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FTC ROUNDTABLE

A REVIEW OF METHODOLOGIES THAT ASSESS ACCURACY AND COMPLETENESS OF CREDIT REPORTS

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FEDERAL TRADE COMMISSION

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P R O C E E D I N G S

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MR. VANDER NAT: -- mandates from Congress, a mandate called Section 319 of the Fair and Accurate Credit Transactions Act and it's very brief. It's easy to say. There, the sound is finally coming in, okay.

It's easy to say what the mandate is, it's very hard to do. It's a very daunting mandate for us. I'll just take a moment to read it to you, although I'm sure you've read it before.

The Commission shall conduct an ongoing study of the accuracy and completeness of information contained in consumer reports prepared or maintained by consumer reporting agencies and methods for improving the accuracy and completeness of such information, and that is the extent, in essence, of the mandate. I'm sure that a number of you have read it and thought, oh, my goodness.

It is our understanding that Congress understands this to be a very substantial undertaking and this is undergirded by the fact that it has an 11-year time horizon. I don't know of many studies that have an 11-year time horizon and I wonder how many of us will still be involved with this 11 years from now. I probably will not be, although I may be here for a chunk of those years.

We know that credit reporting issues are very complex and that there are strongly held positions and that these are hot button items, all right? And so, we recognize that we'll solicit a variety of opinions and that we need your expertise. I think most of you know that our very first report to Congress is due this December 1. The mandate has many reports due. The first one is due this December 1 or December 4. And it will come as no surprise to you that in that first there will not be any assessment of accuracy and completeness. Basically, in that first report, on Section 319, we will simply set forth a plan for a baseline study next year and we're hoping that this roundtable here today will give us a lot of good input, including critique on how we may best undertake such a baseline study.

In a moment, we're going to start with our presentations, but I want to make a few ground rules which we will call, aptly, the rules of engagement. I think we all heard this phrase before. The rules of engagement. And this may be appropriate since credit reporting issues are indeed complex and they are hot button issues, and people tend to disagree about how things ought to be done.

So, the first thing I want to say to you is, please recognize that we're not here to belittle the work

of anyone else. We recognize that because of the complexity, any study is bound to have shortcomings, critiques, ours will, too. So, let's understand that we're going to behave like professionals and we're going to talk civilly and if things get out of order, I have a little bell.

(Ringing bell.)

MR. VANDER NAT: And if you hear the bell, that means things are not going quite right here. I thought about a gavel, but a gavel is too ponderous. It's too heavy-handed. A bell is, I think, just the right touch.

Have a look at your agenda for a moment. I think you all picked one up. The one that you picked up at the table this morning is the latest and final, final agenda. You know in government work, we always have the final, final product. It takes a while to get there. So, this is the final, final agenda. It has only small variations from the ones you saw before, all right?

The sessions are similar in this regard, that each session has about 35 minutes of group discussion. The first session is different in the sense that it's longer. The first session runs 95 minutes. We thought we'd get a lot done while you are all still fresh and awake. And the other sessions have 80 minutes each. But no matter what session we have, there are going to be

about 35 minutes of group discussion.

Now, the members at the table, people who have name tags at the table, will be given first chance to speak during any discussion period. We're hoping that we will have some time for comments from the general audience. We will try mightily to get there, but if the discussion is going well and people are having lots of good back and forth at the table, we may or may not get to the general audience. But if you feel that you had some comment to make that we missed that we should have taken note of, but we didn't get to you, please submit it to us in writing and we will be happy to give it very careful consideration, and we realize that there are many things that should have been said or could have been said today that probably we won't get to.

During the actual discussion period, I'm going to ask members at the table to please raise their hand if you want to speak, all right? And then I'll acknowledge you and state your name. You don't have to state your affiliation for every member of the table. We have a master list, we know the affiliation. But if you want to say it, it's fine. But in the interest of time, just state your name and then go on with your comment, question or observation.

Finally, in terms of our thinking here today,

the FTC is going to be making a presentation -- a first presentation of the morning, and it will deal with the direct review of consumer reports by consumers. But I want you to know that we have not made up our mind on any specific methodology. We're open to the proposition that a number of methodologies may have to be used in a baseline study. We're just being transparent in our first presentation. Transparency is good today. It's good for government to be transparent. So, we're letting you know what we're thinking about, but these are not our last thoughts. These are thoughts in which we invite your critique and we know that a number of modifications no doubt will come and that an 11-year project will have a number of studies associated with them.

Okay, with that said, I'd like to introduce to you our first presenter for today, Mr. Gerry Butters. He will present to us some thoughts on the use of consumer surveys to measure the accuracy and completeness of credit reports.

SESSION I: METHODOLOGY FOCUSING ON CONSUMER REVIEW OF CREDIT REPORTS

MR. BUTTERS: Thank you, Peter. I would also like to thank all the participants here for coming to help us to respond to Congress' mandate to measure the accuracy and completeness of credit reports. Our primary

goal for this year is to develop at least one, and probably more than one, method to use to measure accuracy and completeness. As one of these methods, we are investigating the use of consumer surveys.

In my presentation, I will describe some of our thoughts about how we might survey consumers and deal with the many problems that a survey approach must overcome. We are eager to hear your ideas, also. As Peter said, we're not sold on consumer survey as necessarily the only or the best approach, but please note, we don't have any choice. We have to do some kind of a study. We can't tell Congress that just because the measurements will have lots of errors and problems, we're not going to do it. So, if you've got ideas for a better design, even if it takes a different approach, we want to hear them.

So, our study goal is to measure the accuracy and completeness of credit reports. What do we mean by an inaccuracy? We mean an error of commission, something that is there that shouldn't be there that causes the consumer's credit score to be altered. By incompleteness, we mean an error of omission. Some useful piece of information that is generally collected is missing and that causes the consumer's credit score to be altered.

And what do we mean by credit reports? We mean credit reports in the usual sense, the reports that are used by lenders, employers, landlords and others to help them determine with whom to do business and sometimes, also, what prices to charge. We plan to focus on the reports of the big three, Equifax, Trans Union and Experian.

How then do we propose to use a consumer survey to measure the accuracy and completeness of credit reports? We propose to ask a large number of consumers, chosen nationally, and as representative as possible of the national population, to review their own credit reports with the assistance of experts to identify possible inaccuracies and incompleteness and to examine each disputed item carefully to resolve conflicts in the consumers' views in the records of the repositories and the furnishers that supply this information. We propose to measure the effect of these problems on the consumers' credit scores.

So, going back to the -- using the credit score as a measure, why do we want to do it this way? The purpose of credit reports is to help lenders determine whom to lend to and on what terms. When lenders make these decisions, they usually use the consumer's credit score as a summary of the most important information in

the file. Mistakes in the credit report that have no effect on the credit score are likely to have no effect on the consumer. Mistakes that have large effects on the credit score will have a major effect on the consumer. Therefore, it makes sense to measure the importance of inaccuracies and incompleteness by the magnitude of their effects on the consumer's credit score.

So, that's our rationale. We realize that everything is going to be somewhat an oversimplification. There are many different credit scores. There are decisions that might be made that aren't determined through the credit score, but this is where we're starting, and if you have other ideas, we want to hear them.

What are the advantages of the consumer survey approach? The consumer is the single greatest expert about his or her own credit history. To get comparable information from other sources, one might need to contact many furnishers and speak to people with no personal memory of events. So, it seems logical to start with the consumer.

Second, such a study would fill a gap in the existing literature. To the best of our knowledge, currently there is no nationally representative study using a consumer survey approach that critically examines

the consumer's recollections and judgments. Now, set against these advantages, the consumer survey approach is prone to a number of problems, particularly if we were to rely uncritically on consumer's review of their own files.

You can follow, incidentally, in your handouts. All the slides are in the handout.

These problems come from several sources. First, since credit reports may be provided in a consumer-unfriendly way, they may confuse consumers, leading them not to recognize items that really do belong to them. Second, consumers may mistakenly challenge items because they do not understand their credit obligations. I will provide an example shortly. Third, some accurate items will be viewed to be inaccurate because of lapses in the consumer's memory or failure to maintain and consult the appropriate records. Fourth, consumer answers to a survey may be biased, either intentionally or unintentionally. For example, they may do a better job of remembering and confirming favorable information in their files than derogatory information.

Consumer bias is especially likely to be an issue with regard to incompleteness. If consumers have a mortgage loan in good standing that is not included in their report, they will have an incentive to report that.

We can't be as confident that consumers with unreported delinquencies will voluntarily report those.

So, how can we design a study that will minimize these problems? Some of these problems could be mitigated through education and coaching. In particular, we anticipate the need for a person who is very knowledgeable about credit reporting conventions, financial institutions and credit law, to work closely with a consumer to help sort out some of these problems.

