

**Statement by Congressman Luis V. Gutierrez,
Chairman, House Financial Services Subcommittee on
Financial Institutions and Consumer Credit Hearing**

**“Use of Credit Information Beyond Lending:
Issues and Reform Proposals”**

May 12, 2010

This morning’s hearing is about the use of credit information in areas such as insurance underwriting and employment purposes. We will hear about important yet complex and often opaque processes concerning credit based insurance and insurance scores in the first panel, and in the second panel we will hear about the equally important and –to a vast number of consumers- little known or understood uses of credit information for hiring and firing decisions, and the effect medical debt has on one’s consumer report, even after it’s paid off.

When legislators or regulators attempt to fully grasp an issue such as credit based insurance scores, they see a complex system, laden with algorithms and ever-changing

computer applications and models. But it is precisely this complexity that should make us here in the Congress delve further into an issue that affects every single American who owns or rents a house, a car, has insurance, has a job or is looking for a job, or is likely to incur medical debt.

Do most consumers know that their car or homeowner's insurance rates may go up due to their credit score? Do they know that if one of their medical bills goes to a collection agency and they pay it in full or settle it, it will still affect their credit report for up to 7 years? Do people realize that, even in these tough economic times, pre-employment consumer credit checks are increasingly widespread, trapping many people in a cycle of debt that makes it harder to pay off their debts and harder for them to get the job that would allow them to pay off their debts? Indeed, the current system facilitates the denial of employment to those who have bad debt, even though bad debt often times results from . . .the denial of employment.

That is why this subcommittee is holding this hearing, the second so far this year on the issue of credit reports, credit scores and their impact on consumers. We will look at reports and studies about the predictive nature of insurance scores and traditional scores, among other things. But as we do so, we also need to look at the basic guiding principles of equity, fairness and transparency.

Some may contend that there is no disparate treatment of minorities in credit based insurance scores. Some will say that, even if there is a disparate impact on some groups, the system still doesn't need to be changed. The question of how predictive a credit based insurance score is of an insured's likelihood to file a claim is important, as is the predictive value of traditional credit scores used for credit granting. But as long as there continue to be disparities in the outcomes of the current system for racial and ethnic groups and along class or geographic lines, I believe that the system needs strenuous oversight and may need fundamental change. How to correct the disparities in the system -with its disproportionately negative impact on

minorities and low-income groups- while maintaining the core framework of credit information as a risk management tool, is the challenge we should take on.

For example, issues like the use of credit information for developing insurance pricing and the inclusion of medical debt collections in determining a consumer's risk of default, I have doubts as to whether these are bias-free uses of data: The Equal Employment Opportunity Commission, the Federal Reserve, the Brookings Institution, the Federal Trade Commission and the Texas Department of Insurance have all found that racial disparities between African Americans, Latinos and whites in credit scoring exist and, as we will see, this has wide-ranging implications beyond simply obtaining consumer credit.

Defending a system where decisions such as determining car insurance rates or even something as vital as whether or not to hire someone that are based on something that has been shown to possess a degree of bias -

- that is difficult, to say the least. But I welcome the testimony this morning of those who believe the system works, and of those who believe the system needs to be changed to work in a more equitable, fair and transparent fashion. In this same spirit of transparency, I'm making it clear at the outset that I side with this latter group. I don't think you needed any sort of score or algorithm to *predict that*.

In order to persuade this committee from moving forward on legislation that would strongly limit what we believe to be unfair practices, the industry witnesses before us must prove to me that not only are the practices we call into question scientifically predictive, but more importantly, that they are fair and equitable to all Americans.