experian, 2018, <https://www.experian.com/blogs/ask-experian/can-you-make-minimum-wage-and-still-have-a-maximum-credit-score/>

⁵ Bianca Peter, "What Is the Average Credit Score in America?," WalletHub, 2020, <https://wallethub.com/edu/cs/average-credit-scores/25578#credit-score-by-income>

credit score in predominantly white areas was 697, compared to 621 for nonwhite areas.⁶ A 2012 CFPB study showed similar trends, finding that among the 200,000 credit files the agency had analyzed, the median FICO score within high-minority zip codes was far lower than the median FICO score observed within low-minority zip codes.⁷ Overall, numerous studies show consumers of color consistently have lower credit scores than white consumers.⁸

In part, these disparities can be attributed to our nation's long history of systematically denying communities of color access to affordable credit while simultaneously steering these communities to wealth-stripping financial products. Over the course of generations, these discriminatory actions have served to suppress the wealth-building potential of communities of color and fuel a racial wealth gap that today sees Black and Latinx households owning just 6% of the nation's wealth,⁹ despite making up about 30% of the population. To put this dynamic into perspective, the following are a few examples that have contributed to this racial wealth gap:

- Post-civil war Black sharecroppers being provided with short-term predatory credit that left many vulnerable to falling victim to a cycle of perpetual economic insecurity.¹⁰
- Mid-20th century would-be homebuyers of color systematically denied, or "redlined," from accessing mainstream housing credit,¹¹ which left many vulnerable to the predatory practice of "contracts for deed." Eventually, this practice would strip billions in wealth from Black communities throughout the country who wanted nothing more than to secure their share of the American Dream.¹²
- The intentional targeting of communities of color by subprime mortgage lenders in the run-up to the 2008 Housing Crisis. As the committee knows, this steering and targeting not only led Black and Latinx homeowners to disproportionately lose their homes during

⁶ Caroline Ratcliffe, Steven Brown, "Credit scores perpetuate racial disparities, even in America's most prosperous cities," Urban Institute, 2017, <https://www.urban.org/urban-wire/credit-scores-perpetuate-racial-disparities-even-americas-most-prosperous-cities>.

⁷ "Analysis of Differences between Consumer- and Creditor-Purchased Credit Scores," Consumer Financial Protection Bureau, 2012, https://files.consumerfinance.gov/f/201209_Analysis_Differences_Consumer_Credit.pdf

⁸ Lisa Rice, Deidre Swesnik, "Discriminatory Effects of Credit Scoring on Communities of Color," Suffolk University Law Review, 2013, https://cpb-us-e1.wpmucdn.com/sites.suffolk.edu/dist/3/1172/files/2014/01/Rice-Swesnik_Lead.pdf

⁹ "Distribution of Household Wealth in the U.S. since 1989," Board of Governors of the Federal Reserve System, 2020, <https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/chart/#quarter:124;series:Net%20worth;demographic:race;population:all;units:shares>

¹⁰ Charles Lewis Nier III, "The Shadow of Credit: The Historical Origins of Racial Predatory Lending and its Impact upon African American Wealth Accumulation," *University of Pennsylvania Journal of Law and Social Change*, 2007, [https://www.law.upenn.edu/journals/jlasc/articles/volume11/issue2/Nier11U.Pa.J.L.%26Soc.Change131\(2007\).pdf](https://www.law.upenn.edu/journals/jlasc/articles/volume11/issue2/Nier11U.Pa.J.L.%26Soc.Change131(2007).pdf)

¹¹ According to an [analysis](#) by George Lipsitz, a Professor of Black Studies and Sociology at the University of California, Santa Barbara, 98% of all government-backed mortgages issued between 1934 and 1968 went to White homebuyers.

¹² Natalie Moore, "Contract Buying Robbed Black Families In Chicago Of Billions," *NPR*, 2019, <https://www.npr.org/local/309/2019/05/30/728122642/contract-buying-robbed-black-families-in-chicago-of-billions#:~:text=Black%20families%20in%20Chicago%20lost,a%20new%20report%20released%20Thursday.&text=Meanwhile%2C%20the%20contract%20seller%20held,and%20could%20evict%20the%20buyer>.

the housing crisis,¹³ but also wiped away more than half the median household wealth held by these communities in the process.¹⁴

Today, these historical racial economic injustices and inequities are further reinforced by the ways our current credit reporting system goes about calculating scores.¹⁵ Overall, though it is illegal to use race (and other protected class statuses) in determining credit risk, each of the five FICO score calculation categories—payment history, amounts owed, length of credit history, new credit, types of credit used—can have particularly unequal and discriminatory effects on consumers of color.¹⁶ Take, for example, length of credit history, a category that accounts for 15% of our FICO credit scores and presumably improves your score the longer you have a credit account open and active. As with the other FICO score calculation categories, the issue with this category is that you need credit to get credit, which places communities of color at an unfair disadvantage because of our history of racial economic exclusion.

