INTERACTIVE SESSION: ORGANIZATIONS

CREDIT BUREAU ERRORS—BIG PEOPLE PROBLEMS

You've found the car of your dreams. You have a good job and enough money for a down payment. All you need is an auto loan for $14,000. You have a few credit card bills, which you diligently pay off each month. But when you apply for the loan you're turned down. When you ask why, you're told you have an overdue loan from a bank you've never heard of. You've just become one of the millions of people who have been victimized by inaccurate or outdated data in credit bureaus' information systems.

Most data on U.S. consumers' credit histories are collected and maintained by three national credit reporting agencies: Experian, Equifax, and TransUnion. These organizations collect data from various sources to create a detailed dossier of an individual's borrowing and bill paying habits. This information helps lenders assess a person's credit worthiness, the ability to pay back a loan, and can affect the interest rate and other terms of a loan, including whether a loan will be granted in the first place. It can even affect the chances of finding or keeping a job: At least one-third of employers check credit reports when making hiring, firing, or promotion decisions.

U.S. credit bureaus collect personal information and financial data from a variety of sources, including creditors, lenders, utilities, debt collection agencies, and the courts. These data are aggregated and stored in massive databases maintained by the credit bureaus. The credit bureaus then sell this information to other companies to use for credit assessment.

The credit bureaus claim they know which credit cards are in each consumer's wallet, how much is due on the mortgage, and whether the electric bill is paid on time. But if the wrong information gets into their systems, whether through identity theft or errors transmitted by creditors, watch out! Untangling the mess can be almost impossible.

The bureaus understand the importance of providing accurate information to both lenders and consumers. But they also recognize that their own systems are responsible for many credit-report errors. Some mistakes occur because of the procedures for matching loans to individual credit reports.

The sheer volume of information being transmitted from creditors to credit bureas increases the likelihood of mistakes. Experian, for example, updates 30 million credit reports each day and roughly 2 billion credit reports each month. It matches the identifying personal information in a credit application or credit account with the identifying personal information in a consumer credit file. Identifying personal information includes items such as name (first name, last name and middle initial), full current address and ZIP code, full previous address and ZIP code, and social security number. The new credit information goes into the consumer credit file that it best matches.

The credit bureas rarely receive information that matches in all the fields in credit files, so they have to determine how much variation to allow and still call it a match. Imperfect data lead to imperfect matches. A consumer might provide incomplete or inaccurate information on a credit application. A creditor might submit incomplete or inaccurate information to the credit bureas. If the wrong person matches better than anyone else, the data could unfortunately go into the wrong account.

Perhaps the consumer didn't write clearly on the account application. Name variations on different credit accounts can also result in less-than-perfect matches. Take the name Edward Jeffrey Johnson. One account may say Edward Johnson. Another may say Ed Johnson. Another might say Edward J. Johnson. Suppose the last two digits of Edward's social security number get transposed—more chance for mismatches.

If the name or social security number on another person's account partially matches the data in your file, the computer might attach that person's data to your record. Your record might likewise be corrupted if workers in companies supplying tax and bankruptcy data from court and government records accidentally transpose a digit or misread a document.

The credit bureas claim it is impossible for them to monitor the accuracy of the 3.5 billion pieces of credit account information they receive each month. They must continually contend with bogus claims from consumers who falsify lender
information or use shady credit-repair companies that challenge all the negative information on a credit report regardless of its validity. To separate the good from the bad, the credit bureaus use an automated e-OSCAR (Electronic Online Solution for Complete and Accurate Reporting) system to forward consumer disputes to lenders for verification.

If your credit report showed an error, the bureaus usually do not contact the lender directly to correct the information. To save money, the bureaus send consumer protests and evidence to a data processing center run by a third-party contractor. These contractors rapidly summarize every complaint with a short comment and 2-digit code from a menu of 26 options. For example, the code A3 designates “belongs to another individual with a similar name.” These summaries are often too brief to include the background banks need to understand a complaint.

Although this system fixes large numbers of errors (data are updated or corrected for 72 percent of disputes), consumers have few options if the system fails. Consumers who file a second dispute without providing new information might have their dispute dismissed as “frivolous.” If the consumer tries to contact the lender that made the error on their own, banks have no obligation to investigate the dispute—unless it’s sent by a credit bureau.


CASE STUDY QUESTIONS

1. Assess the business impact of credit bureaus’ data quality problems for the credit bureaus, for lenders, and for individuals.

2. Are any ethical issues raised by credit bureaus’ data quality problems? Explain your answer.

3. Analyze the management, organization, and technology factors responsible for credit bureaus’ data quality problems.

4. What can be done to solve these problems?

MIS IN ACTION

Go to the Experian Web site (www.experian.com) and explore the site, with special attention to its services for businesses and small businesses. Then answer the following questions:

1. List and describe five services for businesses and explain how each uses consumer data. Describe the kinds of businesses that would use these services.

2. Explain how each of these services is affected by inaccurate consumer data.