



555 West Adams Street  
Chicago, IL 60661  
Tel 312 985 3859  
Fax 312 466 6815  
www.transunion.com

**STATEMENT OF HARRY GAMBILL  
CHIEF EXECUTIVE OFFICER, TRANSUNION LLC**

**BEFORE THE  
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT**

**“THE ROLE OF THE FCRA IN THE CREDIT GRANTING PROCESS”**

**JUNE 12, 2003**

**Introduction**

Good morning Chairman Bachus, Congressman Sanders, and Members of the Subcommittee. My name is Harry Gambill and I am the Chief Executive Officer of TransUnion LLC. TransUnion is a leading global provider of consumer report information supported by more than 4,100 employees, in more than 24 countries worldwide. I appreciate the opportunity to appear before you today to discuss the role of TransUnion and the Fair Credit Reporting Act (“FCRA”) in the credit granting process.

**The Role of TransUnion in the Credit Granting Process**

Consumer spending makes up approximately two-thirds of the U.S. gross domestic product. A critical component of this economic driver is the availability of consumer credit. Creditworthy consumers in the United States have access to a wide variety of credit from a number of sources at extremely competitive prices. Consumers rely on the availability of credit for a variety of purposes, such as the purchase of homes, cars, education, and daily needs. In fact, there is approximately \$7 trillion in outstanding mortgages and other consumer loans in the United States. There is no question that our economy would suffer if consumers could not access credit as they do today.

It is my pleasure to explain how TransUnion plays a critical role in the economic engine of credit underwriting. In sum, we provide the information necessary for lenders to make credit available to consumers. In order for a lender to extend a loan to a consumer, the lender needs to evaluate the risks inherent in lending to that consumer. The proper evaluation of the consumer's risks allows the lender to determine whether to provide credit to the consumer and at what price. We believe that the most accurate and predictive piece of information a lender can use in evaluating a consumer's credit risk is a consumer report (also commonly called a credit report). TransUnion is in the business of providing lenders with this critical information.

### *The Credit Reporting Process*

In order to more fully understand TransUnion's role in the credit granting process, it is important to understand the credit reporting process itself. TransUnion is a consumer reporting agency, or a credit bureau. We act as a nationwide repository of consumer report information with files on approximately 192 million individuals in the United States. The information in our files generally consists of: (i) identification information; (ii) credit history; (iii) public records (*e.g.* tax liens, judgments, etc.); and (iv) a list of entities that have received the consumer's credit report. It is also important to clarify what is not in a credit report. A TransUnion credit report does not include checking or savings account information, medical histories, purchases paid in full with cash or check, business accounts (unless the consumer is personally liable for the debt), criminal histories, or race, gender, religion, or national origin.

Most of the information in our files is provided to us voluntarily by a variety of sources. Although the FCRA does not require anyone to furnish information to credit bureaus, the law does establish certain important guidelines for those who voluntarily do so. For example, furnishers must meet certain accuracy standards when providing information to credit bureaus. Furnishers must also meet requirements ensuring that the information the furnishers have reported to credit bureaus remains complete and accurate. Despite these legal obligations and potential legal liabilities imposed on data furnishers, lenders and others participate in the credit reporting process due to the recognized value of complete and up-to-date credit reporting. In essence, if lenders want accurate, complete, and up-to-date information on which they are to base credit decisions, they must ensure a continuing supply of such data to credit bureaus.

We take great pride in our ability to collect and disseminate credit report information. In fact, TransUnion receives and processes approximately 2 billion updates to consumers' credit files each month. However, we do not distribute credit reports to just anyone. Under the FCRA, we may not provide a credit report to anyone who does not have a permissible purpose for such information. This limitation in the FCRA serves to limit the distribution of credit reports while allowing those with a need for such information (*e.g.* granting credit) to obtain important information.