Unlike the typical white household, the typical household of color often lacks the wealth to help ensure that their children can enter the credit system as early as possible, whether that be by helping their child open a credit card in their name during their college years or by co-signing a loan to finance a car, or even simply by not passing down debt.¹⁷ Together, these and other actions taken by families with more significant economic resources can help to ensure that the next generation can begin their adult lives firmly within the wealth-building track I spoke of earlier. Sadly, research from the CFPB shows that the reality of being credit invisible or having unscorable credit files, and thus living within the predatory track of our dual financial system, begins at an early age in the lives of Black and Latinx consumers and persists over time.¹⁸

Beyond the ways the system goes about calculating our scores, historical racial economic disadvantages are also further reinforced by the kinds of data our current credit reporting system prefers. For example, when it comes to factoring in on-time payments, our current system favors mortgages and credit card payments over alternative data sources and credit products, like rental and cell phone payments. Considering that people of color are far less likely to own their homes or have access to a credit card,¹⁹ the current system effectively overlooks many within the community solely because their monthly expenses do not go towards paying down a more

¹³ Debbie Gruenstein Bocian, et al., "Foreclosures by Race and Ethnicity: The Demographics of a Crisis," for Responsible Lending, 2010, <https://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.pdf>

¹⁴ "Survey of Consumer Finances, 1989 - 2019," Board of Governors of the Federal Reserve System, 2020, https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Net_Worth;demographic:racecl4;population:all;units:median

¹⁵ Lisa Rice, Deidre Swesnik, "Discriminatory Effects of Credit Scoring on Communities of Color," Suffolk University Law Review, 2013, https://cpb-us-e1.wpmucdn.com/sites.suffolk.edu/dist/3/1172/files/2014/01/Rice-Swesnik_Lead.pdf

¹⁶ Ibid.

¹⁷ Natalie Campisi, "From Inherent Racial Bias to Incorrect Data—The Problems With Current Credit Scoring Models," Forbes, 2021, <https://www.forbes.com/advisor/credit-cards/from-inherent-racial-bias-to-incorrect-data-the-problems-with-current-credit-scoring-models/>

¹⁸ Kenneth P. Brevoort, et al., "Data Point: Credit Invisibles," Consumer Financial Protection Bureau, 2015, http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

¹⁹ Tamara E. Holmes, "Credit card race, age, gender statistics," creditcards.com, 2019, <https://www.creditcards.com/credit-card-news/race-age-gender-statistics/>

traditional credit product. At the same time that the current system does not fully capture the financial lives of consumers of color, it also penalizes consumers for holding “bad” debt, such as payday loans, unpaid student loan debt, unpaid utilities, and court fines and fees. Even worse, the system also penalizes consumers for actions outside of their control, such as a sudden job loss and holding debt that has no bearing on a person’s creditworthiness, such as medical debt. Disproportionately, these kinds of debts are held by people of color.

Racial Implications of the Credit Reporting System Are Amplified Further by High Errors

In addition to the disparate effects and outcomes I highlighted, another major problem with our current credit reporting system is that the data used to generate these assessments is often inaccurate. To this point, a comprehensive and congressionally mandated study by the Federal Trade Commission (FTC) in 2013 found that 26 percent of consumers had identified errors in one of their three credit reports and that for five percent of consumers, these errors could lead to paying more for auto loans and insurance.²⁰ Two years later, some of the same consumers the FTC engaged in 2013 continued to express that some of the disputed information on their files remained inaccurate.²¹ In other words, the sensitive consumer data that these companies collect to generate their scores, and then sells to other financial institutions to determine a consumer's "worthiness," not only has enormous consequences for where consumers are placed within our financial system but is also marred with issues that can significantly cost consumers. Yet, despite this, little has changed in the years since the FTC studies were published as a Consumer Reports survey fielded earlier this year found that more than a third of respondents (34%) had at least one error on their credit report, with 29 percent finding errors related to personal information, such as incorrect address information, and 11 percent finding errors related to account information.²²