As an example, the first problem, one way a credit report can be unfriendly is by listing an account under an unfamiliar name. If the consumer does not recognize an account with, say, a First National Bank, the expert coach might be able to inform the consumer that First National handles accounts for some well-known retail store, maybe Wal*Mart or Sears and the consumer might now recognize that he does have an account with this store.

For an example of the second problem, consider a married woman who cosigns a loan with her husband. Later, they divorce and her ex-husband agrees to be responsible for paying this loan. But if the ex-husband fails to make payments, she is still jointly responsible and the missed payments still belong on the credit

report. If she does not understand these legal intricacies, she will mistakenly report the item as pertaining only to her ex-husband and not to her. An expert coach could explain that she was still legally responsible and resolve this apparent discrepancy.

Similarly, an expert coach could help reduce problems by probing the consumer's memory and asking the consumer to systematically check his records.

To provide better protection against faulty consumer memory and also to protect against consumer bias, we also anticipate the need to obtain information from the point of view of the furnisher of the information that the consumer views as incorrect. This might be done in one or more of several different ways. One way would be to ask the consumer to try to dispute the item directly with the furnisher. A second would be to ask the consumer to carry through a formal dispute process with the CRAs. A third would be for the coach or another member of the research team who might be a professional with many preexisting industry contacts to contact furnishers.

We would be especially interested to hear the views of any of you today regarding how we might, most effectively, obtain the views of furnishers regarding items that consumers believe to be in error or to be

missing.

In adapting our consumer survey design, we must also keep in mind that it needs to work on a nationwide scale. For example, nationwide participation would appear to rule out in-person interviews, leaving telephone contact and mail, supplemented by email when available, as the most realistic approach.

A large nationwide survey would also appear to require a fairly large number of consumer coaches if we're following this method. That would create several more problems. We would need to develop uniform selection and training procedures to make sure that these coaches adopt a consistent approach. It might be difficult to find many coaches with the requisite knowledge. This would tend to reduce the average expertise level of each coach and require more elaborate training procedures.

There also may be limits in our ability to provide adequate training. It may not be possible to summarize all the expertise a coach would need into a short training course. Finally, with many different coaches, we would need to devise consistency checks to minimize coach-specific biases and demonstrate the reproducibility of the procedures. Similar problems will result, also, regarding the resolution of consumer-

furnisher conflicts over accuracy.

Because of these problems that are so tricky, we plan to conduct one or more pilot studies of the consumer survey approach to address the various problems that we talked about. We want to know, does expert coaching work, how much time will it take per consumer? Is the consumer study workable at all? Are there more problems that we have not yet identified? How expensive will it be to conduct a full scale survey?

Last May, we invited several parties to submit bids to conduct such a pilot study and we have already mailed to each presenter today a copy of the scope of work for this pilot study. A copy for your later reference is appended at the back of the handout you have in front of you. It contains a few more details of what we propose to try than I have time to present today.

Assuming now that the pilot is successful, a big assumption I grant, and we find that the consumer survey approach is promising, we'll still have to address a number of sampling issues. First, what is the appropriate sampling frame, what is the appropriate sampling population? Is it the entire U.S. adult population, the U.S. adult population with credit history, a sample of credit files obtained from the big three CRAs? Should we look at all credit reports

actually drawn for business purposes? There's a distinction here between credit reports drawn for business purposes and drawn by consumers just to check the accuracy, for example.

In particular, some consumers are much more active in the credit market than others. In our analysis, should we give more weight to those consumers who are more active or should we give equal weight to everyone? It could be argued either way. As an example, one might say, suppose an individual never or rarely applies for credit, then why should we be concerned about the accuracy of a report that he never actually asks for, but he only would have asked for if he did apply? And if an individual applies for credit many times, then isn't there more potential for benefit or harm because errors or accuracies would affect more decisions? This would weigh in favor of using a sample population of the actual reports, not consumers, and that would result in giving more weight to consumers who are more active in the credit market.

Or one could argue, instead, that maybe the reason why some people rarely apply for credit might be because there's an error in their report that resulted in their being rejected and maybe they subsequently gave us even trying to apply. Each person potentially could be

just as active in the credit market as any other. This argument would weigh in favor of giving equal credit, equal weight to all consumers.

A related issue in terms of what's the right sampling population is the same report question. This is a question that comes up in another study that we have to do for Congress and we don't have any answers here at this point. So, I'm only going to say what the problem is and say nothing more about it.

The same report question is, how should a study deal with the possibility that a report received by a consumer may be different from a report on that same consumer provided to a business user as the result of differences in the identifying information provided to the CRA and the way the CRA's matching algorithms respond to these differences?

Okay, moving on to other sampling issues that need to be resolved, there's an issue of sample selection bias. We might have under-representation of various groups, such as non-English speakers, undocumented residents, consumers with poor communication skills. One can make arguments that we might either get over or under-representation of consumers with credit problems.

Another issue is sample size. This will depend on which results we wish to measure and how much

precision we desire. If we want precision of plus or minus two percentage points for the entire population sampled, we would need a sample of about 1,000 consumers. If we want results broken down by sub-populations, we might need a sample of several thousand.

One way to economize on the size of the sample would be to use stratified sampling techniques. For example, if we want to understand not only the incidence of inaccuracies and incompleteness in credit reports but also their nature and possible causes, then we should over sample reports that are more prone to these problems. For example, we might over sample consumers whose reports from the big three CRAs have discrepancies that result in a big difference in credit scores. Alternatively, we might over sample reports with low credit scores or with thin files.

If a principal concern is the prevalence of inaccurate information that is derogatory, we would be most likely to find these cases in reports with low scores. If a principal concern is the effect of incomplete information due to leaving out examples of credit lines in good standing, then we would tend to find these cases in reports with few items, so-called thin files. Stratified sampling would also require a prescreening of credit files. So, we need to address

privacy concerns associated with prescreening.

One possibility would be to ask a credit reporting agency or an organization with an existing legitimate business need to have access to credit files, to prescreen files in their possession and select ones that meet our stated criteria. The organization could then ask consumers on our behalf whether they would be willing to participate in a study. In this way, we would never have any access to any private consumer information without first having obtained the consent of the consumer.

Okay, now, what do we anticipate would be the final results? Well, we can't, of course, give numbers, but we can anticipate how we would want to break out our results. So, one -- this is very tentative. For each item in the credit report that affects the credit score, we might classify it in terms of whether it's confirmed accurate, confirmed inaccurate for various reasons. It might pertain to the wrong person, it might have incorrect information. Or we might not be able to resolve the accuracy fully and we don't want to force things into a category if we're not sure, so we might say, of undetermined accuracy because the item might belong to a different consumer, but we're not sure, or undetermined accuracy because we're unable to resolve a

conflict in the views of the consumer and the furnisher.

Now, a different category is an item which is improperly duplicative of another item, so the item is correct, but the duplication would lead to a false conclusion that a consumer has more open accounts than is true and that could affect the credit score.

Similarly, if items are taken through the formal dispute process, we could classify them in terms of the results of that dispute process. It might be confirmed accurate because the consumer now agrees it is accurate or confirmed inaccurate because the furnisher now agrees it is inaccurate, could be presumed inaccurate because the furnisher does not respond. But there we wouldn't know for sure. Or it might be unresolved because the furnisher might confirm the accuracy but the consumer may continue to disagree. So, we wouldn't try to force these results into a particular box, but we'd say exactly what we know and let other people then draw their conclusions which side they believe in a dispute.

Next, we would -- for each credit report, we would now classify it according to the number of accurate, inaccurate and uncertain items, the number of missing items, the effect of inaccurate, missing and uncertain items on the credit scores, individually and in

total. We could do further analysis to identify the contributing factors that may have led to inaccuracies when this is possible. We don't anticipate being able to attribute a single cause to every inaccuracy. Examples of causes or contributing factors include errors in identifying information given by the furnisher or the consumer, errors in files of the furnisher regarding the consumer's account, fraud, ID theft. I'm not trying to be exhaustive here, just illustrations.

And, finally, we could do further analysis to break down the incidence of errors according to demographic factors, such as age, gender, marital status, ethnicity, citizenship, et cetera.

So, that's it. Now, we eagerly await your feedback. Is the use of consumer surveys a reasonable approach for measuring accuracy and completeness? Are there other problems and biases that we have not identified? Do you have any suggestions about how to counter these problems and biases, including ones that we haven't thought of yet? The basic question, is the whole approach workable? If not, we need a better approach. So, what ideas do you have for a better approach? That's it. Thank you.

MR. VANDER NAT: Thank you, Gerry. Is this mic on? Can somebody -- I am told that these mics are on

unless you push them off. These mics are supposed to be working. I was assured that. Would somebody else try their mic to see if -- is it on now?

(Testing of microphones.)