## **Case Study: The Role of TransUnion in Assisting Consumers** **Achieve the Dream of Homeownership**

As I have discussed, TransUnion assembles consumer information and provides it, in the form of a credit report, to those who are permitted by law to obtain such information. One such permissible purpose is mortgage lending. I would like to take a moment and use a typical mortgage transaction to illustrate TransUnion's involvement in the credit granting process, the importance of the FCRA, and how consumers benefit.

Picking just the right home is obviously a fundamental part of becoming a homeowner. However, because most consumers cannot afford to purchase a home using cash, it is also important for the consumer to be able to finance the house. I can recall the days when obtaining a mortgage meant going to the local banker and enduring a lengthy application process. But today a consumer has the ability to pick from a plethora of mortgage lenders, regardless of where the consumer lives. In fact, lenders across the country are willing to extend mortgage credit to consumers they have never even met. Lenders are able to compete for consumers in this manner because the lenders can rely on companies such as TransUnion to provide the information necessary to evaluate the creditworthiness of the applicant, even if the lender and applicant have never laid eyes on one another.

The credit reporting process means more than allowing mortgage lenders to compete for consumers (which obviously lowers costs). For most consumers, the existence of three national credit reporting databases means quicker loan decisions by the mortgage underwriter, and the consequent ability to close on the house more quickly. The automated underwriting systems that have been adopted by the industry are enabled by the existence of the national credit reporting databases. For those consumers whose credit histories contain adverse information, or for those with "thinner" histories, the operation of the dispute procedures in Section 611 of the FCRA, together with the verification work done by the so called "reseller" consumer reporting agencies (one of whom testified before this Subcommittee last week), combine to allow all consumers the opportunity to ensure that the credit information on which the mortgage decision, and the mortgage interest rate, are based is accurate and complete.

This system delivers to consumers quick decisions, increased competition, and lower rates. In many other countries, consumers, regardless of their credit profiles, do not have access to long-term mortgages or must pay interest rates of more than 20% on their loans. This is a direct result of the lack of a comprehensive and uniform credit reporting system. It is caused by the absence of credible information being available to all lenders. Unlike consumers in the United States, consumers in those countries do not have many options. They are generally tied to one institution — their bank — for all their financial needs.

## **The Importance of Nationally Uniform FCRA Provisions to the Credit Granting Process**

I have just explained in general terms TransUnion's and the FCRA's role in the credit granting process. Like other consumer reporting agencies, TransUnion obviously plays a pivotal role in the credit granting process in the United States. This credit granting process, which relies heavily on the information and activities regulated by the FCRA, has resulted in more choice and convenience to consumers at lower costs. The following explores some of these benefits and the importance of the FCRA's national standards in fostering such a competitive and diverse credit market.

### Predictive Power of Consumer Reports

A consumer report represents a complete, accurate, and up-to-date snapshot of a consumer's financial history. This is important to a lender assessing a consumer's credit risk for several reasons. First, the lender can evaluate the information provided in a consumer report and make a credit decision accordingly. Just as importantly, a lender reviewing a consumer report has a high degree of confidence that the consumer report includes a complete picture of the consumer's financial history. In other words, the lender knows that he or she has a complete understanding of the consumer's financial history and that there is not any material information about the consumer's creditworthiness being hidden. The fact that the consumer report is complete, accurate, and up-to-date allows the lender to make an accurate assessment of the consumer's credit risk.

### *Furnisher Obligations*

The ability of a lender to rely on a consumer report when making credit decisions is preserved, at least in part, through several provisions that establish the FCRA as the national, uniform standard. For example, as I noted above, furnishing information to credit bureaus is completely voluntary. Creditors and others are willing to provide information to credit bureaus because they understand the value of, and benefit from, a robust credit reporting system. Despite the obvious interest most furnishers have to report only accurate and complete information, in 1996 Congress determined that those who furnish information to credit bureaus must have some legal obligations with respect to the accuracy and completeness of information provided to credit bureaus. However, in imposing these obligations, Congress recognized that the data provided to credit bureaus was the lifeblood of the credit reporting and underwriting processes. Therefore, the furnisher obligations represent a careful balancing of the need for accuracy with the need to ensure an uninterrupted flow of information to credit bureaus. The compromise reached in the 1996 amendments, imposing accuracy and completeness obligations on furnishers, enforceable by state and federal agencies, establishes a national standard under the FCRA.

