Report: Account Screening Consumer Reporting Agencies Impede Access for Millions

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New Report Documents How Account Screening Consumer Reporting Agencies Impede Banking Access for Millions

Report Details Key Reforms for Both Industry and Regulatory Leaders

WASHINGTON, D.C. – While a lack of financial education is often cited as the key reason tens of millions of people across the country don't have bank or credit union accounts, in fact, millions are shut out from the mainstream banking system because of a small group of little-known companies who manage databases used by financial institutions to determine whether or not to allow a consumer to open an account. A new report released today by the Cities for Financial Empowerment Fund (CFE Fund) and the National Consumer Law Center (NCLC) entitled "Account Screening Consumer Reporting Agencies: A Banking Access Perspective" outlines the tremendous and deeply flawed role that "account screening consumer reporting agencies" (CRAs) play in determining whether consumers can obtain an account. The report raises concerns about these companies, financial institutions' use of their reports, and offers solutions both for industry leaders and regulators.

"Most of us barely notice the critical roles our bank or credit union account plays in our daily lives – using our debit card to purchase something, paying our bills, safely depositing our paychecks," said Jonathan Mintz, President and CEO, Cities for Financial Empowerment Fund. "Yet, millions of consumers are excluded from this basic tool costing them tens of thousands of dollars over their lifetime, not because of a lack of financial education, but because of little-known and deeply flawed account screening consumer reporting agencies. This report explores the nature of this flawed consumer reporting agency system, and details ways in which financial institutions and regulators could meaningfully address legitimate reporting needs consistent with their efforts to expand financial inclusion."

Over 80 percent of financial institutions use account screening CRAs, which were originally intended as a means to warn financial institutions about potential customer's past fraud. However, the report notes that the vast majority of negative information in account screening CRAs doesn't rise to the level of fraud, but involves prior overdrafts or so-called "account abuse."

"To accuse a consumer of committing 'account abuse' by overdrawing her account is bad enough, given how bank practices have exacerbated overdrafts," stated National Consumer Law Center staff attorney Chi Chi Wu, "But to then shut a consumer out of the banking system for years afterwards is unfair and egregious."

The report points out several areas of concern about account screening CRAs and their use by financial institutions, including:

- **Accuracy.** Victims of identity theft or scams are often mistakenly identified as the perpetrator of the fraud.
- **Consistency.** Account screening CRAs lack standardized definitions of what constitutes “fraud,” “account abuse,” or other negative events, and when to report them, leading to inconsistent information across financial institutions.
- **Proportionality.** Some financial institutions automatically deny an account if there is any negative information, instead of taking a more evenhanded response based on the size or frequency of overdrafts or whether they were repaid.
- **Transparency.** How financial institutions both report and use information from account screening CRAs remains largely mysterious.
- **Error resolution.** Account screening CRAs are governed by the Fair Credit Reporting Act (FCRA), which requires a reasonable investigation when a consumer has a dispute, yet implementation of this requirement is inconsistent.

The report also outlines a key set of recommendations for financial institutions and regulators, including:

- CRAs should establish consistent definitions and reporting standards, either set by the industry itself or by regulators, such as the Consumer Financial Protection Bureau.
- CRAs should fully conduct reasonable investigations, and correct or block inaccurate information.
- Financial institutions using CRAs should limit account denials to consumers with a history of actual and narrowly-defined fraud or permit consumers with negative histories to open accounts with certain conditions, such as overdraft-free accounts.
- Financial institutions should provide clear, transparent standards on how they will respond to negative events.
- Regulators should provide guidance on accuracy and error resolution issues.

This report is part of the CFE Fund’s national movement to support local approaches to expand banking access for consumers outside the financial mainstream. Through the Bank On initiative, The CFE Fund provides tactical and strategic support for local Bank On coalitions across the nation seeking to connect their residents to safe and affordable products.

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About Cities for Financial Empowerment Fund
CFE Fund supports municipal efforts to improve the financial stability of households by leveraging opportunities unique to local government. By translating cutting edge experience with large scale programs, research, and policy in cities of all sizes, the CFE Fund assists mayors and other local leaders to identify, develop, fund, implement, and research pilots and programs that help families build assets and make the most of their financial resources. www.cfefund.org

About the National Consumer Law Center
Since 1969, the nonprofit National Consumer Law Center® (NCLC®) has worked for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the U.S. through its expertise in policy analysis and advocacy, publications, litigation, expert witness services, and training. www.nclc.org

About Bank On
Bank On coalitions are locally-led partnerships between local public officials; city, state and federal government agencies; financial institutions; and community organizations that work together to help improve the financial stability of unbanked and underbanked individuals and families in their

communities. The Bank On national initiative builds on a grassroots movement of dozens of coalitions in cities across the country, offering national account standards, capacity grant support, pilot funding, and a learning community. These first-generation banking access programs have already connected hundreds of thousands of people to safe and affordable accounts. In addition to connecting unbanked individuals to accounts, Bank On programs raise public awareness, target outreach to the unbanked, and expand access to financial education.