Legislation to Expand Access to Credit a Double Edged Sword

February 9, 2016 â€“According to estimates by the Consumer Financial Protection Bureau (CFPB), 46 million Americans either donâ€™t have a credit history or their credit history is so minor that it is impossible for lenders to use it to make credit decisions. Not only are they excluded from access to credit, most of these people are denied as much as a checking account. There is a move afoot in congress to change this with legislation called the Credit Access and Inclusion Act (CAIA). But as with all silver linings, this legislation also comes with a cloud.

Tweet

(function() {
var s = document.createElement('SCRIPT'), s1 = document.getElementsByTagName('SCRIPT')[0];
s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
s1.parentNode.insertBefore(s, s1);
})();

(function() {
var po = document.createElement('script'); po.type = 'text/javascript'; po.async = true;
po.src = 'https://apis.google.com/js/plusone.js';
var s = document.getElementsByTagName('script')[0]; s.parentNode.insertBefore(po, s);
})();

In short, CAIA would help the 46 million consumers mentioned above establish and grow their credit file by including payment history information from utilities and apartment rentals on their credit file. The law would encourage utilities, telecommunication companies and landlords to report payment information to credit reporting agencies.

It sounds like a great idea, but for some the law could actually have a detrimental effect.

Some states currently have laws on the books which prevent utility companies and landlords from reporting payment history information without the permission of the consumer. CAIA would usurp those laws. That means that if the law passes, making a late utility or rent payment could actually hurt harm your credit file. And this harm wouldnâ€™t just impact the 46 million people the law is intended to help. It would apply to everyone.

Opponents of the CAIA point out that it would weaken state privacy laws and intrude on state regulation of utilities; a well-established precedent in the United States. They also point out that establishing credit files will allow predatory lenders to target these people; most of whom are lower income individuals.

There has been a call to change CAIA to allow consumers to opt into reporting but that may be a non-starter. Those calls appear to be coming from people who want their cake and eat it too. Or, as we mentioned at the beginning of this story, to have a silver lining without the cloud.

If congress continues to push forward with this legislation, we would encourage the sponsors to include some consumer protections in it to help prevent predatory targeting of the people it is supposed to be helping. And we would certainly suggest that at most, the law give consumers in states that currently prevent utility companies and landlords from reporting payment histories, the ability to opt in. This is a far better solution that simply telling the states that they no longer have control over companies that operate within their borders.

byJim Malmberg

Note: When posting a comment, please sign-in first if you want a response. If you are not registered, click here. Registration is easy and free.

Follow me on Twitter:

Follow ACCESS