

HB

570

COMMITTEE REPORT

1/15/76

HOUSE

Mr. Speaker:

Date 2/20/76

The Committee on COMMERCE has had H.R. 570

under consideration. A Majority of the members of the Committee

() recommends it DO PASS

() recommends it DO NOT PASS

() recommends it DO PASS WITH ATTACHED AMENDMENT(S)

() recommends it BE REPLACED WITH CS FOR _____ AND THAT

CS FOR _____ DO PASS

() "and" recommends it BE REFERRED TO THE _____

COMMITTEE

() reports it back WITHOUT RECOMMENDATION

() "other"

Members signing the Majority report:

F. S. Bradley _____

Joe McKinnon _____

Members NOT concurring in the Majority report:

Tom H. Hill recommends: no rec

_____ recommends:

John L. ... recommends: no rec

_____ recommends:

_____ recommends:

F. S. Bradley Chairman

AMENDMENT

OFFERED IN THE HOUSE:

BY: Commerce Committee

To: _____ HOUSE BILL No. 570

SENATE BILL No. _____

PAGE: 1

LINE: _____

Delete Sec. 45.50.550. CREDIT REPORTING beginning with line 10 through line 13 and add:

Sec. 45.50.550 CREDIT REPORTING. Every consumer reporting agency shall send a notice that a consumer report has been issued to the consumer about whom the report is given. The notice shall state that the report is open for inspection and an explanation of codes used in the credit report will be given.

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JAN VAN DORT
LAWRENCE T. FEENEY
CHARLES N. DRENNAN
PATRICK E. MURPHY
TOM BATCHELOR

TEL. 586-2210
AREA CODE 907

February 9, 1976

Mr. Robert Bradley
Chairman, House Commerce Committee
Pouch V
Juneau, Alaska 99811

Re: House Bill No. 570

*Miller's
bill
File*

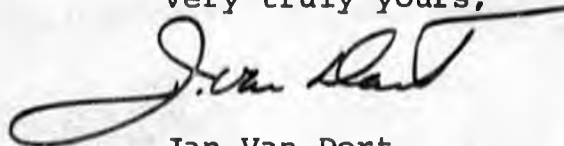
Dear Mr. Bradley:

I represent Household Finance Corporation which is a business organization operating, in part, under the provisions of the Alaska Small Loan Law. If the definition of "consumer report" is retained in its present form, HFC would be required to send a written communication to a customer every time a credit rating was given to another creditor. I would suggest that the words:

A consumer report does not include any report containing information solely as the transactions or experiences between the customer and the person making the report.

be added to the end of subsection (9). I have been advised by my principal that these words are identical to the ones used in the Federal Fair Credit Billing Act.

Very truly yours,



Jan Van Dort

JVD/amz

cc: H. Kirk Henry
D. R. Buckey

ALASKA RETAIL ASSOCIATION, INC.
Box 1727
Anchorage, Alaska

January 19, 1976

STATEMENT ON HB 570, RELATING TO THE FURNISHING OF COPIES OF CREDIT REPORTS:

Mr. Chairman, members of the Committee, my name is Dean Ehrich, President of the Alaska Retail Association. I'm speaking, today, on behalf of the Association, a statewide organization of retail merchants and related service businesses. I have also been asked to represent the Anchorage Businessmens Association, which owns and operates the Anchorage Credit Bureau. The Interior Credit Bureau of Fairbanks and Equifax, Inc, formerly Retail Credit Company, have also authorized me to speak on their behalf as the time element did not enable them to send representatives to this particular hearing. It is hoped they will have an opportunity to testify on HB 570 at some future hearing before this Committee.

For your records, my present employment is as Manager of the Anchorage Chamber of Commerce. The Chamber has not yet had an opportunity to formalize a position on HB 570 but I feel certain they will also wish to provide a statement to the Committee at some future date. Meanwhile, my testimony on this measure is not to be construed as a position of the Anchorage Chamber of Commerce but only that of the organizations mentioned before.

