The Fair Credit Reporting Act May See an Overhaul

by Mindy Leisure

Representative Maxine Waters, the top Democrat on the House Financial Services Committee has proposed a new bill titled “Fair Credit Reporting Improvement Act of 2014”. The Fair Credit Reporting Act (FCRA) has been in existence for 44 years with the last changes to it happening in 2003. If passed, this bill could have an overwhelming impact on a consumer’s credit scores and open the doors to loans for hundreds of thousands of potential borrowers who cannot currently qualify for one. According to Waters, these changes are long overdue.

The biggest changes in this bill are as follows:

1. Judgments, collections, paid liens and late payments would remain on a consumers report for only 4 years instead of 7.
2. Foreclosure and short sales would be removed from a consumer’s report if the Consumer Financial Protection Bureau (CFPB) found them to be the result of deceptive lending practices.
3. Collections would be removed from the credit report 45 days after they are paid or settled.
4. All adverse information on a student loan would have to be removed once the debtor makes 9 consecutive payments on time.
5. Employment reports can only be used “if the information is a valid predictor of employee performance for a specific position.”
6. The bill will require federal oversight of the credit scoring models and monitoring the development of new models.
7. It will require Fannie Mae and Freddie Mac to “regularly” re-evaluate the scoring models to make sure they are “statistically sound”. Right now they are still only accepting scoring models that are older. They never adopted FICO 08 and at this point are only “looking” at FICO 09 which was just released. It would also require them to investigate using “alternative” score products that would factor in not traditional credit such as rent and utility bills.

According to some lawmakers, while this bill could be very beneficial to consumers, it could also have devastating effects for lenders. By loosening the credit standard as much as this bill proposes to do, it opens the door for the possibility of more widespread default on mortgages.

“Our consumer reporting system still has a number of systematic flaws,” said Rep. Waters, “these flaws have stymied our country’s economic growth.”

Does the Fair Credit Reporting Act need an overhaul? Probably. One this drastic? That is yet to be seen. There are a lot of pros and cons to each item Rep. Waters is seeking to change and there will be a lot of discussion on each point before the final bill is drafted. Chances are it will not stand as is and will most likely undergo a series of changes before the final bill is sent to Congress.

This bill allows for hope and some of the changes proposed are changes that probably need to be made in one form or another. We will keep you posted on the progress of this proposed bill.