If states were permitted to impose additional obligations or liabilities on furnishers, the viability of the credit reporting process could be threatened. We believe that various state laws with respect to furnisher obligations may discourage entities from providing

information to credit bureaus. Indeed, depending on the state law, it may be prudent for furnishers not to provide such information if it would subject the furnisher to unnecessary litigation, including class action liability. If this were to happen, consumer reports would contain less information and become less reliable. In effect, lenders would no longer have confidence that a consumer report represents a complete, accurate, and up-to-date snapshot of the consumer's financial history. In order to compensate for this uncertainty when evaluating the consumer's creditworthiness, lenders may be less willing to provide credit to the consumer, or may do so only at an increased cost.

### *Contents of Consumer Reports*

Just as lenders know that a consumer report is complete because a large number of furnishers provide significant amounts of information, they also know that a consumer report is complete as a result of the uniformity established under the FCRA. The FCRA generally does not allow a consumer reporting agency to report "obsolete" information as part of a consumer report. Obsolete information includes most negative information that is more than seven years old, and bankruptcies that are more than ten years old. The FCRA preempts state law with respect to the contents of consumer reports.

Lenders would have less confidence in consumer reports if a state were permitted to limit the information contained in a consumer report. For example, if a consumer report could only include negative information that is less than four years old, it would be less predictive of a consumer's credit risk than a consumer report that had information dating back to seven years. Furthermore, if a state were permitted to restrict the types of information included in a consumer report (e.g. prohibiting the reporting of 30-day payment delinquencies), a lender could be denied important information necessary to evaluate the consumer's credit risk. Again, creditors would respond to this uncertainty either by making less credit available to consumers, or by increasing the cost of credit.

### *Reinvestigation Timeframes*

Among the many rights provided to consumers under the FCRA is the right to challenge the accuracy of consumer report information. We believe this is an important consumer right and it can be useful in making our files more accurate. The FCRA establishes a 30-day timeframe under which a consumer reporting agency must reinvestigate a consumer dispute. If the consumer reporting agency finds that the information is inaccurate, or cannot verify its accuracy within the 30-day period, the information must be deleted. This timeframe is uniform throughout the country. This uniformity is important if consumer report information is to maintain its current level of reliability. If states were permitted to establish differing reinvestigation timeframes, consumer reporting agencies may not have sufficient time to investigate consumer disputes, and national data furnishers would be overwhelmed in complying with the differing reinvestigation turnaround times — creating another incentive to withdraw from full-file voluntary reporting.

Technology offers one solution to speeding reinvestigation times. The 1996 amendments required the national consumer reporting agencies to adopt an automated system for communicating consumer disputes to data furnishers and to the other national agencies.

This system (ACDV) has now been in existence for over five years, and 52% of our data furnishers participate in it. Our goal is 100% participation. Turnaround time for these inquiries is 50% faster, on average, than on the old manual system still in operation.

Aside from the detrimental impact on the accuracy and completeness of consumer reports, we are also concerned that such state laws would unintentionally open the door for fraudulent “credit repair” clinics to attempt to overwhelm credit bureaus with reinvestigation requests with the hope that the consumer reporting agency will not have the resources to complete all of the investigations within the shorter timeframe established by the state. We estimate that 35% of our dispute volume comes from credit repair clinics. Our experience is that these clinics cost consumers thousands of dollars, clog the dispute process for all consumers and rarely result in any material change to the consumer’s credit report.

### Consumer Notice

In order for the consumer reporting process to work well, consumers must know what their rights are under the FCRA. Furthermore, each consumer must have the ability to learn about the contents of his or her consumer report, how to be more “creditwise,” and how to verify the accuracy of their credit report. Just as importantly, each consumer should be made aware when information in his or her consumer report results in a denial of credit. There are several provisions in the FCRA which establish a national uniform standard with respect to consumer notice.

