Testimony

of

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on
"The Role of FCRA in the Credit Granting Process"

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Good morning, Chairman Bachus, Ranking Member Sanders, and Members of the Subcommittee. My name is Martin Wong and I am the General Counsel of Citigroup's Global Consumer Group. Citigroup thanks Chairman Bachus and Chairman Oxley for their leadership in holding these hearings on the Fair Credit Reporting Act ("FCRA") and I appreciate the opportunity to speak before you today to discuss how FCRA impacts our ability to operate efficiently and serve our over 200 million customer accounts.

As one of the largest diversified financial services companies in the United States, Citigroup has extensive experience with FCRA and has a significant interest in seeing that it continues to operate successfully. Citigroup currently serves customers in all fifty states and over 100 countries across the globe. Citigroup has long been a leader in using the information available through the credit reporting system to provide credit opportunities to customers of all different income levels through a diverse range of financial products and services, including credit cards, mortgages, consumer finance, student loans, and auto loans. We also offer non-credit products, including retail banking, private banking, life insurance and annuities, asset management, and investment products.

Today, I want to emphasize the importance that Citigroup attributes to reauthorizing the national standards contained in FCRA. FCRA provides a national framework for the credit reporting system, which has been shown to work well and to provide substantial economic benefits to consumers. It appropriately balances a wide range of consumer protections with the crucial need for creditors to have access to a uniform national database on which to make credit decisions. It is essential, therefore, that Congress act to preserve the national framework that is scheduled to expire at the end of this year.

Importance of FCRA

The credit system that has developed under the uniform framework of FCRA is highly efficient and provides substantial benefits to consumers in the form of affordable credit, wide credit availability, and convenient access to credit products. Most recently, it has allowed millions of consumers to take advantage of lower interest rates and refinance their mortgages, because it has allowed nationwide creditors like Citigroup to depend upon these nationwide databases to make efficient decisions. The breadth and uniformity of the nationwide databases are also important for fraud control and prevention of identity theft.

There are seven core provisions in FCRA currently governed by national standards that are scheduled to sunset at the end of this year:

- Sharing information with affiliated companies;
- Prescreening;
- The content of consumer credit reports;
- Accuracy requirements and dispute resolution;
- Furnisher obligations;
- Adverse action duties; and
- Notice of consumer rights.

Allowing the states to change the provisions in any of these areas could undercut FCRA and its substantial benefits to consumers and the economy. State variations could undermine the uniformity of the national databases and upset the important balance that the FCRA strikes between consumer protection and the benefits that flow to consumers from a nationwide system of credit reporting.

While maintaining national standards for all of these key provisions is crucial, I want to highlight a few areas that are especially important to Citigroup and explain why they affect our ability to continue to serve our customers well.

Affiliate Sharing

Citigroup shares information among our affiliates for many important reasons. The shared information may include credit application and credit bureau data, as well as information on our transactions with the customer. This data is valuable for controlling credit risks, credit monitoring, fraud control, and compliance with various obligations under federal law. It also is important in identifying products and opportunities that may be beneficial and of interest to customers. Additionally, customer-supplied information may be used in multi-affiliate operations for pre-filling applications to save customers time and annoyance.

Sharing information among affiliates greatly assists in the prevention and detection of identity theft. Although some have argued that sharing information increases opportunities for identity theft, information sharing among affiliates actually helps detect unusual spending patterns and habits that are used to identify fraud. It also helps alert consumers to potential fraud or identity theft, because the sooner we detect irregularities, the sooner we can notify the customer, minimizing the effect on the victim. Finally, sharing information among affiliates makes it easier to apprehend the fraudster. It enables us to put together information on suspects that more accurately reflects the amount of fraud they have committed, making it easier for law enforcement to build a strong case.

The ability to share information with affiliates also conforms to customer expectations. For example, when a Citibank customer who has an account in Connecticut (through Citibank, FSB) enters a Citibank branch in New York (Citibank, N.A.) to open another checking account, he or she expects to be recognized as a valued customer and demands a certain level of service and accountability. Similarly, the legal distinction between the two affiliated Citibanks is not relevant to the customer and it should not affect his or her ability to obtain products and services. Corporate

structure is usually driven by concerns that do not affect the customer, such as the company's history of acquisitions or by corporate tax, legal, and accounting concerns.