Adding to these issues, while federal agencies like the CFPB have made it easier for consumers to have the information and resources necessary to dispute inaccurate information on their credit reports,²³ consumers continue to find it incredibly difficult to navigate our credit reporting system. To this point, according to the Bureau’s most recent Consumer Response annual report, out of the 542,300 consumer complaints the agency received last year, nearly 60 percent (319,300) were related to credit or consumer reporting, with almost 70 percent of those complaints (191,300) related to incorrect information on credit reports.²⁴ These indifferences related to data accuracy and consumer’s wellbeing are symbolic of the systemic issues that have long afflicted our credit reporting system broadly and the big three credit reporting agencies

²⁰ Jon Leibowitz et al., "Report to Congress Under Section 319 of the Fair and Accurate Credit Transactions Act of 2003," Federal Trade Commission, 2012, <https://www.ftc.gov/sites/default/files/documents/reports/section-319-fair-and-accurate-credit-transactions-act-2003-fifth-interim-federal-trade-commission/130211factareport.pdf>.

²¹ "FTC Issues Follow-Up Study on Credit Report Accuracy," Federal Trade Commission, 2015, <https://www.ftc.gov/news-events/press-releases/2015/01/ftc-issues-follow-study-credit-report-accuracy>

²² Syed Ejaz, "A Broken System: How The Credit Reporting System Fails Consumers And What To Do About It," Consumer Reports, 2021, <https://advocacy.consumerreports.org/research/a-broken-system-how-the-credit-reporting-system-fails-consumers-and-what-to-do-about-it/>

²³ "How do I dispute an error on my credit report?" Consumer Financial Protection Bureau, 2019 (updated), <https://www.consumerfinance.gov/ask-cfpb/how-do-i-dispute-an-error-on-my-credit-report-en-314/>

²⁴ https://files.consumerfinance.gov/f/documents/cfpb_2020-consumer-response-annual-report_03-2021.pdf

specifically. Put simply, our current credit reporting system does not serve consumers particularly well.

Much of these issues are a byproduct of our private credit reporting system and the monetization of our data. Similar to the problems that have surfaced around Big Tech firms of today, credit reporting agencies like Experian, TransUnion, and Equifax were among some of the first commercial big data firms to methodically turn our personal, economic data into a multi-billion-dollar product, whose consequences can determine how we show up in the economy and the kinds of lives we can lead in it. And just like today's Big Tech firms, the many issues raised before the committee today and previously—from inaccurate data, to the carelessness when handling our data (best exemplified by the 2017 Equifax data breach), to the difficulty so many have in navigating error disputes, to the lack of innovation, accountability, and transparency—stem from the fact that the actual end-user of these scores is not the consumer, but rather financial institutions.²⁵ As private, publicly traded companies and venture-backed firms, the primary focus of the credit reporting industry is creating value for their shareholders and investors, rather than doing what is best for the consumer whose data generates that value. As a result, this has tilted the incentives within the system towards volume and profit and away from accuracy, privacy protections, and customer service.²⁶

Conclusion

Ultimately, to begin ending the dual financial system that allows some of us to build wealth and others to be largely excluded from doing so, we need to reform the current credit reporting system in fundamental ways. It is for this reason that we support Congresswoman Pressley's Comprehensive CREDIT (Credit Reporting Enhancement, Disclosure, Innovation, and Transparency) Act and Congressman Gottheimer's Protecting Your Credit Score Act, which put forward several needed reforms to bring greater transparency and accountability to Experian, TransUnion, and Equifax, and the credit reporting system writ large.

In particular, we are encouraged by the fact that the Comprehensive CREDIT Act would begin to reduce the broad gatekeeper powers credit reporting agencies have by significantly limiting the use of credit checks for hiring and employment purposes, while the Protecting Your Credit Score Act would institute several essential changes to not only provide consumers with greater protections but also greater access and control over their data. In addition, we are also encouraged that the committee is considering a proposal like the National Credit Reporting Agency Act, which by creating a public credit reporting option would not only begin to provide the public with the kind of competition, innovation, and accountability that has been missing in the current system but can also lead to the kind of system that can finally break down the walls of the dual financial system that exist today.

Considering the lack of accountability and general regard for consumers in the current system, and the impact that the various biases within the system have on consumers of color, we believe

²⁵ Penelope Wang, "Why It's Still So Hard to Fix Credit Report Errors," Consumer Reports, 2020, <https://www.consumerreports.org/credit-scores-reports/why-its-still-hard-to-fix-credit-report-errors/>.

²⁶ Ibid.

that consumers need a more robust system that works in their best interest. We look forward to supporting efforts that would move us in this direction and thank you for the opportunity to share our perspective with the committee today. I look forward to your questions and further discussing ways to overhaul our credit reporting system.