### *Consumer Disclosures*

The FCRA requires a consumer reporting agency to provide a consumer with a summary of his or her rights under the FCRA with each written disclosure of a consumer report to the consumer. The Federal Trade Commission has provided consumer reporting agencies with model language that can be used to comply with this important requirement. The form and content of this disclosure is uniform across the country under the FCRA.

We believe that this uniform standard is important if consumer reporting agencies are to provide meaningful disclosures to consumers about their rights under the FCRA. Under current law, consumer reporting agencies can provide clear and succinct disclosures to consumers regarding their rights. We do not believe states should be permitted to adjust the form and content of the notices describing the consumer’s rights *under federal law*. Furthermore, if states begin to deviate from the Federal Trade Commission’s model, the disclosures likely would become more complicated for consumers. For example, the consumer may have an address on file in several different states, forcing the consumer reporting agency to provide several different disclosures to the consumer. This may result in confusion to the consumer. Alternatively, the sheer amount of verbiage in the multiple disclosures may *discourage* the consumer from reading any of the important information.

### *Voluntary Efforts*

In addition to our compliance with the FCRA’s consumer disclosure requirements, we have established specialized staff and procedures in our Consumer Relations department

to assist identity theft victims — which include individual consumers and our customers — to recover from identity fraud and prevention of future victimization. We also voluntarily provide a credit score disclosure for a nominal fee to consumers who request one. Today, through our web site [www.transunion.com](http://www.transunion.com) and the web sites of our affiliated companies we provide information on consumer rights, credit scoring, identity theft, opting out of prescreened and direct marketing offers, and managing credit.

TransUnion’s ability to provide useful and consistent consumer education is preserved, at least to some degree, by the provisions in the FCRA that establish national standards. Millions of Americans move to different states each year. Millions of others maintain residences or office addresses in more than one state. A great deal of these consumers maintain credit relationships associated with each of these addresses. The fragmentation of rights, policies, and procedures in these areas which would result from differing state laws would increase the complexity of the system and diminish, not enhance, most consumers’ understanding of their rights and their ability to secure them.

Consider the person who has recently moved, or maintains addresses in different jurisdictions. If states were permitted to alter key provisions in the FCRA, such as reinvestigation timeframes or the contents of a consumer report, TransUnion would have a very difficult time providing the consumer with the appropriate education regarding his or her rights as they pertain to the credit reporting process. Uniformity is vital if people are to understand the rules of the game. For the national consumer reporting agencies to fulfill their educational and empowering role in explaining consumer rights and the operation of the credit reporting system, it is critical that the system indeed be national and uniform.

#### *Adverse Action Notices*

The credit granting process provides another mechanism for a consumer to be informed of his or her rights. Each consumer who is denied credit due to information contained in his or her consumer report must receive an “adverse action” notice under the FCRA. Adverse action notices inform the consumer of, among other things: (i) the consumer reporting agency that provided the consumer report to the creditor; (ii) information on how to contact that consumer reporting agency; and (iii) the fact that the consumer may obtain a free copy of his or her consumer report from that consumer reporting agency and dispute any information contained in the report. These adverse action responsibilities are uniform throughout the country, and serve as an important tool in notifying consumers of potential errors in their consumer report.

It is important to maintain the national uniformity with respect to adverse action requirements for the same reasons discussed above pertaining to the disclosure requirements imposed on consumer reporting agencies. If consumers are to receive a meaningful disclosure, it must be succinct and uniform throughout the country. Additional requirements imposed by a state would simply dilute the important information conveyed in adverse action notices.