MR. VANDER NAT: Let's have about a 10-minute discussion right now on what Gerry has said. The reason is this. The next presentation may also run 25 or 30 minutes and by the time we have another presentation, you have a number of different thoughts in your mind. So, let's try for about a 10-minute discussion right now and then move on to the next presentation.

Now, about these mics, I am told that they are automatically on unless you push them off. You see there's a little push button or a push section in the center, and if you push that, it's supposed to be off. So, don't make the mistake of having it on when you didn't want to have it on. We know there are some notorious mistakes in that situation.

So, is there anyone who would like to begin with an observation or a question? You're all being so shy. Stuart?

MR. PRATT: Well, let me -- just a couple of things, Peter and Gerry both. Thank you for a very thorough overview of where you intend to go and, of course, I think like everybody else, we're reacting to

this for the first time today, not having had the opportunity to hear some of the granularity that you've now tried to put to that framework that you've sent to us in advance.

Just a couple of observations. I guess in part what you're looking for is a score migration or a score shift analysis of some sort, what does the score look like and then how does the score change. I guess in talking with some of our members the question is, well, when do you get to a material test of that? In other words, you might find many scores have a very small increment of change and there may be others who can contribute to that, but there may also be instances where there's a more material change in the score, if you're going to go down this road of using scores as a method of that. And to expand on that just a little bit, then you have to decide, in what context is the score being used and what kind of market? Is it an auto finance market? Is it a mortgage market? Is it a -- I think there, too, then you'll find that the tool, the scoring tool, which is a method by which a decision is made, is then used differently depending on the market in which that application is being made and the type of credit for which the consumer is applying and so on.

So, I realize you didn't try to cover

everything in your slides, but those are just thoughts, I think, in terms of how you approach that part of the study. I think if you have no materiality test, then yes, many scores might move a little bit depending on -- assuming the change has something to do with the score in the first place, but the question is by how much and by how much of an effect. You probably would need to look at more than one lender in the marketplace.

My second observation, if I could just do this, is we've even had consumers who are victims of identity theft with police reports who will clean up other items of information in their file at the same time with their police report, along with the items that were fraudulent. So, I guess I just say that in order to make sure that we all understand the -- I'm not sure how you're going to find these experts, if you're going to go down this road of using experts, but it isn't to say -- this isn't to cast dispersions across all of our society, but just simply to say that that's a very important -- the credit repair effect, the temptation to try to correct a report is there whenever there's a file with adverse information, even when it's accurate adverse information, even if the consumer, in some cases, is a victim.

We've even done surveys of consumers who have purchased credit repair services, and some of the surveys

came back saying, I thought I would give it a shot. I just wanted to see if I could get that bad information off my file, even though I knew it was accurate. So, there's always that caution flag.

You've acknowledged that, I think, in your slide and we appreciate that because I think that's an important component of this thought process as well is to make sure -- and then, finally, if you're choosing these experts, however you find them -- and it will be interesting to see how you find those experts, and I say this with all seriousness, I assume you will put them through security reviews to make sure that they, themselves, are not going to perpetrate identity theft when they start to look at all these credit reports with consumers. It would be a bad thing for the Federal Government study to foster identity fraud in the marketplace. And, also, I think, you need to make sure there's no bias with those experts themselves, that the people who are being trained themselves don't bring a bias to how they feel about credit reporting, the credit reporting experience, the credit granting experience and so on.

So, there's some issues, I think, with controlling bias even on the part of the filter through which the experts themselves are going to work on that --

work with that consumer.

And then my final observation is, I guess, there's a lot of challenges to getting consumers to really truly commit themselves at a distance to really getting down through all the information in their file. It depends on how motivated those consumers will be. I'm assuming there will be some self-selection that results from the kind of consumer that has the propensity to want to get involved in looking through a credit report, I guess, at the level that you would like to get. So, those are just some first thoughts.

MR. BUTTERS: (Inaudible) I think those are excellent comments. If I had had half an hour or an hour, I would have reached more of them. I was just talking to Karlene before about your materiality issue. That's something we want to be able to do. The credit score is only the first step. Which credit score is an issue? For which decisions and do we have numerical measures, how much -- how likely the effect is of a change in credit score on a behavior. So, all these things we would like to do. It's one of the things we have 11 years for, I guess.

MR. CATE: Fred Cate. Let me say, and I think everyone here would reflect the same thing, you'll probably hear this a great deal today. The more I've

thought about this issue, getting ready for today, the sorrier I've begun to feel for you.

MR. BUTTERS: Thank you.

MR. CATE: I assume you didn't invite us here just for sympathy, but I think you have a nearly impossible task and I'm not -- I guess the challenge today is to see if we can get beyond merely emphasizing how impossible it is to actually find ways of making it more possible.

I would, I guess, just raise three issues that overlap at a small point with what Stuart has said. One is I think the definitions are absolutely critical here and I think the definitions, as currently stated, for accuracy and completeness, while straightforward and appealing, I think their straightforwardness sort of obscures the fact that defining accuracy has been one of the key problems in all of the studies we've seen to date.

You know, the GAO noted this in its 2003 report. We just don't have an agreement on what accuracy means. In fact, I don't think we even have a stab at what accuracy means. I think the studies we're going to look at today will reflect that. Does accuracy mean, I didn't dispute it? Does accuracy mean the three bureaus agree on it? Does accuracy mean what? And I think

really plumbing the debts of that issue is something that desperately needs to be done, and the reason for that is because -- I keep coming back to remind myself this is for Congress. Now, I understand many things for Congress are subsequently ignored by Congress, but let's just assume for a moment Congress is going to use this for a purpose and that purpose is presumably to detect flaws in the system and recommendations for improving it.

So, the question is, even once we have some concept of what is accuracy, it's why is there inaccuracy. Is it inaccurate because furnishers reported inaccurate information? Is it inaccurate because of the timing of when the data were reported or when they were recorded in the file? Is it a result of mismatching data? In other words, is it a bureau problem? We got the data, the data were accurate, but we somehow messed up getting it in the right place. Is it a calculation of the score problem? In other words, are credit granters using elements from the files that they should be not using?

This, of course, obviously is going to be circular. It comes back to what is inaccuracy. Do we care about inaccuracies if they're not used by the score? You know, inaccuracies, if they're not material or they're not relevant to calculating the score, why does

this matter?

The third point, and I always go around saying things like this and I always get in trouble for it, but I think we have to be frank here and we're primarily among, you know, friends or professional colleagues. But, you know, we're not on CNN. Consumers are a lousy place to judge accuracy. I would argue they are, perhaps, the worst possible measure of judging accuracy. I don't mean that, by the way, for malfeasance. I don't mean -- I mean, I think there are consumers who would deliberately lie or whatever we know -- you know, a majority of people say they'll cheat on their taxes, they lie on their resumes.

So, I don't know what makes me think they're going to be incredibly full of integrity in this process. But I'm more worried about, you know, most of us don't know. You know, the vast majority of people, 70 something percent, don't balance a checkbook. They have no idea what credit account was opened 10 years ago. They have no idea what was closed, what was done jointly.

You raised the point, which I think was a very good one, about the legal constraints. You know, that was before I was divorced, that was after a name change, that was -- and so, I think in terms of whatever our measure of accuracy ultimately is, whatever your measure

of accuracy ultimately is, I understand consumers will clearly have to play a role in the process and I think all of the studies on the table today have involved consumers at some point in triggering like I request a report or I dispute something and I don't know a way around that.

But I think to think of consumers as being the measure of accuracy, like I say, well, you know, now that's accurate, I mean, I think is laughable. I don't think it's a practical thing to do for the simple fact that I think most of us, including probably some of us in this room, at least the lawyers in this room, would find it very difficult to know if our reports were accurate or not.

UNIDENTIFIED MALE: Let me briefly respond to that point. All of your points are well taken and we are daunted by them. I think the element that we're trying to introduce here is, we're not just going to take the consumer's word for it. Just because the consumer says it, that doesn't make it so. That's why we are thinking in terms of coaches and a review process. So, the review process is either a formal dispute process or it's an informal process where, through the coach, a furnisher is contacted and they agree, okay, it's been straightened out. We hear that there are lots of circumstances in

which there are people who already play this kind of role, who work with the consumer in a very positive way to straighten things out, to straighten out misunderstandings. But the key is, we are not just taking the consumer's word for it, and that's why Gerry gave those different kinds of categorizations and we will ultimately note, you know, that there were certain errors where both consumer and furnisher agreed. Now, if they both agree, that's the most important kind of error and there are these other classifications where we are less sure.

But I think that's the main way in which we're going to try to handle the observations that you're making.

MR. VANDER NAT: Bob?

MR. AVERY: Yes. My first reaction, actually, was --

MR. VANDER NAT: Bob, excuse me, could you state your name?

MR. AVERY: Bob Avery of the Federal Reserve. My initial reaction was we were originally penciled in to do this study and how glad I was --

(Laughter.)