In 1996, Congress struck the appropriate balance between consumer protection and business needs by allowing consumers to opt out of having certain information shared among affiliated entities, but continuing to allow information about a company's own experiences with a consumer to be shared freely among affiliates. This national standard has worked well for seven years. It is particularly reasonable now that the business of providing financial services, especially lending, is no longer restricted by state borders, as consumers have the same opportunities for credit, regardless of where they live.

If different states were allowed to pass laws governing the exchange of information among affiliates, it would significantly disrupt our seamless, nationwide system of serving our customers. It could lead to a never-ending process as states and localities impose different regimes. Compliance with this patchwork of laws would be extremely burdensome and costly for lenders, and ultimately for consumers, and would be likely to cause widespread litigation.

Prescreening

Prescreening is essential for targeted marketing. Credit card issuers and other lenders use prescreening to substantially reduce the costs and increase the efficiency of identifying potential customers. For consumers, targeted marketing is vastly preferable to the most likely alternative -- blanket marketing.

Prescreening greatly reduces barriers to entry in the credit card business. Most new entrants and major competitive initiatives in the credit card industry in the last 20 years were based on prescreening. Our credit card division used prescreening procedures to introduce national marketing of credit cards with competitive rates, attention to card member service, and innovative partnership programs. These industry

competitive initiatives have provided consumers with lower interest rates, credit cards without annual fees, and an array of new discount and bonus features.

Prescreening enabled these advances because it is an accurate and critical tool for underwriting credit. It allows financial institutions to provide firm offers of credit to consumers who meet certain established underwriting criteria. This allows institutions to control their risk by targeting those individuals that meet certain credit standards. Additionally, accounts obtained through prescreening have lower loss rates and less fraud than other forms of account acquisition.

The prescreening provisions appropriately balance the need for consumer protection by providing consumers with the ability to opt out. A single toll-free call takes the consumer off the prescreening list for all three major credit reporting agencies. Every prescreened offer clearly advises consumers of this opt out right and provides the toll-free number.

Because of the national uniformity established under FCRA, the prescreening process is the same nationwide. If states were allowed to adopt different rules for prescreening or prohibit prescreening, consumers would not be able to enjoy the same benefits derived from robust competition that they receive today. The ability to evaluate creditworthiness would be compromised, and eventually, those most in need of credit would be the ones to be denied.

Content of Credit Reports

As a result of FCRA, the contents of credit reports are uniform across the country. This is important for creditors such as Citigroup, because underwriting credit is a business of evaluating and managing the risk of consumer default. Uniform guidelines for credit report information allow creditors to price risk more accurately, which results in lower costs for all consumers and more credit availability for consumers with less stable credit histories.

If the FCRA provisions that dictate the content of credit reports were allowed to sunset, an individual state could pass a law prohibiting creditors from reporting to credit bureaus until borrower payments were at least 90 or even 180 days past due. For credit grantors, the result could be disastrous. They would grant credit to consumers who appear to have unblemished credit, but, in fact, could have a very high risk of default.

If creditors are unable to predict accurately whether their loans will be repaid, their credit losses will increase, and these increases can be significant. The universal response of lenders to increased credit losses is to raise interest rates. Total outstanding consumer debt in the United States approximates $7 trillion, most of which was extended in at least partial reliance on FCRA-related databases. If the combined actions of various states raise the average interest cost of credit by just one percent, this would cost U.S. consumers $70 billion every year. As an analogy, consider the implications of a new privacy protection law that would annually require $70 billion of new taxes to fund it. Additionally, creditors would be more hesitant to extend credit, especially to low-income borrowers or borrowers with more spotty credit histories. This could drastically reduce the availability of credit, eliminate instant credit opportunities, and increase the time it takes to get a mortgage or car loan.

Conclusion

In conclusion, Congress must act this year to make permanent the uniform standards established under FCRA. With these uniform standards, the FCRA has created a seamless and reliable U.S. credit reporting system for all consumers, regardless of where they live and where they move. It has created more competition in the financial services industry and allowed companies to better serve their customers through more widely available, affordable, and convenient credit.

Thank you again for the opportunity to appear before this Subcommittee. I would be pleased to answer any questions you may have.