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Consumer Federation of America

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**Credit Reporting Agencies Reject an Important Step to Help Hurricane Survivors:
Many Katrina Victims Will Face Additional Economic Difficulties as Credit Scores Drop
Due to Disaster**

Six national consumer organizations today renewed their call on the consumer reporting agencies Equifax, Experian, and TransUnion to take stronger measures to help survivors who are undergoing major economic disruption caused by Hurricane Katrina from suffering adverse consequences from reduced credit scores based on late payments reported by creditors.

Consumer groups predict the reduced credit scores will hinder survivors trying to get apartments, home mortgages, car loans, home or auto insurance, and credit cards after the disaster.

On Sept. 12, these groups and others approached Fair Isaac Corp., a leading developer of credit scores, seeking a change in the credit scoring model. Those discussions have been productive, but a change in the scoring model takes more than a year to develop and implement. For this reason, the consumer groups approached each of the three major consumer reporting agencies and asked them to develop and retain on file a “pre-disaster information” credit score based on current information on consumers in the counties affected by Hurricane Katrina.

The consumer groups made this request on Sept. 21, 2005. Equifax declined on Sept. 30, and Experian declined on Oct. 3. The groups are still awaiting TransUnion’s response.

“We asked the consumer reporting agencies to do one simple thing – run and keep a credit score before negative information starts to pile up in Katrina survivors’ credit files, unfairly depressing their credit scores and driving up the prices these consumers will face for new credit,” said Maude Hurd, President of ACORN.

“Creditors could still get a current credit score, but at least the consumer credit file would also show the credit score before any Katrina-related delinquencies began to be reported,” added Travis Plunkett of the Consumer Federation of America. The pre-Katrina score is likely to be a better indicator of a person’s future credit behavior than a score artificially depressed by missed payments in the wake of the disaster.

In declining to run and retain pre-disaster credit scores, Equifax and Experian argue that creditors can decide not to report negative information about people in disaster-affected areas. This doesn't solve the problem, because creditors also are free to decide to keep reporting negative information; no law prevents creditors from reporting missed payments from disaster survivors. If they do so, Katrina survivors will be harmed. A report by community group ACORN, long headquartered in New Orleans, and ACORN Housing, showed that credit card holders and consumers with high cost home mortgages were not consistently getting the same "90 days to pay," treatment as traditional home mortgage consumers in the disaster area. The report is found at: <http://www.acorn.org/uploads/media/CrisisInTheMaking-MortgageServicingAndKatrina.pdf>. In addition, for many consumers, 90 days won't be long enough to avoid missing payments as they put their personal and financial lives back together.

"Time is getting short, because negative information may be coming into credit files already, and more of it will come in during October, when creditors who are allowing consumers to skip one payment start reporting October payments as late. The situation will get even worse after 90 days, when more creditors' programs for delaying payments end," said Gail Hillebrand of Consumers Union. The contents of credit files can change every day. Until credit scoring models are changed, these models will treat a late payment from a Katrina victim the same way as any other late payment – as a prediction that this consumer is less likely to pay his or her bills in the future. This will increase the interest rates these consumers face. It is imperative that the credit reporting agencies run the pre-disaster score before new negative information begins to pollute the credit files.

Bruce Dorpalen of ACORN Housing has a team of ACORN Housing counselors helping evacuees in Houston and Dallas, and he noted: "Credit card companies were telling our counselors that the consumer could skip one payment, but would have to call back again the next month. People aren't going to complete their recovery from this disaster in one month, or even in the first three months. Negative information coming into the credit files of hurricane victims could devastate their chances to recover by driving up the cost of credit, and hurting chances to qualify for jobs or apartments."

The consumer reporting agencies claimed that putting this simple additional information into the credit file would violate federal law. "We think that is an excuse" said Chi Chi Wu of the National Consumer Law Center. "Putting the pre-Katrina information score into the comments section of the credit file can only help consumers, and may even help lenders who are trying to quickly evaluate the credit of displaced people," she added.

Ed Mierzwinski of U.S. PIRG pointed out that legislative reforms also will be needed: "Creditors shouldn't be allowed to choose to report missed payments from victims of a major disaster in the same way as any other missed payment. Congress will ultimately have to address that issue."