MR. AVERY: All of the reasons that you raised. Let me just make a couple of comments about the specific

design here. My gut reaction is that this is just not feasible. Our survey of consumer finances cost about $6 million. It's an in-person survey of about 4,000 people. The issues are about as complex as this. You're talking about a recurring survey that you want to do on a basis -- you know, every X number of years, I think you have to -- realistically, you can't do this probably by mail if you're going to use coaches and email. It's just not going to work. And you're -- unless you're committed to lay out those kinds of resources, my suspicion is you're not going to get the kind of quality in this data that you seek.

Let me suggest two other possibilities that are variants on this you might want to think about. One is a low level survey that you simply ask people their perceptions of the quality of their credit and you compare that with their score. And you're picking up their perceptions as to orders of magnitude, of how good their credit is, relative to what the Bureau would say, and what you're picking up there is whether there's a disconnect. Now, it may not become inaccuracies and errors, but you're also looking, at an operational level, whether there is a difference between the information recorded on the Bureaus and the information that's perceived by the consumers. That's a very cheap survey

and you can do it every year and see if there's a change over time.

The second complimentary item, you're viewing the frame as a frame of people. There's an alternative frame, which is a frame of line items and Bureau data, and there are millions of them. So, you view every item in the Bureau data as an item.

And think about the way that they do audits for the securities industry. You get a -- I don't get a letter for every -- asking me here's a list of all the stock you own, tell me about each one, whether it's true. What I get is individual letters asking do you own this stock. One of the things you could do if you thought about that frame is you could go to the Bureaus, you could sample items that are much more likely to be in error, such as public records, collection account items. Stay away from the B of A reports that are probably 100 percent accurate, the large lenders. Look at files that have not been updated.

So, you can key -- you can do very stratified sampling, keying in on items that are much more likely to be in error. Do them an item at a time. The consumer is sent a letter and you validate it one way or another. But you frame -- you've got lots of degrees of freedom. If you think about that as your frame, you've got

hundreds of millions of items there. All large numbers can work for you. What you're doing here is you're bundling. You're taking each consumer and sending them 40 different questions to the same consumer and making them check off each one. My alternative is one where you don't have to -- you know, each consumer might get one.

The loss of this is you won't learn about errors of omission, but it seems to me the gain is you learn -- you can have a much, much, much more focused sampling technique. You can probably do it by mail and it's going to probably be a lot cheaper, and it's something that over time, if you repeated this exercise, you could see, are there gains in error.

MR. VANDER NAT: Thank you. We'll just take one more comment at this point and then we'll move on to the next presentation, and there is going to be further time for all of the discussion. So, we're going to get back to these points later in this morning's session and also throughout the day.

I think it was Paul that had a comment.

MR. WOHKITTEL: Yes. Paul Wohkittel. I couldn't help but -- as Fred was talking about accuracy, I couldn't help but draw a parallel to the definition of pornography. That is, you know it when you see it. Now, I realize this group is comprised of different

industries. I only represent the reselling industry of the mortgage. But at our level, we dig very, very deeply, along with the consumers, into the data.

Now, my point in bringing this up is that this is a very feasible task. I agree with the premise that the consumer is the greatest expert about his or her own history. But I think along with that, you have to have an expert guiding them along and I think there's plenty of experts out there to do that in many different industries who are very knowledgeable and can delve independently into the problem.

MR. VANDER NAT: Thank you. Just to keep things on track, I'm going to ask at this point --

(End of Tape 1, Side A)

MR. VANDER NAT: -- Interest Research Group to give us a presentation on their views and no doubt a report on their very latest study that we've all heard about the last couple of weeks. Please go ahead.

MR. MIERZWINSKI: Thank you, Peter. I'm Ed Mierzwinski with U.S. PIRG and with me is Alison Cassady, a research director, and we've got extra copies if people didn't get it of our latest report, Mistakes Do Happen, which came out just two weeks ago.

I want to thank the FTC for inviting us. We'll have, I think, a brief presentation with a lot of time

for questions and comments afterwards. I came to Washington in 1989 when Congress began its review of the credit reporting industry that actually took them 15 years. If you look at the 1996 amendments as requiring, from the industry's perspective, additional 2003 amendments, because otherwise the states, horror of horrors, would regain the right to try to make credit reports more accurate and prevent identity theft. So, Congress last year really -- I don't see the Congress doing a lot on the credit reporting industry again until perhaps some of the FTC's new studies come out. But it took them 15 years.

I think they've come a long way, and other than the unacceptable limit on state authority, we've addressed a number of issues either in the new bill, specific requirements or in the studies that are being required to be done. I personally wish some of the studies were actually in the law as specific requirements on the industry, but I'm hoping that the result of the studies will be that we will get some more amendments to the law once the studies begin to roll out.

When we first got involved, Consumers Union, Consumer Federation of America and PIRG were very concerned that the mistakes in credit reports or complaints about credit reports and the service levels at

the Bureaus were something that were the number one complaint to the Federal Trade Commission in the early '90s. So, we focused a lot on service at the beginning, as well as accuracy. The new FACTA Act provides, I think, some of the fundamental things that are going to help consumers who are really the data subjects, look at their reports. So, all consumers are going to be, in effect, contributing to a broader study than the study that the FTC is doing because all consumers are going to be looking at their credit reports for free for the first time. They're the data subjects. That's a very important public policy outcome.

And after years of fits and starts, and California's ultimate leadership, although it's not free from the Bureaus, we will have access to credit scores. And as I've pointed out in other contexts, the credit score business model and the Fair Isaac will certainly speak to this, I think their business model has changed dramatically. With the passage of the California law, they recognized there was a direct consumer channel and that consumers would benefit from having this information. So, we have the credit score disclosure, the list of descriptions of the credit scores.

The other fundamental changes that were made to the law that result in accuracy, we have a new

requirement allowing consumers to dispute directly to the creditors. That will also help to engage the creditors and force them to improve the way that they do business to the extent that they're responsible for mistakes and it's not the issues of the way that the data are collected.

And, finally, the business model of the industry changed dramatically in the 1990s and risk-based pricing became the norm as computer power became so much cheaper. More consumers were given credit yes, but, rather than no, you're not getting credit. Yes, but you'll have to pay more. Those consumers weren't getting adverse action notices. Now, they will be getting adverse action notices. So, I think that that will also help to contribute to the bigger study.

In terms of the other studies, even though Peter and others have pointed out that this study is a massive undertaking, I wish we could somehow incorporate some of the other studies into this study and come up with one big uber study. In particular, you've mentioned -- and I think this is one of the biggest problems you're going to have to wrestle with -- the issue of what you call same reports, what we call the subscribed report problem, somehow I think there's a separate study that's got to be done on the feasibility of giving consumers the

subscriber report.

Now, there's already language in the law that gives employment applicants the report provided by the employer. So, I don't think that's unfeasible at all. I think somehow your study has got to make sure that it blindly compares and incorporates data from subscriber reports that are provided to subscribers within the view of many at the table, a different set of verification algorithms than the reports that are provided to consumers which may therefore -- the report you look at after you're denied is probably much more accurate than the report the subscriber may have used to either deny you or charge you more. I wish -- I think it's very important that you figure out a way to have some part of your sample be studying both reports.

Second, I think there's other issues in the law, not the least of which is the study of disparate impact of credit scoring and the study of how to expand missing information. We talk about missing information such as the Fed study found where a company on its own decides to mask a consumer's true credit profile to make them look worse so they won't be given offers by other companies. But there's also the missing information where the consumer doesn't have national accounts and is a victim of a thin file, as you pointed out. So, there's

a study of that as well.

But all of these are some of the issues that we're encouraged that the Federal Trade Commission is going to look into. I'd like to turn it over to our research director, Alison Cassady, who will talk specifically about our methodologies of our several studies, and also about some of the views that we have as to how you can improve or respond to some of the questions you list.

MS. CASSADY: Can everyone hear me?

(No response.)

MS. CASSADY: As you all know, in June, PIRG released an update to its 1998 study, Mistakes Do Happen. We asked adults all over the country to order their credit reports and complete a survey on the report's accuracy. Just briefly, to go over the main findings of the report, we found that one in four of the credit reports surveyed contained serious errors that could result in the denial of credit, and by -- we defined serious errors as accounts that are incorrectly marked as delinquent, accounts inaccurately listed as being in collections, accounts listed that do not belong to the consumer whether or not in good standing and bankruptcies, tax liens and other judgments that do not belong to the consumer or are still listed as open even

though they've been resolved.

Altogether, we found that eight out of ten of the credit reports we surveyed contained either these serious errors or other mistakes of some kind, such as missing accounts, inaccurate demographic information, closed accounts that are listed as open, inaccurate credit limits and loans and mortgages listed more than once.