HB 570 would require that a written copy of any credit report issued by a credit reporting agency, written or oral, be automatically mailed to the consumer upon whom the report was issued. It is also our understanding that a detailed explanation of terms contained in such reports would be required to accompany the report to the consumer. With the experience gained in my previous employment (four years as Assistant Manager of the Anchorage Credit Bureau), I can assure the Committee that such requirements, as contained in HB 570, would create some nearly insurmountable problems, not only for the consumer credit reporting industry, but also for users of credit reports and, more importantly, for the very consumer this measure would seek to protect.

First, let me review the probable economic consequences of HB 570. While compliance with the proposed provisions of the bill may not unduly harm automated credit reporting agencies, it must be remembered that there are only about six or seven credit bureaus in the State of Alaska, all of which are operating on manual systems. Reporting agencies basically supply two types of reporting services; telephone reports and manually typewritten reports. In a typical bureau, better than 75% of all reports are transmitted via telephone. Report prices for telephone reports are substantially lower than prices for the formal typewritten format.

While time did not permit a thorough analysis of the costs which would be involved in typing and mailing a report to the subject of each inquiry, I can give some "ball park" estimates relative to the Anchorage Credit Bureau. The Anchorage Credit Bureau does an average total dollar volume in reporting of about \$35,000 per month. The average number of reports produced monthly works out to about 12,069 units or about 549 reports per business day. As about 75% of all reports produced are oral or informal "hand written" reports, there are around 411 of such reports daily. The minimum per report cost in typing a report, preparing explanations of coded items and terms, and mailing to the consumer is estimated at \$2.50 per report. Thus, the cost of compliance with HB 570, for the Anchorage Credit Bureau, would amount to over \$1000 per day or a staggering \$22,000 per month. Quite frankly, the Anchorage Credit Bureau does not have an extra \$22,000 per month to spend. I don't elaborate on the annual cost amounting to \$264,000 per year only because I doubt if the operation would be in business for as long as a year under the conditions which would result from compliance with HB 570.

I'm certain that some would say that the reporting agencies could simply pass the increased costs along to their customers but I, quite honestly, have no idea how to pass along an increased cost factor amounting to around 65% of gross volume and still persuade retailers and other credit grantors to continue using credit reports.

Let us suppose for a minute that normal operations would continue in these conditions and that credit grantors would continue to use credit reports to the extent they do presently. First of all, credit bureaus, because a written report would be required to go forward in any case, would probably find it necessary to convert operations to the production of written reports only. The vast majority of credit decisions can now be made in a very short time by obtaining a telephone report.

If only typewritten reports are made available, consumers will be required to wait as long as two weeks for a credit decision instead of the day or two now required in the majority of cases. Further, because report prices would be increased by what reporting industry members tell me would be at least three times the average existing prices, credit grantors would be forced to pass this along to the consumer in some manner, such as increased merchandise prices, a credit report charge or, perhaps, a combination of these. It is also certain that more stringent screening processes would be invoked, thus depriving many consumers of the opportunity to obtain needed credit.

I should mention, in passing, that the increased cost factors mentioned earlier are not the whole story. Under present systems, and in accordance with existing Federal Law (the Fair Credit Report Act - P.L. 91.508), a consumer is only notified about the issuance of a credit report if he is denied credit or some other benefit by reason of such report. If the credit or service is granted, he normally has no particular interest in the contents of a report or even whether or not one was issued. If reporting agencies are to mail a report in every instance, his curiosity would be triggered, even when the report reflects nothing but excellent payment habits, and, more than likely, he would contact the agency for further information or elaboration. This would further increase agency operating costs. We have no estimate of the probable extent of the cost increase in this connection but we know it would be substantial and would ultimately create yet another price increase.