## Improved Underwriting Process

### *Prescreening*

Prescreening is a process by which a creditor (or an insurer) must provide a firm offer of credit (or insurance) to consumers who meet the eligibility standards for the prescreened credit (or insurance). For example, a creditor may obtain from a credit reporting agency a list of consumers who meet certain prespecified underwriting criteria. The creditor must make a firm offer of credit to each consumer on the list and provide credit to each consumer who responds, assuming the consumer continues to meet the terms of the offer. There is no question that prescreening has allowed creditors to compete for consumers across the country, which has reduced the cost of credit and increased the credit choices available to consumers. However, prescreening also serves as an important tool for creditors in their efforts to manage their portfolios. By specifically targeting consumers that meet certain lending criteria, creditors are better able to control their credit risks. Indeed, we understand that losses associated with accounts obtained through prescreening are generally less than losses associated with accounts obtained through other means.

### *Affiliate Sharing*

The ability of affiliates to share information among themselves can be an important component of a creditor managing the credit risk of its portfolio. Not surprisingly, the value of affiliate sharing in the underwriting context has been noted by the federal banking agencies. The agencies, in draft guidance that was released to those in the lending community, recommended that financial institutions use affiliate sharing to better monitor consumer activity across business lines in order to prevent an over-extension of credit to individual consumers. In this regard, affiliate sharing helps creditors operate in a safe and sound manner and reduce chargeoffs. The end result is the opportunity for lower costs to consumers.

## **The Importance of Nationally Uniform FCRA Provisions in Identity Theft Prevention and Resolution**

### TransUnion Is Part of the Solution

Since the 1980s, when TransUnion developed the first application fraud detection suite of services for credit grantors (our HAWK® products, introduced in 1983), we have been helping our customers detect and avoid application fraud, thus reducing the number of consumers affected by identity theft. In the mid-1980s we began development of special procedures to assist identity theft victims, including expedited dispute verification processes (and deletion of fraudulent information) and the innovation, in 1989-1990, of a “security alert” flag on credit reports, to alert our customers to use extra caution in opening new accounts. In 1992, we formally established a special Fraud Victim Assistance group within our Consumer Relations Department. In the late 1990s, we began immediate suppression, at the same time the dispute investigation process was initiated, of fraud-related information on a consumer’s file upon their presentation of a police report or other documentation



confirming the fraud. In March 2000, this process became an industry standard. Two years later, the industry noted that the majority of contacts to the national consumer reporting agencies' toll-free phone numbers are preventative — from consumers concerned about possible fraud rather than identity theft victims. (See attached Consumer Data Industry Association announcement of March 20, 2002.) Our identity fraud specialists work with consumers, industry and government agencies to remediate damaged credit files as quickly as possible, to take preventive steps that reduce further victimization, and to cooperate with law enforcement authorities in their investigations and prosecutions of this crime.

### The Importance of National Standards

#### *Furnisher Obligations*

As discussed above, state laws pertaining to furnisher obligations may reduce the number of entities willing to provide information to consumer reporting agencies. Withdrawal of data furnishers from the system will result not only in a loss of the credit information they provide but will also result in the loss of the address updates they provide. TransUnion's database relies on addresses that are in active use by creditors in mailing monthly statements to their customers. The fact that most data furnishers today also provide us with the social security number of their customers allows us to bridge address changes and name variations. Businesses and government agencies with a permissible purpose to obtain a consumer report rely on our robust national database of names and up to date addresses for a variety of fraud prevention and identity authentication services. If there is less current identification or address information coming into the database, the performance of these services will suffer.

#### *Reinvestigation Timeframes*

Consumer reporting agencies play an important role as part of the solution to identity theft. In essence, the consumer reporting agency is tasked with sorting out accurate information about the consumer, and maintaining it, while deleting any information from the credit file that may be the result of an identity theft. We at TransUnion believe that the national 30-day reinvestigation timeframe allows us the opportunity to establish a *single* reinvestigation process that treats all consumers fairly. As the Subcommittee knows, reports of identity theft are on the rise. TransUnion works closely with consumers to resolve these claims. However, these claims can be complex and require significant resources. We believe it is difficult enough to resolve these disputes correctly under the system permitted by a single federal law. The difficulty in correctly resolving identity theft claims if we had to operate under systems established by dozens of state laws would be even more difficult.