If you all have questions about the report's findings, Ed and I would be happy to answer them, but I want to focus on the report's methodology and the challenges we faced in implementing a survey that is based almost entirely on a consumer's ability to recognize errors in their own reports. Hopefully, this will be somewhat instructive for the FTC pilot project.

So, our report is based on the files held by the so-called big three credit bureaus, Equifax, Experian and Trans Union, and in the spring of 2004, we sent emails to thousands of PIRG citizen members across the country requesting their voluntary participation in the survey about accuracy of credit reports. We couldn't offer anybody any monetary restitution for ordering the reports or anything like that, so it was all completely based on voluntary participation.

We directed the consumers to our website where

they could indicate if they were willing to participate in the survey and from which credit bureau they planned to order their report. If someone volunteered to participate, but did not complete a survey within seven days, we sent a reminder email with a direct link to the survey form. In addition, we asked PIRG staff, coalition partners, friends and family from all around the country to complete the survey. In total, we collected 200 surveys from 154 adults in 30 states, the vast majority of which came from PIRG citizen members. The participants ranged in age from 20 to 81 and the average age of a person responding was 40.

The FTC asked us to focus on the challenges inherent in conducting the type of study we did, in which we rely on the consumers themselves to identify errors and accurately fill out the survey. Overall, our methodology is adequate to give us a representative sample of credit reporting problems. The results tracked the findings of other surveys conducted by consumer groups and also tracked the results of massive computer-based credit report surveys conducted by the Fed and CFA.

The first challenge I want to focus on that we faced, and I'm sure the FTC will face as well, is just getting people to participate. Foremost, it is a struggle to get consumers to voluntarily spend $9 for a

single credit report. I can imagine that it's even more difficult to get people to purchase three credit reports, plus their credit scores. That's probably about $40 a person, and I'm not sure if the FTC is planning on reimbursing the survey participants or offering money, but this cost is prohibitive to many folks that we found. We were unable, like I said, to offer any reimbursement.

On a less practical level, some people are literally afraid to look at their credit reports. They prefer to live in denial. They don't like seeing their credit history in black and white. We had several people say that. And others are confused and think that by ordering their credit reports, they can somehow lower their credit score. Others are concerned about the privacy of the personal information when transmitting it over email or sharing it with a perfect stranger, such as myself.

And overall, it is just a challenge to get consumers to participate in these types of surveys because it involves multiple steps. You've got to get them to commit to do it, then they have to order their credit reports. It doesn't always work online. Sometimes you have to call and send stuff through the mail, and then once they get the stuff in the mail or online, they actually have to sit down, find the time and pour through

the credit report survey. Usually, the answers aren't simple yes and no. So, that's a task and we struggled, you know, over a period of several months to get enough people to complete our survey.

The second main challenge, obviously, is relying on the consumer to understand their credit reports. Our report is based on the following fundamental premise, that consumers themselves know better than anyone whether or not their personal information is right and whether all of the account information on the report belongs to them and is accurate. I mean, if I were to look at a stranger's credit report, I would not be able to identify missing accounts, inaccurate credit history or accounts that do not belong to the consumer or other errors.

We've also found, basically, that the institutional memory, so to speak, of the consumer is most reliable in the areas that matter the most, whether he or she has filed for bankruptcy, for example, whether he or she has ever opened a significant line of credit with a major bank, ever faced collections, that sort of thing, and those are the things that -- errors in those components have the most direct effect on the credit score.

The FTC pilot project you mentioned will look

at the efficacy of hiring a consultant to help consumers identify errors in their credit reports, and I'm unconvinced that it will be completely helpful, but, I mean, I'm open to -- it sounds interesting. I think it's going to be particularly challenging and the first presenter, you know, did go over some potential snafues with finding consultants and finding the appropriately trained people and unbiased folks.

But the pilot project also suggested, at least in the materials that we received beforehand, that you would do most of these phone -- these consultations over the phone. We relied almost entirely on email to conduct our surveys. So, I can't speak specifically to how effective a telephone based survey would be. But I can imagine that a phone conversation discussing the accuracy of three credit reports would be quite lengthy, and I think that this just provides another obstacle to having consumers participate. Not many people want to spend 45 minutes on the phone with a government employee talking about their personal credit history. I just think it might be one more thing that people have to get past in order to participate in the survey.

So, in my opinion, I mean, crafting carefully worded questions on the survey instrument and providing detailed instructions and frequently asked questions

about how to understand the credit report is the best way to implement the project and it would be helpful, definitely, to have consultants available by telephone and email to answer specific questions, like, you know, the problem that was raised about, do I have a legal obligation to -- am I still responsible for the joint account that I held with my ex-husband.

But those are definitely -- I just don't necessarily think that a consultant helping each person is going to get past -- we still need to rely on the consumers as the people who know best about what they have done in the past.

And then in terms of selecting the sample and the people in the sample, there are a few important factors to consider when selecting the population and these may seem kind of obvious, but these are the ones that jumped out at us most when we were looking at the credit surveys we received through our survey. First is age of the people. Obviously, 21-year-olds are less likely to have an extensive credit history than a 50-year-old, and they are, therefore, less likely to have serious errors in their reports. Most of the people in the 20, 21-year-old bracket that we found had no errors in their reports whatsoever.

The state of residence is also something to

consider. We did not break down our findings by state, but states that have offered consumers free credit reports for a while may have a different rate of errors than other states, since ostensibly it's been easier for consumers to obtain their credit reports in the past and examine them for errors. This may be something you might want to look at when doing your analysis, breaking it down by free credit report states versus not and then comparing it over time as the states roll out their free credit reporting.

A third thing that you touched upon is marital status. Again, we didn't look at this specifically, but anecdotally, it appears that consumers who are married or divorced commonly noted that their spouse's information, in some way, appeared on their credit reports.

And the fourth thing is income. Obviously, income may be a bigger factor in the credit score aspect of your study, but in terms of the accuracy, it could affect it as well. Wealthy consumers, obviously, have a more extensive credit reporting history than more trade lines and such than poorer consumers. On the other hand, a poorer consumer may have more checkered credit history with bankruptcies, collections and such that offer additional opportunities for error.

So, these are just -- obviously, if you're doing

a truly random national sample, you may not be able to correct for these things, but there are indicators I wanted to flag, something that could affect the results.

Ed?

MR. MIERZWINSKI: Alison asked me to be the -- to sum up, but she really covered everything. I will point out that I totally agree that I think you -- and I look forward to Richard's comments and Terry's comments, in particular, on the issue of how do you address consumer's understanding what a joint account is, which should be on your credit report and should count in your score, and a cosigned account, versus an authorized user account, which is frequently, in the view of many experts, from the consumer's side of the business, a big concern. And the coding of those kinds of accounts can be a significant problem.

The second point I just wanted to restate that Alison made, we totally feel that on the big picture issues -- I think Gerry made a valid point on the memories of the consumers and that will be an issue for whether you paid your credit card late or on time, that sort of thing. But you certainly remembered whether you cosigned a loan, whether you ever filed for bankruptcy, whether you're married to some stranger. Those big picture mistakes on the credit reports, I think, are the

ones that are most important for causing denial or putting you in the sub-prime when you're not in the sub-prime.

I don't know if anybody saw the piece on Frontline this weekend on probably the nation's leading bankruptcy expert, who's done a number of major studies on bankruptcy, Liz Warren, of Harvard Law School. I was just rereading one of her papers and she says she's participated in a number of big studies and they're like helicopters. Helicopters are 20,000 loose bolts flying in formation and you have to make a lot of assumptions. Sometimes the assumptions and the decisions about what data are good data or bad data just have to be made. But I encourage you to go forward with this and I look forward to the rest of the discussion.

MR. VANDER NAT: Thank you, Ed and Alison. Before I open it up for discussion, I just want to make a few comments on some of the points that were raised. The same report issue that Gerry referenced is an important issue and that falls under Section 318 of FACTA. I hope this mic is working fairly well.

There are a number of different studies, which we called small studies, not because they're really small because they're due this December 1 and, therefore, they had to be small studies. But just because they're due

this December 1, we can revisit a number of those issues so that it isn't automatic that just because we gave a report up-front once on it that it's over, because we will indeed discover that certain things are reoccurring issues and that they need a closer look. So, any of the 318 studies can ultimately be reincorporated back into the broader 319 study because it's an open-ended mandate. You shall study -- an ongoing matter. So, it also talks about improving the accuracy and completeness of information.

So, under that broad mandate, it is, in essence, up to the FTC to decide the variety of issues that it must revisit and, certainly, the 318 studies can be revisited.

On the matter of the telephone contact, we certainly like the idea of email contact and the more consumers we can contact through email, the better. It's just that we couldn't just assume it. So, we're hoping for a combination of telephone and email.