There is one other problem connected with the wholesale mailing of credit reports which I'll touch on briefly. There is the real chance that confidential credit reports on consumers will fall into the hands of unauthorized persons. Mail is often opened by mistake (or design); family members not concerned with the report may have access to the consumers mail and, as we all know, mail frequently goes astray. Credit reporting agencies have both a legal and moral obligation to insure that information contained in credit reports is related only to those having a legitimate business need for the information or to the person upon whom the report is written. Meeting these obligations would be nearly impossible under the conditions which would be imposed by HB 570.

The credit reporting industry is already regulated under Federal law as previously mentioned. I would like to discuss the provision^s of that law to show the Committee that adequate protection already exists for the consumer relative to credit reports. First, though, I would like to point out that there are two basic types of consumer credit report; the regular "fact bilt" type containing only information obtained from the ledger experience of the consumer's credit references and other information usually obtained from public records; and what is called an "investigative consumer report" which may contain, in addition to the factual material mentioned, some comment and analysis regarding the personal characteristics general reputation, or mode of living of the consumer. The first type of report is typically used for credit granting purposes; the second for insurance and employment purposes. Both types of report have their specific uses and are necessary to determine the eligibility of an applicant for some requested benefit. Both types of report are thoroughly governed by the provisions of the Federal Fair Credit Reporting Act.

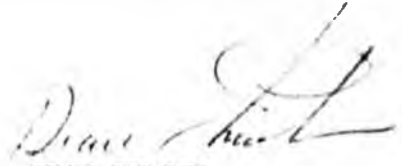
After much careful consideration and work, including input from the credit reporting industry and credit grantors, Congress passed P.L. 91-508, short title, the Fair Credit Reporting Act. This act, which went into effect in April of 1971, regulates all aspects of the industry and sets forth the specific permissible purposes for which credit reports may be issued or obtained. Basically, these purposes are as follows: (1) In connection with a credit transaction involving the consumer; (2) employment purposes; (3) underwriting of insurance; (4) to determine the consumer's eligibility for license or other benefit granted by a government agency; (5) and for any other legitimate business purpose involving the consumer. The law requires that credit report users, when declining to open an account or to grant some other benefit, by reason of a credit report, to notify the consumer of that fact and to supply the name and address of the credit reporting agency. The consumer then has, under the law, the right to contact the agency and to have disclosed to his any and all items contained in the file. This may be done either in person or by phone, upon his supplying the agency with proper identification or information over the phone which would reasonable serve to identify the consumer. The consumer, indicentally, also has the right to review his file even when there has been no transaction. Should the consumer dispute any information contained

in the file, the agency is required to reinvestigate the disputed item or items and to relate any change or correction to any credit report user to whom the erroneous information had been related during the preceding six months or, in the case of employment, the preceding two years. The law also provides that certain adverse information be deleted from a consumers file after a period of seven years, except records of bankruptcy, which must be deleted after 14 years. Examples of adverse items include suits and judgements, paid tax liens, accounts placed for collection and/or charged off to profit and loss for non payment.

To help insure that reports are used only for permissible purposes, each customer of a reporting agency is required by the agencies to sign a contract which outlines the purposes for which credit reports may be obtained. Each customer of the bureau is assigned a code number for identification purposes so that the bureau may be assured that information is transmitted only to authorized persons.

Just to sum up briefly, I would like to say that existing Federal law provides an adequate avenue for consumers to insure the accuracy of information contained in credit reports. Moreover, that law does not place unreasonable burdens upon the consumer credit industry, nor does it create unreasonable delay in the credit granting process or cause any undue expense which must ultimately be borne by the consumer. On the other hand, HB 570, through its requirement that a written copy be mailed to each consumer when a report is issued, whether or not he has been denied credit or some other benefit, would do all these things without accomplishing any substantial or significant benefit to the consumer.

Finally, I wish to thank the Committee for this opportunity to express our views on HB 570 and to assure you that we would be glad to develop and supply any other facts or details you may require in your consideration of this measure. Also, I'm certain that other representatives of the industry would be glad to provide the Committee with any further input they may desire.


DEAN EHRICH
President
ALASKA RETAIL ASSOCIATION, INC.