#### *Prescreening*

In addition to providing creditors with the opportunity to manage their credit risk, prescreening also gives creditors the ability to better manage their fraud risk, including fraud as a result of identity theft. We understand that fraud associated with prescreened applications is much less than fraud associated with accounts acquired through other means. Indeed, a witness from a prior hearing noted that their fraud losses associated with

prescreened accounts are one-seventh the fraud losses associated with accounts obtained through other means.

### *Affiliate Sharing*

It is our understanding that creditors are making more use of information obtained through affiliate sharing to complement the consumer reports they obtain from consumer reporting agencies in order to prevent identity theft. For example, a creditor may detect a possible case of identity theft if that creditor detects a discrepancy between information on the credit application and information maintained by an affiliate with the same individual (e.g. the social security number does not match up).

### **The Use of Credit Reports in the Credit Granting Process: Accuracy in Credit Reporting**

Throughout my testimony I have referred to how lenders rely on our products in order to make sound lending decisions. A fundamental assumption in this discussion is that the information we provide to lenders is accurate. I would like to take a moment to discuss why we believe our customers can rely on the accuracy of a TransUnion consumer report.

TransUnion has a legal obligation under the FCRA to “follow reasonable procedures to assure maximum possible accuracy of the information” in consumer reports. These include the development of customized programs to pre-process the incoming monthly updates from data furnishers, to monitor the flow of data, and assure its correct conversion into our database. We vet all data furnishers, as we do any potential subscriber who wants to purchase credit reports to ensure that they are a legitimate business, and that they understand and will comply with their duties under the FCRA. Data furnishers are required by the FCRA to adhere to certain accuracy and completeness standards. In addition, *every consumer* has the ability under the FCRA to obtain his or her consumer report and dispute the accuracy of any information on the consumer report. Indeed, those consumers who are denied credit are encouraged to verify the accuracy of their consumer reports as a result of the adverse action notices.

I should also note that the consumer reporting process is highly competitive. TransUnion competes with several other providers of consumer report information, and we strive to provide our customers with the most complete, accurate, and up-to-date information available. If our information were not accurate, our customers could take their business elsewhere.

We also believe that a common sense review of the status quo suggests that our information, on the whole, is extremely accurate. As this Subcommittee has heard, the ability of lenders to provide credit to consumers is predicated on the availability of accurate, complete, and up-to-date information, usually in the form of a credit report. We have the most robust credit market in the world, with millions of decisions being made on a daily basis as a result of information contained in credit reports. It is unlikely that the credit

market in the United States would be the success story that it is today without having reliable consumer report information.

Aside from these obvious considerations, we believe the general accuracy of consumer report information has been validated in many ways. For example, TransUnion customers use diverse and usually confidential means of evaluating accuracy and completeness. Effectiveness (in terms of predictive power) of the consumer reports, system access and reliability, and completeness of credit information are all seen as factors. Over the years, our customers continue to affirm the accuracy of our national database in predicting a wide variety of outcomes — including future account delinquency, future bankruptcy, and likelihood of insurance claims.

### **The Role of Credit Scoring in the Credit Granting Process**

The emergence in the late 1980s of uniform, national credit reporting databases such as TransUnion's enabled development of robust national models developed to predict a variety of outcomes — from account delinquency to insurance losses. As a group, these models provide a level of accuracy and scalability with respect to risk assessment previously unavailable to financial institutions.

The provisions of FCRA for notice of adverse actions and correction of erroneous information provides consumers with important tools to ensure that a credit score is based on accurate information, including the identification of the principal factors within the model that negatively affected the score. By 2000, the growing use of models — and notably their adoption by Fannie Mae and Freddie Mac for use in mortgage underwriting — led to increasing, and understandable, demands for more transparency in their use.

In April 2001, TransUnion announced our intention to provide, upon request, a score disclosure with our consumer file disclosures. Today, we continue to make available upon request for a small fee our proprietary TransRisk® score, which is used by some lenders in making credit granting decisions. Other companies, including the other two national consumer reporting agencies, provide similar disclosures and educational tools.