On the matter of reimbursement, we do anticipate that we want to reimburse the consumer. Our funding office will not be very happy about this, but we think that is an impediment and we have to say up-front to the consumer, okay, we will pay for those costs and we might even pay a bit more in terms of some of the time

that you have to spend on this. So, that is a definite issue. We don't know how that plays out, but we are definitely thinking along those lines.

On the issue of the self-selection bias -- getting people to say, yes, I am willing to go along with you, okay, we imagine that if there is going to be a national survey, it will involve several thousands of consumers, meaning we invite them to participate. Whatever list we put out there of please participate, let's say it's a list of 5,000, you might get 2,000 saying yes and 3,000 saying no, we're hoping and we're planning, if this all works out, that we will get the complete redacted information on the 3,000 who said no, so that we can, in essence, assign the bias and study the nature of the bias.

But we are very aware that there is a potential bias in saying, yes, I will versus no, I won't. But by having the redacted information, let's say, on the 3,000 who said no, we can ask, well, is there average credit score any different from the ones who said yes, et cetera. We can look at the characteristics of the ones who said no versus yes and to see if we can assign this bias. So, we are very much aware of the issue of a self-selection bias.

I just wanted to throw out those comments

immediately, and let's have about another 10-minute discussion here before we move to the next presenter and the discussion is cumulative. So, now you can respond to what Ed and Alison have said or what Gerry has said or any of the comments that have been made.

Alan?

MR. WESTIN: Alan Westin. I was very cheered by the comment you just made because having done 50 or 60 national privacy surveys, I've been very aware of the fact that we have a very skewed sample whenever we use telephone as the instrument because it's the people who have caller ID, the people who will absolutely refuse to participate that often have the highest privacy concerns. So, any time you do a telephone sample -- and people who do surveys can tell you the embarrassing figures about non-participation in standard telephone surveys -- that your suggestion or your commitment that you're going to analyze the non-responders seems to me to be absolutely central to having any kind of trust in the sample of those who will participate.

So, apart from all the other problems we're discussing, it seems to me you've got a very good approach to that particular piece of problem.

MR. VANDER NAT: Bob?

MR. HUNT: Bob Hunt, Federal Reserve Bank of

Philadelphia. I just wanted to interject real quickly on the subscriber report idea. In Sweden, when you apply for credit, you have to get the same report the lender got. That's the good news, so they don't have this technological problem. The bad news is they don't do prescreening, and so, the question is, how do you think about that in a system where prescreening is very important?

MR. VANDER NAT: Greg? I'm sorry, Nick. I have to learn all your names yet.

MR. SOULELES: Hi, Nick Souleles from the University of Pennsylvania. I just wanted to point out that there is a sub-field on survey methodology and within that field, the question isn't whether people's reports are accurate or not, the interesting questions are, how accurate and in which ways are they inaccurate and how do you minimize the inaccuracies.

I'm sure to the people to whom you sent the pilot project proposals, they have survey methodologists on their staff, but to give you a sense of the sorts of, you know, issues that arise from other consumer surveys, like the FCF that many of us use, some of the lessons will show up in some of the designs that we're going to talk about today, but just, you know, briefly, when you ask people a simple thing like their age in one year and

then you re-interview them a year later, sometimes the ages are going up by a couple years, sometimes they're going down, even basic things like that. So, people have come up with techniques to try to deal with this sort of thing.

A second way of comparing data, sometimes some studies have been able to compare self reports of things like income or amounts in a pension plan with the actual administrative data, say either from the IRS or the plan provider. And, again, of course there are inaccuracies and the question is how large and how material.

Another sort of way of determining inaccuracies, and this is related to the prior point that, sure, you would expect that the larger the stakes, the more likely people would get it right, but it's still the case that people get wrong even important things. One study that's very close to the issues at hand, the Panel Study of Income Dynamics, is one of the best surveys that we have of households, and the great thing about this study is that it attracts the same households over time and a lot of tremendous work has gone into maintaining the sample and cleaning the data and so forth. Many of you know that a few years ago, they asked people -- they added a module about bankruptcy to the regular ongoing study, and these are retrospective

questions asking people, have you filed for bankruptcy and when and so forth. And there are sampling weights assigned to the study. It's possible to try to aggregate up the study and get something that is nationally representative.

Now, when you go and look at these retrospective answers of did you file and aggregate up and then compare them to numbers -- the number of aggregate bankruptcy filings that we know are out there, you only get about half the aggregate, okay? So, somewhere there's an error.

Now, it could be that there's a little bit of error in the aggregate, but it's got to be that the -- or maybe the sampling, the weights might be wrong. It might be that because of various biases in that study, the aggregation isn't working exactly right. But if it's not that, then the respondents -- and this is one of the best data sets -- many of us have made our research careers using this sort of data. I'm not -- it's a great data set, it's one of the best we have. But even with all the work that goes into making it as good as possible, the fact is that the numbers are only half of what they should be.

Is it that people forget? Is it that people are embarrassed? We don't know. But that gives you a

sense of the sorts of errors that could be made even on important matters.

How to deal with that? Well, again, that's a -- that's what we're going to talk about. I just want to point out that this is -- these issues are generic to survey design and studies of the consumer. I, myself, am more of a user of the data, not a methodologist. But there are people who work on the methodology of survey design, and I don't know if there are many here, but that's a group that you'll want to tap into.

MR. VANDER NAT: Thank you very much. Evan?

MR. HENDRICKS: Yes, thank you, Peter. Apologies for being late. On one, I think, relatively minor item where the consultant can help in the survey is the -- sometimes retailers use a bank to process their credit cards. So, it might be something like Lane Bryant or some retailer and they used either GE Monogram Bank or Household, and so, a consumer can look at their credit report and say, I don't have a household account, not realizing that that is actually the retail store card account. So, that's a minor issue.

I think on the deeper issue, sometimes inaccuracies arise because of the difference between what happens when a consumer gets their own report and the strict algorithm that's used -- when you ask for your own

report, it requires a nine for nine matching of the Social Security number, all nine digits, and as well as all the rest of the data fields and you have to authenticate yourself and it's very rigorous and should be that way.

But when subscribers, creditors order credit reports, sometimes it can be as much as a seven for nine matching of the Social Security number and that's why sometimes we have a difference between the subscriber report, what the subscriber sees about a consumer, and what the consumer sees about himself.

So, one of the themes that I would like to develop throughout the day is that the credit reports are based on the information in the credit reporting agencies and the credit reporting agencies have monthly snapshots which are called -- sometimes called frozen data scans or name scans. And one methodology that we should consider is to compare what the consumer sees in their own report as opposed to what's shown in the back-up data and what potentially could be disclosed to creditors, knowing how these algorithms work. We discuss frozen data scans on page 132 in the book that you've ordered.

MR. VANDER NAT: Mall?

MR. DUNCAN: Mallory Duncan, National Retail Federation. First of all, I want to underscore a couple

of things that were said by Stuart and by Fred with respect to the importance of looking to materiality in this as a baseline.

And secondly, as to the difficulty that Fred pointed out in accomplishing this, as Professor Westin pointed out, telephone introduced a bias. If you look at the issues that Alison was explaining in terms of her report, you've got people who are volunteers, that increases the bias, the fact that people who are familiar with the web is likely to introduce a bias, that it happened to be citizen members, all these elements. And there's no easy way to remove those. For that reason, I want to double underscore what Fred says, I don't -- I despair the Commission being able to pull this off with the degree of accuracy anywhere near the plus or minus 2 percent that's necessary.

I think the whole idea really should be sort of put to the side and we should instead look at, what are the possible areas that errors could occur in the report. Well, there could be an error in the information that's actually furnished, sort of a filing error, a furnishing error. The second is that there could be an error in the way the information is compiled and presented back to the consumer. It's called a -- I call that a filing error. And the third possibility I would call, say, are errors

of malice. This is most commonly looked at as the identity theft error. And perhaps the Commission would be better served in its resources, rather than trying to get a very specific percentage for these errors, but to try to perform a qualitative study. I mean, fundamentally, you're going to go back to the consumer, you're going to have to ask them their opinion, you're going to have to judge that against what the -- a reinvestigation of the furnisher says. You're never going to have the level of accuracy that's going to maximize the sample. There's just a disconnect there.

Perhaps you're better off to come back to Congress to say, look, we've looked at these three areas of potential errors and over the course of the 10 or 11 years, here are suggestions we might make in terms of areas that are going up, that are going down. Keep in mind that while this process is going on, as Ed pointed out, consumers will be getting free credit reports. There will be changes in the system just by the fact that people will become more familiar over time.

In the short run, it's impossible, absolutely impossible to provide the kind of expertise to consumers that even this room could probably not agree upon the particular points, to each consumer who has their report in front of them. So, you may as well accept that, take

a relatively small sample of consumers and try to pull qualitative information out of it rather than try to have a strict year-to-year we're up 5 percent, down 4 percent in terms of errors.

