Biden Considering Nationalizing Credit Reporting - What A Horrible Idea!

February 12, 2021 - There is no doubt that credit reporting in the United States has been something of a mess for years. The three big credit bureaus make a living by selling credit reports which often contain inaccurate information. And rather than making it simple to correct credit reporting issues, they also make billions of dollars annually by selling credit monitoring services that would be completely unnecessary if people could easily correct issues with their credit reports. If that isn't a conflict of interest, then I don't know what is. But even with those issues, the idea that the government could take over credit reporting and make it better is simply ludicrous.

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It wasn't that many years ago that there were more than 2,000 independent credit bureaus in the United States. They were owned by local merchants and were store-front operations that allowed people to walk in and make corrections to their credit reports; often, on the spot. Although the bureaus were independent of each other, they also cooperated with each other. That allowed people to move from one area of the country to another and establish local lines of credit without interruption. Perhaps most importantly, these independent bureaus didn't sell your personal information to the highest bidder. The only thing they did was provide credit reports to creditors with proper authorization.

That all started to change with the advent of cheap computing. Investors figured out that there was money to be made by owning and selling the personal information of consumers. And to get access to that information, they began to buy up the local credit bureaus and consolidate their files. Today, fewer than 10% of the original local credit bureaus still exist, and those that do now rely on relationships with the big consumer reporting agencies (CRAs) for their business. And those CRAs will sell your information to just about anyone that they can legally. Given this, there is little doubt that industry improvements could be made.

But what the Biden administration is considering wouldn't be an improvement in any sense of the word. The idea that is being kicked around in Washington is to replace the credit bureaus and have the Consumer Financial Protection Bureau (CFPB) take over their roll. To understand why this is such a bad idea, consider the following.

First, a CFPB takeover of the credit industry would allow the government to view every single financial transaction that you make with no need for a search warrant or even a subpoena. Every financial detail of your life, outside of cash purchases, would be available to the government at the drop of a hat.

Secondly, the reasons that the administration is considering this move don't appear to be to increase the accuracy of credit reporting. In fact, one of the terms being bandied about to justify this move is "credit equity," meaning that there are social motivations behind the move. Put another way, your current credit score could become your "social credit score;" something which the Chinese Communist Party now relies on the regulate behavior in China. There, if your social credit score gets dinged, you might lose a lot more than your ability to get a loan. Millions of Chinese citizens are now banned from using any form of public transportation and restricted in their movement simply because the government doesn't like their social credit score.

Third, the government has proven time and time again that it is incapable of protecting data. There have been huge data breaches at the Department of Defense and the Office of Personnel Management, just to name a couple. Much of the information leaked in those two breaches had to do with government employees who had security clearances. If the government can't protect that information -which is in itself classified information - from prying eyes, why would anyone assume that they will do better with consumer data.

And yes, we do realize that the credit bureaus have had their fair share of data breaches. But at least you can sue them if that happens. Suing the government would be an entirely different experience. Better to keep this in the private sector.

Fourth, have you ever tried to correct information with the IRS? It can be a nightmare. Just ask anyone who has ever had their identity stolen and found out that there has been unreported income in their name. Or anyone who has had a fraudulent tax return filed against them. They will tell you that the IRS considers you guilty until you can prove your innocence. You can probably expect the same thing with making corrections to your credit report if the government takes the system over. Yes, it is difficult to make changes now but with the government in charge things would be likely to get much, much worse.

Give the subject a little thought and we have no doubt that you can come up with a consideration or two of your own which hasn't been mentioned here.

If the goal is to improve credit reporting, then there are simpler ways to do that which would actually help consumers. First, make the credit bureaus compete for consumer business. This could be fairly simple. Just allow consumers to choose which bureau had control over their credit report. You could choose any bureau; not just the big ones. And you could make the decision based on things like accuracy, customer service, privacy concerns, hours of operations, features they provide you, etc.â€¦ Essentially, you'd be making the decision in the same way you do when purchasing a new TV or a car.

You could force each credit bureau to reveal the formulas they use to derive a credit score. It shouldn't be a secret. Consumers could then take concrete action to improve their credit, and have a clear picture of what actions they have taken that may have damaged their credit.

Another thing that could be done is make it illegal for the CRAs to sell services which are a conflict of interest, such as credit monitoring. The Fair Credit Reporting Act makes it the legal responsibility of the CRAs to maintain accurate credit reports. But the demand for credit monitoring services is there because a majority of credit reports contain inaccuracies. This creates a situation where the CRAs are knowingly selling inaccurate information and then charging consumers for a service that wouldn't be needed if they actually followed the law. As previously stated, it is a clear conflict of interest.

Or we could simply go back the system that worked and break up all of the CRAs and return credit reporting responsibility to local merchants and bureaus.

Any of these ideas would improve the current system immediately. But the thought that the CFPB could swoop in and improve the current credit reporting system in this country is both laughable and frightening. It's a bad idea that only gets worse the more you think about it.
by Jim Malmberg
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