As this Subcommittee considers issues pertaining to the FCRA, it is likely that credit scores will be debated. I would like to offer the following observations that may be helpful in this regard. Credit scores are simply a numeric representation of any one person's assessment of the risk presented by a consumer. There are hundreds of credit-based scoring models in use, some commercially available directly from the consumer reporting agencies, and many others are proprietary models owned by individual financial institutions. These proprietary models typically leverage the technology available in the models developed by consumer reporting agencies and apply additional, specialized logic unique to that financial institution. Development and maintenance of these models is expensive. Their effective performance is quite properly viewed as critical to the institution's competitive success and soundness. Just as other companies are not required to divulge their trade secrets,

TransUnion and others should not be required to disclose our proprietary models used to evaluate risk.

### **Free File Disclosures to Consumers**

The issue of free file disclosures has been considered and rejected in past Congresses. Our view is that the FCRA already strikes a liberal balance favoring free disclosures in most of the circumstances in which consumers have occasion to interact with the consumer credit reporting system. Moreover, enactment of a federal free annual disclosure standard could, in our view, seriously threaten our economic viability.

The FCRA provides for free file disclosures to consumers if the consumer: (i) is the subject of adverse action; (ii) is unemployed and intends to apply for employment; (iii) is on public welfare assistance; (iv) has reason to believe the file contains inaccurate information due to fraud; or (v) will be a subject to an adverse employment decision. In TransUnion's 33 years of operations under the FCRA, the vast majority of consumer disclosures have been without charge, in compliance with these provisions. For those that do not qualify for the free file disclosures, the price of consumer reports is capped by law at a reasonable cost (currently \$9).

Further, security breaches already seriously impact us through the FCRA's fraud exemption. A person who believes there may be fraudulent data in his or her file is entitled to a free disclosure. In the past two years, security breaches at the State of California's employee database and at Tri-West (a Department of Defense subcontractor in Arizona) caused those affected to flood our consumer relations department with requests for file disclosures. In both of these cases, we provided disclosures at no charge. We are very concerned, however, about the harm to consumers and also the cost implications of this trend.

The harm to consumers comes in the form of slowed response time. In the State of California case, there were 186,000 state employee records compromised. All of these individuals received notice of the breach from the state instructing them to contact the consumer reporting agencies. Many did so, flooding our service centers. Consumers with ordinary inquiries, pursuant to an adverse action notice, or proactively anticipating a mortgage loan process, saw their response times suffer as this massive number of inquiries from the breach worked their way through the system.

To the extent the practice of providing affirmative notice on any breach of personal information grows we may be exposed to uncontrollable increases in our costs. In both the California and Tri-West cases, the breaches had nothing to do with credit information, but we are the ones consumers contact to check their information and post a security alert.

We believe that the FCRA ensures that free file disclosures are available for those most in need of reviewing their consumer report. However, entitling 200 million people to our product at no charge is not, in our view, appropriate. We believe that capping the cost of a consumer report is more appropriate than a free file disclosure. Many *public* sector entities

charge a reasonable fee to obtain information that the government maintains about individuals. For example, a consumer seeking to obtain information from the Federal Bureau of Investigation or the local department of motor vehicles will be required to pay a modest fee for the information. The government's ability to recoup the cost incurred to provide consumers with this service is appropriate. As a private sector entity, our ability to recover these costs is not only appropriate, it is essential.

Consumer reporting agencies will be forced to recoup the expenses associated with a free file disclosure. These expenses will be shouldered by us as well as our customers — the institutions that rely on consumer report information to grant credit to consumers. The additional costs incurred by creditors and others will likely be passed on to consumers in the form of additional costs for credit.

## **Conclusion**

TransUnion plays a critical role in the credit granting process. Indeed, we are a fundamental component of the most robust credit market in the world. The benefits to consumers are more convenient options for credit at lower costs. For example, our system, which is based on complete, accurate, and up-to-date consumer report information, has helped millions of Americans reach the dream of homeownership.