MR. VANDER NAT: Thank you. Let me give a chance to this side. It's Bill Reeder, right?

MR. REEDER: Bill Reeder at HUD. You've annunciated a lot of different goals, basically, and it strikes me that -- and you probably have different ways of getting at those. But it seems to me in terms of understanding the dynamic essentially of errors and error resolution and the materiality of errors, that -- following different approaches, rather than looking at a panel study and going forward or looking in those terms, perhaps backcasting, and I don't know whether one could enlist the credit reporting industry and the credit bureaus, a joint participation rather than kind of viewing it as we're going to go in and audit and try and see, to the extent to which there are errors. I think it's in everybody's interests to try and reduce errors and find out ways of mitigating those things and reducing them.

So, if you could get the participation or enlistment of the big repositories, Equifax, Experian, Trans Union and other credit reporting agencies to come

together and participate, you have a lot of electronic data basically. Credit scores that summarize credit reports. You could, working with credit repositories, examine score change over time. This is the materiality problem basically. What is an error that makes a difference? Well, errors, that could be, I believe, from lots of things, registered in a score change. So, you have a dramatic change in score from some pattern and then something happens adversely.

One could basically go back, identify those or stratified sampling on those types of things, look at the reason for those score changes. In the data that already exists, backcast within a year or two, find out how many were disputed essentially, look at this dispute resolution process essentially, look for undisputed items or score change and go back further.

Ultimately, I don't know what the credit law permits, but getting permissible purpose or getting the agreement of consumers. If the credit industry was involved itself in terms of resolving issues, it may be that repositories have the ability or credit reporting agencies to actually go and solicit the participation or solicit information from the consumer to resolve the issue and explain or try to -- so, I guess what I'm saying is, essentially, look at the electronic data that

already exists, that pattern that already exists, the data -- credit data that already exists and look for patterns on the big ticket items or the items that make a material difference in score. Go back and analyze, get a picture or profile or what are the things that cause the score differences, how many are in error, how many are not in error. Ones that were disputed, you have some idea of what were the resolution of those, whether they were, in fact, not errors, but you can go all the way back to the consumer and essentially resolve the specific issue.

Then you have a picture of, well, baseline, how well -- how well are the -- for things that matter, what are the causes of it and how much is in error, how much is not in error. And you can do that into the future, basically, the same study or follow it through time to see what happens. I think it would probably be a lot less costly if you can list the participation of the (inaudible) partners essentially of the credit reporting industry to essentially, in terms of cost, not have to buy all the scores. There would be some sort of cost sharing, perhaps, but it's in everybody's interest to try and find ways of mitigating that and improving the situation.

And then second, if you were going forward

on -- okay, counting up the number of errors, you wanted to get a panel study, start at the beginning of a large -- reasonably large group of consumers, get their buy-in or something and simply follow the credit scores forward, examining changes and have permission to go back and resolve and identify, okay, what was the source of change that way, and it might be easier where you simply observe changes that you have to have an answer where you send out the mail -- kind of, did this happen and some things are a matter of record.

You could follow things going forward as opposed to -- and not have to involve lots of (inaudible) credit counselors or at least a limited number where you have to have (inaudible) resolution. I don't know. But it seems to me breaking up your study into a couple of methodologies, a couple of approaches, and utilizing the data that already exists, that capacity.

MR. VANDER NAT: Just one more (inaudible). Richard?

MR. LE FEBVRE: Yeah, Richard Le Febvre. I want to first address what Fred and Stuart and Robert had talked about and that is that, first of all, I think we have to keep in mind, one, to a certain degree (inaudible) what Stuart was talking about with regard to consumers and credit repair, but first of all, I think we

have to focus on what the statute is, the consumer statute and that's what we're all here to talk about. And with regards to -- under the FCRA, I think we have to define reasonable, because right now, a reasonable investigation to the normal individual versus the Bureaus, there's a big issue there.

Going back to what Paul said is, first, consumers do not have the knowledge to look at what affects their credit scores. They don't. While they have some input into it, but dealing with consumers for 15 years in the credit reporting industry, I can tell you, they don't have a clue.

While I agree that a certain percentage of the study should be with the consumer, I think it's real important that consumers, whatever you want to call them, experts, review those reports, get their idea by -- like to see a (inaudible) study and the NCRA study, it was a comparison. Take the comparison and then have the consumer look at them on top of it, because one of the things that that study lacked is what if all three repositories were in errors versus just doing a comparison?

MR. VANDER NAT: There's one more presentation this morning, and then we'll have a bit more of a discussion, from Fair Isaac. We want to focus on those

errors that have a material change in the credit score, ultimately. And, hopefully, we have a process whereby the different parties agree that this has occurred and that's the most important outcome. We've asked Fair Isaac, again, just for the record, to remind us of what kind of information affects the credit score the most and whatever else you want to add to that.

UNIDENTIFIED FEMALE: I was asked to provide just information on what information in the credit report is predictive in the FICO score. I am not including in this presentation our opinion on the study or other opinions that I've already gathered in the past hour, which are quite a few. So, I'm going to just spend 10 minutes right now to talk about what information is predictive in the FICO score and interject some ideas as well.

The first important point to me, and this has been mentioned by several folks in here, is that the FICO score is a summary of the information on the credit bureau report. It's certainly not a magic number that is all-perfect and all-consuming and could cover everything that is credit worthy on an individual. There's other information that typically goes into a credit decision. It is a single three-digit number, but the other important number here is that it rank orders consumers.

The higher the score, the lower the risk, the better the credit quality over time.

Now, the guts of the information that was being asked for here is, what information actually goes into the FICO score? When we develop a FICO score, we start out with over 300, 400 characteristics or variables that are potential characteristics into the scoring system. We pair this down to about 40 characteristics that end up in the final model, and out of these 40 characteristics, I divided it up here into five workable categories just so it's easy to talk about.

These categories, and I'm going to speak to them in very generic or high level terminology today, but certainly if this study or this methodology is the one selected to perform this study, than more detail would probably be provided -- or would be provided. So, this is fairly high level.

These five categories are listed here in order of significance of how they contribute to the FICO score. The first category is payment history, in other words, how has a consumer paid their credit in the past is very predictive of how they're going to pay in the future. And I'm going to provide a little more detail on that in the next slide. That makes up about 35 percent of the weight in the scoring system. So, that's a pretty big

amount -- pretty big proportion of the weights.

The second category, outstanding debt, or what I would like to think of how do consumers use their current credit. It makes up about 30 percent of the weights in the scoring system. So, what that means is between how they have paid their credit and how they use their available credit, this makes up at least 65 percent of the weight in the scoring system. So, this is pretty big. This is where the bulk of the data comes from.

The remaining three categories are predictive, but not nearly to the same degree. The third category, credit history, how long someone's had credit, contributes about 15 percent of the weight in the scoring system. The fourth category, pursuit of new credit, contributes about 10 percent, and the credit mix contributes about 10 percent.

I'm just going to provide a little more information on all five of those categories. The first one being payment history, so how consumers have paid their credits in the past is predictive of how they're going to pay in the future. We look at this in three different ways. We look at the recency of these delinquencies. So, did this delinquency occur last month or did it occur a year ago, and we found that to be very, very predictive. The severity, was it a 30-day

delinquency, was it a bankruptcy or a charge-off? That's also very predictive. And then the prevalence, if I have 10 -- you have two consumers that both have 10 credit obligations and one has one delinquency and one has nine delinquencies, 90 percent, then that makes a huge difference as well.

Some example characteristics that fall into this category include -- and these are example characteristics -- what's the highest level of delinquency in the past year, the number of months since the most recent collection and the number of times a consumer has been two months delinquent.

An example of how predictive this is -- and now I'm just looking at one characteristic within this category -- I'm looking at the characteristic of months since the most recent major delinquency. On the horizontal access, this represents the number of months ago the delinquency occurred. So, for instance, this is the delinquency -- the major delinquency, the most recent one occurred in the last 11 months, or it occurred 12 to 23 months ago and so on. And on the vertical axis is the risk that this represents. So, the higher the bar, the higher the risk, and you can see -- and this is fairly intuitive, but statistically we demonstrated this, that the delinquency occurred in the last 11 months. That

represents a pretty high risk for future defaults, okay?

As time goes by, that risk lessens over time. In fact, initially, it lessens quite significantly. And then, as time goes by, if the delinquency, the major delinquency is four years old, it's not nearly as predictive as many people think it is. In fact, it's pretty darn close to it if they have no delinquency whatsoever.

The outstanding debt, this information comes from the trade lines and we're answering questions such as the magnitude of balances, the utilization of available credit, and the type of credit, the amount on bank cards and new trades, and we look at this in a variety of different ways. Some example characteristics in this category include the average balance on revolving trades, the ratio of revolving debt to revolving limits, and this is a pretty darn predictive characteristic that encompasses a lot of good information, and then the percentage of outstanding on installment loans. So, we're trying to look at both revolving and installment.

