Summary of Key Provisions in Ranking Member Maxine Waters' Discussion Draft
"Fair Credit Reporting Improvement Act of 2014"

Ensures Credit Restoration for Victims of Unscrupulous Mortgage Lenders and Servicers

- Promotes fairness and relief for millions of consumers by ensuring that any adverse item of information tied to a residential mortgage loan that is found to have been unfair, deceptive, abusive, fraudulent or illegal, or the subject of a settlement agreement, is excluded from a person's credit report.

- Prevents victims, including those who were deceived or ripped off by unscrupulous lenders during the 2008 financial crisis through no fault of their own, from continuing to suffer from the presence of adverse information on their credit reports related to such predatory mortgage loans.

Shortens the Amount of Time Adverse Information Stays on a Credit Report

- Ends the unreasonably long time periods that most adverse information can remain on a credit report by shortening such periods by three years. Despite the fact that the predictive value of most negative information contained on a credit report gradually diminishes after two years, such information currently remains on a person's credit report for at least seven to ten years.

- Maintaining credit information long after its value in predicting credit behavior has diminished can have significant and far reaching consequences. Besides determining the type and cost of consumer credit products and services that someone can obtain, credit reports are increasingly used for non-credit purposes through limiting a person's ability to get a job or a promotion, find rental housing, and obtain car and homeowners insurance.

- The seven to ten year time period established in the Fair Credit Reporting Act (FCRA) for how long most types of negative information can remain on a person's credit report is neither a universal nor international standard. In fact, countries with strong economies already require a shorter time period for reporting negative information, including Sweden which limits the reporting period to three years, and Germany, which limits the period to four years.

Requires Creditors and Lenders to Maintain Records on Information they Report to Consumer Reporting Agencies

- Gives consumers the ability to truly verify the accuracy and completeness of information contained on their reports, by ensuring that creditors retain all relevant records for the same amount of time that such adverse information remains on a person's credit report.

- Ensures that consumers are able to obtain a legitimate and comprehensive investigation or reinvestigation of information contained on their credit report which they believe is inaccurate or incomplete even if the ownership of the business that originally furnished the information in question is transferred to a new entity. This is accomplished by requiring the person selling or transferring the repayment rights to provide the information and records substantiating the consumer's liability to the new entity, and by requiring the new entity to maintain such information and records as long as the information is included in the consumer's report.

- According to the Federal Trade Commission, one in five, or roughly 40 million consumers, have had an error on one of their credit reports. Furthermore, 10 million consumers were found to have errors that would make credit more expensive for those consumers.

Eliminates Punitive Credit Scoring Practices by Removing Fully Paid or Settled Debt from Credit Reports

- Removes any adverse information on a credit report related to a fully paid or settled debt, including a medical debt, which is consistent with the latest credit scoring models developed by FICO and Vantage Score.

- Even though studies have found that fully paid or settled debts have little, if any, predictive value, many creditors and lenders continue to use outdated credit scoring models that utilize these paid and settled debts in evaluating a customer's creditworthiness.

Gives Distressed Private Education Loan Borrowers the Same Chance to Rehabilitate their Credit as Federal Student Loan Borrowers

- Requires the removal of adverse information from a person's credit report related to a private education loan when delinquent borrowers of these loans make nine consecutive on-time, monthly payments.

- Provides parity with the rehabilitation program that exists for federal student loan borrowers which removes the default notation from their credit reports once they have made nine out of ten consecutive on-time monthly payments.

- Private education loan borrowers, who make consistent on-time payments for an extended period of time, deserve the same opportunity to restore their credit that is afforded to borrowers of federal student loans.

- Ends the statutory barrier for private education lenders to offer credit rehabilitation for delinquent borrowers because of the requirement under FCRA that lenders can only furnish accurate and complete information to consumer reporting agencies. Sallie Mae cited this FCRA requirement in commentary submitted to the Bureau on April 8, 2013, as the reason that it could not offer a similar credit restoration option that is currently available for delinquent federal student loan borrowers.

