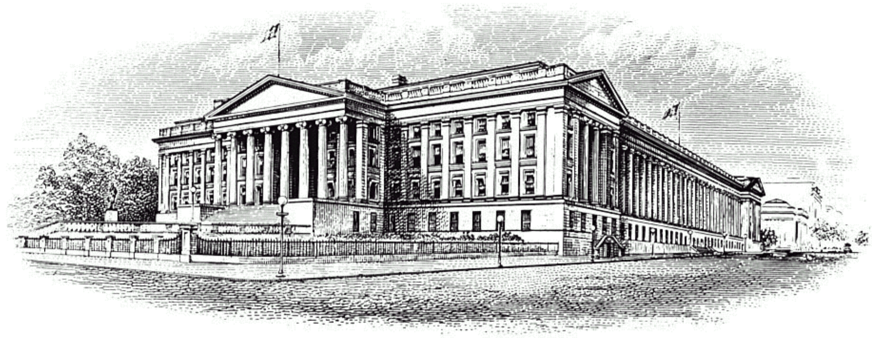

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

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Treasury Secretary John W. Snow
Testimony on Strengthening Consumer Interests of the Fair Credit Reporting Act
Before the
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC

Thank you Chairman Shelby, Senator Sarbanes, and other distinguished Members of this Committee for this opportunity to testify on the Administration's proposal to strengthen the use of the Fair Credit Reporting Act (FCRA) to promote consumer interests.

All consumers have two important interests, the promotion of which is the central purpose of the FCRA. One is the interest in improved access to credit and other financial services. The other is the interest in the accuracy and security of their financial information. The Administration proposes to remove the sunsets on the uniform standards and focus these standards and the FCRA even more on meeting these two key consumer interests.

A hallmark of our country is readily available credit. In fact, it is not too much to say that ready access to credit on competitive terms is an integral part of the economic security and well-being of American families. All over the country, Americans depend on competitive credit markets to realize the dream of home ownership, to finance their cars, to pay for college, and meet a variety of other needs. More than two-thirds of Americans now own their own home, and 9 out of 10 homes are purchased with a mortgage. As another example, consumer credit helps finance the vast majority of the more than 15 million cars and trucks that consumers purchase annually.

The FCRA's uniform national standards for information sharing operate to expand the opportunity for consumers to access credit and financial services - they make your reputation as a borrower portable, so that you don't have to establish your good name from scratch in every city you visit, or every store where you shop.

The Council of Economic Advisers estimates that, if states passed laws that significantly deviated from the national uniform standards of the Fair Credit Reporting Act, 280,000 home mortgage applications that are now approved each year would be denied - that's $22 billion in new mortgages annually. Access to accurate and reliable financial information is particularly important for approving loans to first-time home buyers, for example.

This democratization of credit has especially benefited minority and lower income families. For example, from 1995 to 2001, the percentage of minorities holding mortgages increased significantly - one-sixth of minorities who qualified for mortgages in 2001 would not have qualified in 1995, a higher rate of improvement in home ownership than for families overall. In addition, the percentage of minority families with credit cards has risen substantially. From 1995 to 2001, the percentage of African American families holding credit cards rose from 39.4% to 55.8%. More generally, since 1970, credit access by U.S. households in the bottom half of income distribution has experienced the most rapid growth. National uniform standards help all Americans participate more fully in the miracle of modern credit markets. We need to accelerate that process and do nothing to slow it down.

Perhaps the most serious threat to financial consumers today is identity theft. Identity thieves are clever, adaptable, and heartless. Indeed, many identity thieves specifically target the most vulnerable members of society - families of the recently deceased, seniors, hospital patients, and men and women serving our nation overseas. These schemes come in many forms and I have described several of the more deplorable schemes elsewhere. Today I would like to cite still another example, as reported just last week, that demonstrates how clever and adaptable the thieves are:

- Using a $100 commercially available keystroke logging program, an identity thief in New York stole over 450 online banking passwords during a two year period. The scam began with the thief installing a keyboard-sniffing program on public Internet terminals at thirteen locations scattered throughout Manhattan. Unwitting customers using the terminals then had their keystrokes logged as they accessed information. With username and password information in hand, the thief then used the victims' personal and financial information to open new accounts under their names and transferred money from the victims' legitimate accounts into the new, fraudulent ones.

Many Americans have worked hard for years to build and keep good credit histories. In today's information-driven economy, one of your most important personal assets is your reputation, your credit history. The statistics are there – and have been cited by many. For example, a recent study reports that identity theft has been seriously under-reported and asserts that 7 million Americans were victims of identity theft last year alone.

We may never know what the right number is. But one thing we do know is that there are far too many victims of identity theft and that the crime is spreading.

One of the most distressing aspects of identity theft is how quickly an identity thief can damage your credit history and how long it can take to undo the damage. A recent General Accounting Office study found that victims spend <u>on average</u> 175 hours trying to recover from the crime. In many cases, recovery can take even longer, and involve thousands of dollars in legal and other expenses. The costs are so significant that a market in identity theft insurance is now developing.