Critical to the system is the national uniformity that has been established in several key areas governed by the FCRA. A single uniform standard with respect to furnisher obligations, adverse action, reinvestigation timeframes, the contents of consumer reports, prescreening, affiliate sharing, and consumer disclosures has helped foster the success story known as the American credit granting process. We believe these uniform provisions are useful for other reasons, as well, such as for the prevention and resolution of identity theft.

Mr. Chairman, Congressman Sanders, and members of the Subcommittee, I sincerely appreciate your invitation to testify today. At TransUnion, we are deeply concerned about the potential impact of allowing the states to enact a patchwork of inconsistent laws. I am gratified that my schedule allowed me to be here today in order to personally present our views to you, and I would be happy to answer any questions, or provide further information that the Subcommittee may request.



**NEWS RELEASE**

**Contact: Norm Magnuson**

**Vice President of Public  
Affairs**

**202/408-7406**

*March 20, 2002*

**INDUSTRY INITIATIVES, EDUCATION MAKING AN IMPACT ON ID FRAUD**

**LAW ENFORCEMENT IS CRITICAL**

The nation's largest credit reporting systems' data shows that the majority of consumers who call their toll-free fraud numbers are doing so as a precautionary measure and not as ID Fraud victims, reported the Consumer Data Industry Association. Further, the Federal Trade Commission's own ID Theft Clearinghouse data shows that fully 42 percent of crime victims who contact the FTC learned of the crime in less than a month.

"This is the data we've all been hoping to see and it shows that our educational efforts are working. Crime victims are taking actions sooner and more consumers are taking the steps necessary to avoid being crime victims in the first place", said D. Barry Connelly, president of CDIA. "We have to stay the course and continue our educational outreach," he added.

Connelly went on to applaud Equifax, Experian and TransUnion for their adoption of key ID Fraud victim assistance initiatives. "We didn't need a new law to act as our moral compass," he noted. CDIA has had standing task forces on high-tech fraud issues since the early nineties. A specialized ID fraud task force was established in 1998 and on March 16, 2000, CDIA announced its first six-point program for victims. By January 1, 2001, the CDIA's members were already providing nationwide voluntary victim assistance services. These voluntary initiatives pre-date recent Congressional proposals and they include:

- Using fraud alerts on credit reports transmitted to creditors helping them to avoid opening additional fraudulent accounts.
- Standardizing fraud alerts nationwide so that all creditors can recognize them.
- Expediting the removal of fraudulent data for victims who have police reports.
- Assisting ID fraud victims by notifying creditors and others when the consumer does not recognize recent credit file inquiries by other lenders.
- After receiving a call on the industry toll-free number, fraud center personnel add a security alert to the credit file, opt the victim out of prescreened credit offers and send a copy of the credit report to the consumer within three business days.
- Maintaining contact with victims for 90 days after the file has been corrected to ensure that no new criminal activity results in fraudulent data.

Connelly also recognized the General Accounting Office for their efforts in trying to quantify the crime of identity fraud. He noted that prior to the GAO's March 7 report, there was no definitive data on the size of the crime. "The GAO put real numbers behind the issue of identity fraud. But even though these numbers are lower than the figures often cited in the media, if you take one of the higher figures cited in the report, 92,000 victims a year is still too many and our industry will continue in its efforts to assist consumers who are victims of this crime, " he said

The key to any successful attempt to reduce ID fraud is the role played by law enforcement. Connelly encouraged Congress to approve additional funding to help law enforcement track down and prosecute those who prey on consumers. "The resources in the law enforcement community are already stretched too thin. If we really are serious about attacking the root causes of this crime, then we need to support the police in their efforts. Additional personnel and money directed at this crime will further reduce its numbers", said Connelly.

That brings into question the wisdom of passing additional legislation to address the issue of ID fraud noted Connelly. "Industry initiatives have been launched, consumer education efforts are ongoing, and only a greater emphasis on assisting law enforcement will reduce identity fraud.", Connelly concluded.

#####