- Provides a needed boost to our economy by restoring the credit standing of distressed private education loan borrowers that demonstrate their ability and willingness to fulfill their payment obligations. In 2013, the Bureau reported that student loan debt totaled as much as $1 trillion and cautioned that an increasing volume of such debt would provide a further drag on the economy by hindering borrowers' ability to qualify for car and mortgage loans, save for retirement, and pursue entrepreneurial ventures that grow our economy.

Requires Validation of Credit Scoring Algorithms

- Directs the Bureau to set standards for validating the accuracy and predictive value of credit score algorithms, formulas, models, programs, and mechanisms before their initial use by creditors and lenders and at regulator intervals thereafter.

- Establishes clear federal oversight of credit scoring models that play an increasingly important role in people's lives. Although federal prudential regulators review the performance of the use of these models by lenders as part of safety and soundness reviews, no federal regulator is currently tasked with monitoring the development and validation of these models.

- Requires the Bureau to review the numerous ways that credit information contained in a person's credit report can be considered in credit scoring models used by creditors and lenders, particularly as the predictive value of information in models shifts over time along with changes in macroeconomic conditions, and changes in consumer behavior.

- Directs the Federal Housing Finance Agency, in consultation with the Bureau, to study the merits of implementing additional or alternative credit score products in setting eligibility requirements for mortgage loans purchased by Fannie Mae and Freddie Mac which are widely recognized as having a tremendous impact on the models and underwriting criteria used by primary mortgage lenders.

Clarifies that Participation in Certain Credit Restoration Programs Won't Hurt Consumers' Creditworthiness

- Requires that borrowers, who are complying with the terms of the new credit rehabilitation options for predatory mortgage loans and private education loans, are reported as "paying as agreed," and not reported in a method that harms their credit score, thus ensuring that consumers who participate in the newly created private education loan, and mortgage credit restoration programs will get credit relief, instead of being penalized for their participation, as was an unintended consequences for many who participated in the HAMP program.

- Ensures the reporting codes a creditor or lender uses when it furnishes information to consumer reporting agencies about a consumer's participation in the newly created federal credit restoration programs will not damage consumers' credit scores.

Enhances Consumers Rights in Disputing Inaccurate and Incomplete Information

- Requires consumer reporting agencies to forward all information provided by consumers, who have disputed items contained in their credit reports, to creditors and lenders, which ensures that furnishers are able to thoroughly investigate the validity of disputes.

- Requires consumer reporting agencies and furnishers to dedicate sufficient resources and staff to conduct adequate investigations and reinvestigations when consumers dispute items in their credit reports.

- Requires consumer reporting agencies to prominently display on their website a summary of consumer's dispute rights developed by the Bureau in a standardized and easily understandable format.

Establishes Standards and Procedures for Conducting Investigations and Reinvestigations by Consumer Reporting Agencies and Furnishers

- Requires consumer reporting agencies to verify the accuracy and completeness of information that a consumer disputes.

Ensures Credit Reports Contain Accurate and Complete Information

- Directs the Bureau to issue regulations about procedures that consumer reporting agencies must take to assure maximum possible accuracy and completeness of credit reports in order to address an on-going problem with inaccurate and incomplete information in credit reports

- Accuracy concerns continue to top the list of complaints the Bureau receives from consumers related to consumer reporting. Inaccuracies and incomplete information can have a devastating impact on a person's ability to obtain prime credit, get car or homeowners insurance and, in some situations, even get and retain a job.

Restricts the Use of Credit Reports for Employment Purposes

- Creates two narrow exemptions—when required by local, state or federal law and for security clearances—in which credit reports can be used for employment purposes.

- Beyond the two limited exceptions, ties the use of credit reports for employment purposes to a determination by the Bureau that credit information is a valid and more reliable predictor of employee performance than alternative scoring methods used to evaluate whether to hire, promote, or retain an individual.