Our national information sharing system can and should be improved to do more in the fight against identity theft. As we do so, it is important to understand that national standards for sharing such information are an important tool in the fight against identity theft. When a thief tries to steal your identity and open an account in your name, he is posing as you, hiding behind a mask that he has constructed out of bits of information about your identity. Bankers or merchants can stop the would-be thief right in the act, before the crime is committed, if they have timely access to the right information. With the right information about your true identity, financial institutions can ask validating questions and peer behind the thief's mask. In other words, your banker can stop the identity thief if your banker is more familiar with you than the thief is. National uniform standards make timely access to full and accurate information possible, giving financial institutions the tools to stop many identity theft assaults before they can succeed, information moving faster than the thieves.

On June 30, I announced the Administration's proposals to make the Fair Credit Reporting Act an even more effective instrument to protect consumer financial data from fraud and abuse, enhancing the quality and integrity of that information, while at the same time expanding consumer access to credit and other financial services.

We are extremely pleased that several of these proposals are contained in bipartisan legislation now pending before the House of Representatives, approved last week by the Financial Services Committee by a strong 61 to 3 vote. We look forward to working with you as the Senate considers these issues. In my testimony today, I wish to focus on five of our proposals:

- **Free credit reports upon request.** To achieve these important goals of the Fair Credit Reporting Act we would be wise to engage the consumers themselves. A basic tool to place in the hands of consumers is access to their credit reports, once a year, upon request, free of charge. Consumers should be offered the opportunity to review their credit reports for accuracy and completeness. We believe that this proposal will not only help stop identity theft, but that it will lead to improvement in the overall quality of the information in the credit reporting system. After all, no one has a stronger interest in ensuring the accuracy of their credit reports than consumers themselves. As the overall quality of the information improves, everyone will benefit - consumers, merchants, financial institutions, and the economy as a whole.

- **National Security Alert System.** We recommend that the uniform standards include a national security alert system. Under such a system, consumers who have been victimized or are in danger of being victimized can put banks and merchants on their guard against any further efforts to impersonate the consumer, thus making it much harder to steal one's identity.

- **Red Flags.** We propose that the bank regulators also be put on the watch for patterns followed by identity thieves, red flags that indicate the likelihood of fraudulent activity. The regulators would provide notice of these red flags to the institutions that they supervise and put them on the watch for these telltale signs. Further, the regulators would verify in their bank examinations that these warning signs are being heeded, fining those institutions where lack of attention results in customer losses. I regard this proposal to be a very important part of the package. One of the challenges in fighting identity theft is that identity thieves are adaptable. They are always looking for ways to exploit systems and procedures that we set up to thwart them. It is important, therefore, that regulators and financial institutions be equally adept in catching them. To be effective and not become soon out of date, this proposal avoids locking today's tell-tale signs in the statute, but instead gives regulators the flexibility to adapt to new identity theft schemes and to establish procedures to thwart them and foil the efforts of the would-be thieves, and it gives financial institutions increased incentives to be on guard as well.

- **Prohibition on the sale or transfer of identity theft debt.** Another important Administration proposal is a prohibition on the sale or transfer of debt for collection that a creditor knows is the result of identity theft. Too often, consumers labor for hours persuading a creditor that they were the victims of identity theft only to find that they must begin the process all over again with a new creditor who has purchased the debt from the original creditor. Our proposal would help reduce re-pollution of consumer's credit files and save consumers countless hours of needless hassle.

- **Adverse Action Notices.** The Administration proposes granting the FTC specific rulemaking authority that would require notices to consumers when their credit scores caused them to be offered less favorable rates than for which they applied.

These are a few highlights of the package of proposals we have offered, that would build upon and amplify the use of the FCRA to promote consumer access to credit within a context of improved accuracy and security of personal financial information. Enactment of this package will make our national information sharing system even more a servant of consumer interests.

Given the important role that the national standards of the Fair Credit Reporting Act play in expanding access to credit and maintaining the accuracy and security of consumers' information, it should come as no surprise that national information sharing standards benefit our economy as a whole. It seems so basic that we take it for granted, but an integral part of our economy's success is our confidence in financial services such as bank services, insurance, and investment products. Our credit markets helped the American economy weather the serious shocks we've experienced over the last three years - a recession, 9-11, homeland security, corporate accounting fraud and so on.

And there should be no doubt that the national uniform standards of the Fair Credit Reporting Act help make our credit market more robust. According to the Council of Economic Advisors, if the national standards were to expire, and states adopted new laws currently under consideration, a minimum of 3.5% of loans currently approved would be denied to maintain the same level of credit risk. This could put as much as $270 billion of consumer credit in jeopardy.

We look forward to working with this Committee and the full Senate to move a strong package of reforms into law this year and ensure that the Fair Credit Reporting Act becomes an even more effective tool for meeting the financial interests of American consumers. Accomplishing this task is vital to the future of our economy. With improved national standards, we can make great strides to protect our citizens against identity theft, while holding open the doors of credit to many more American families of every income and background.

Thank you.