- Restricts growing practice of using credit reports to screen job applicants, which continues despite the lack of any reliable data demonstrating that credit information correlates to a person's job performance or character. Demos found that one in four unemployed Americans have been required to go through a credit check when applying for a job and one in ten have been denied jobs as a result of their credit report.

- Protects individuals from having to disclose and discuss personal and private information contained on their credit report to a prospective or current employer. For example, such personal information could relate to a medical debt, or be the result of damage to one's credit caused by an abusive partner or spouse who has sought to inflict financial harm.

Sets Limits on the Cost Charged for Credit Scores

- Limits the cost of a credit score or educational credit score to a reasonable threshold of $10 indexed for inflation.

Enhances Disclosures on Products and Services

- Requires the Bureau and the Federal Trade Commission to issue regulations for consumer reporting agencies to clearly disclose to consumers the costs of obtaining their products or services.

- Provides consumers with meaningful and easy to understand information about products and services to prevent them from unknowingly purchasing expensive products and services, such as credit monitoring or identity-theft services, that they may not fully understand or need.

- Prohibits consumer reporting agencies from misleading consumers by describing certain products and services as "free" that are, in truth, provided at no charge just for a limited trial period than automatically converted into a paid subscription service.

- Requires consumers to "opt-in" to any product or service following the close of a promotional period for any product or service offered by a consumer reporting agency.

Helps Eliminate Consumer Confusion about the Difference between Educational Credit Scores and Credit Scores Used by Creditors and Lenders

- Requires consumer reporting agencies to provide clear and prominent descriptions to consumers about the differences between a credit score sold to and used by creditors and lenders and an educational credit score provided to consumers before the score is purchased.

- Reduces consumers' confusion about credit scores by giving meaningful disclosures about the limitations of the educational credit score obtained from a consumer reporting agency by informing them that these scores are merely educational tools intended to provide consumers with a basic understanding of how the information contained in their credit report is likely to affect the type and costs of credit available to them.

Makes Consumers Free Credit Scores or Educational Credit Scores Available at the Same Time that They Get Their Free Annual Credit Reports

- Requires consumer reporting agencies to also provide consumers with a free annual credit score or education credit score at the same time that a consumer obtains a free annual credit report.

- Although credit scores have a dramatic impact on consumers' lives, many people are unaware of how credit reports or credit scores impact their access to and the cost of obtaining credit.

Permits Courts to Provide Injunctive Relief for Violations of the Fair Credit Reporting Act

- Provides recourse for consumers to pursue injunctive relief when they enter into a lawsuit for a violation of the FCRA. This provides authority to a court to order any entity that violated the Act to stop engaging in the specific practice that is found to be in violation of the law.

Prohibits the Use of Disputed Information in Credit Reports and Credit Scores

- Prohibits the adverse use of disputed information by any user of a consumer's credit report in calculating a credit score, unless the dispute is determined to be frivolous or irrelevant.

- Protects consumers who make an effort to dispute information they identify as inaccurate on their credit reports from being penalized by the presence of this adverse information until it is known whether this information is accurate and complete.

- Creates safeguards for the integrity of the consumer reporting system by applying this protection only to disputed items that are not considered frivolous or irrelevant.

Establishes Consumer's Right to Shop for Affordable Credit

- Encourages consumers to shop for the best terms and conditions when seeking to obtain a mortgage, auto loan or private education loan, by treating multiple hard inquiries by a creditor as a single inquiry within a reasonable 120 day time period. According to the Bureau, the fear that multiple inquiries will lower consumer's credit score deters a significant number of consumers from comparison shopping prior to obtaining credit.

- Gives consumers adequate time needed to shop for the most affordable credit on the best terms available.

<u>Provides for Further Study of the Use of Non-Traditional Data on the Credit Standing of Consumer's with Limited Credit Histories</u>

- Requires the Bureau within one year to carry out a study on whether the inclusion of more non-traditional data on credit reports used in connection with a credit transaction would increase consumer's access to credit.