The remaining three categories, the three dimensions that are listed on that pie chart initially was the length of credit history, and an example that we're looking at there is how long have they had credit and we look at that in a variety of ways; the mix of

credit includes how many credit obligations and what type of credit obligations they've had; and then the last category is pursuit of new credit, and actually I think it was listed as number four on the pie chart, but it contributes the same weight as the mix of credit.

(End of Tape 1, Side B)

UNIDENTIFIED FEMALE: -- consumer disclosure, and I know that consumers still aren't aware of that because I'm answering that question every day. Consumers ask me, wow, you know, if I can (inaudible) my score, that's going to lower my credit report. In fact, a cab driver asked me that yesterday. I said, no, no, you're okay. By today, he will be at myfico.com getting his score, trust me.

So, the lender account reviews, when lenders are pulling scores for account review in a batch process, that doesn't count. Prescreen inquiries, those inquiries don't count. Employment and insurance inquiries also don't count in the FICO score. In addition to that, most of you are probably aware that we also eliminate or try to eliminate the effect of credit shopping. We do this by saying, well, we're pretty darn sure that a savvy shopper is going to check a variety of lenders when they're out shopping for a mortgage or an auto loan. So, therefore, we've put some routines in place that try to

identify this search for similar credit. Well, it looks like they have maybe 10, 15 different inquiries, but they're really only buying one automobile or one car. So, we do that with a buffer and de-dupe (phonetic) process and in general -- basically what that is is we do not count any auto or mortgage inquiries that have occurred in the last 30 days from the scoring date. In addition to that, we group together any auto or mortgage inquiries that occur over a certain period of time. If you're using our older versions of scores, that period of time is 14 days, and if you're using our most recent model versions, then that period of time is 45 days.

Which brings up another point, we're continuously identifying issues, particularly consumer issues that evolve over time, and rate shopping is one of those issues -- is an example of one of those issues. Rate shopping was not prevalent in 1990 when we first started developing FICO scores. And as a result, that type of de-duping wasn't an issue, it wasn't necessary. Inquiries -- if you were searching for a car, you probably went to your primary banker for that credit. You probably went to one mortgage lender for your mortgage loan. But that's not the case today.

So, we are continuously incorporating routines in the algorithms to compensate for the change in

consumer behavior. We're also -- we also include routines that compensate for potential errors to the best degree that we can. We don't try to reinterpret the data. That's a pretty important point. But what we do is we try to identify -- and an example is Peter asked me the other day, what if there are two mortgaged trades that represent the same mortgage line of credit on a consumer's report? And the answer is, well, you know, if there's two trades -- two duplicate trades, chances are one of them hasn't been reported over a certain period of time. If it hasn't been reported over a period of time, then we have a routine in place that looks at the last report date and says, you know, it's really old, so therefore, this is not a valid trade and we're not going to include in the score calculation.

Those types of routines we're continuously researching and identifying the needs for new routines or updating existing routines to be sure -- to try to mitigate errors, duplications, omissions, et cetera -- not omissions, I guess, but (inaudible).

So, with that said, the last slide that I have here is simply to demonstrate the predictiveness of the FICO score. This is on a mortgage portfolio, and all I've done here is I took an odds chart -- if you're familiar with our odds chart, and that is based on our

development sample of a million consumer files, and what we do is we say, out of these million files, what is the distribution of the population and then how do they perform by score, and that's what you see up here. This is the performance by score from low score to high score and then the delinquency is on the vertical axis. You can see that, of course, the higher the score, the lower the delinquency.

What always strikes me when I look at this slide is the degree that it changes so quickly. It's, of course, very, very low up here. There's still some delinquency, but it is very low. And then right here, in the low 600s, all of a sudden, it starts to skyrocket up quite significantly. So, the point being that even though there are some issues with the credit report and there are probably some errors in the reports that we're actually using in our development, it's still extremely predictive as it is. That's it.

MR. VANDER NAT: Thank you. We have a few minutes set for discussion. Let's enter into it now and it's cumulative. Brad, you had your hand raised.

MR. SCRIBER: Thank you, Peter. My first comment I want to make is that I think that -- I'd like to thank the FTC for being so thoughtful in the construction of the design. I think a lot of the

shortcomings, which everyone around this table would admit in their own studies or that they've seen in other studies, have been considered and you're really trying to address it and get at the basic question of are credit reports accurate, and I hope that's the goal of everyone around the table. I think it's a very good start and I just want to respond to a few of the comments that have been made on a couple different issues.

On the question of materiality, the -- a couple comments have been made that small changes may not matter. But we've also noted that this is an 11-year study and the world is going to be different in 11 years and small changes that may not result in a denial today may result in a denial in 11 years. In order to understand if we're getting better or worse, we have to really look at even small changes now.

Also, the items which have the greatest impact are going to change over time. I think as Fair Isaac would probably confirm, the algorithms change as we learn more about what data relate to what circumstance. So, the credit scores have to be considered and the scoring developers should be involved. It may be best if the FTC had a clearer vision of what the algorithms were to understand exactly how various elements impact a credit score and how those change over time, especially if the

scores themselves are trying to correct for errors. They may introduce errors as well. So, I think it's worth considering.

This would also -- of course, if the FTC had the algorithm, they wouldn't have to purchase the credit scores, it would lower the cost of the study.

(Laughter.)

MR. SCRIBER: In terms of bias in the system, there have been some comments. A lot of focus on how consumers are going to introduce bias in the system. I hope we don't lose sight of the history of the system. We began with a black list system which is biased completely against the consumer. Thankfully, we've evolved somewhat to a more balanced system that includes positive and negative information.

But the history of where this industry came from goes back to a black list and, also, if we look at the algorithms for including information on a subscriber report, which has been discussed, the bias seems to include as much information as possible which may relate to this consumer in case there's a negative piece of information that we didn't catch. So, that also skews more towards negative information. So, I agree that consumers are going to introduce some bias, but, you know, we need to be aware of the fact that the system

essentially is pretty well fortified to include negative information. So, not to overstate the influence of a consumer on that.

And, of course, you've considered the mitigation with experts and verification and rescoring as possible ideas.

I think it's very encouraging that you're looking at demographic information because credit reports don't include directly race into the credit score, sometimes it's difficult to assess whether errors or scores are fair across the board. I think that this study offers an excellent opportunity and actually has an obligation to take this on, to look at the impact of different types of errors on different demographic sectors. There's clear evidence, and even essentially a wrist slap from regulatory agencies, for missing information directed at lower income and minority consumers who use sub-prime loans. So, understanding how various errors affect different communities is very important, and I'm thankful that it's been already introduced and I would strongly support that.

Just one more point on the question of cost, we heard last year from most of the people around this table that the accuracy and completeness of information in credit reports was vital to the economy of the United

States of America. I don't think it would be overstating to say that if we look at the testimony, it could be perceived to be one of the most important factors in the economy. So, if it costs money, it's worth it.

MR. VANDER NAT: Thank you. Terry?

MR. CLEMANS: Terry Clemans with the National Credit Reporting Association. I've heard a lot of comments about feasibility. So, there are several things I'd like to address, and that's one of them.

It is not a small task. As somebody who has personally worked with consumers on their own credit reports for over a decade, I understand the challenges that come with it. I understand that there are consumers that are going to blatantly lie to you about what is in their histories. I've dealt with it, I've received fraudulent documents that are supposedly from creditors. And it is a very difficult challenge to walk that fine line when you are given the position to try to interpret the truth. So, I think it's key that you have a column that says, yes, this is accurate, no, this is accurate, and yes, they just do not agree, the repositories and the consumer just do not agree on this particular issue.

But I don't think it's unrealistic at all the way you have it outlined. One of the key elements to it is the expert. You have to have -- draw upon some

experts to help buffer what the consumer says and get to the bottom of what the real truth is because, ultimately, if we are going to judge accuracy, we've got to get down to the truth. Just getting repeated and accurate information, be it from, you know, well-intentioned organizations, either large companies, small companies or government entities, being county courthouses providing inaccurate records because somebody transposed something, we've got to get to the bottom of it. There is a large database out there.

I say this because I represent a large group of them and this is something they do every day and they do it with a large responsibility in the consumer's mortgage and they have a responsibility to both the consumer and the mortgage company. If they make a mistake, they have liability either way. That's one of the reasons NCRA has such a large interest in accuracy. If our members overstate a consumer's credit worthiness, they have liability to the lender. If they understate it, they, obviously, via FCRA, have liability to the consumer. So, yes, there's going to be costs involved; yes, it is a very daunting task, but it is definitely a task that can be undertaken and you do have to start with the consumer.

Even though they present some problems, they know, as it's been pointed out, they know if some of the

basic things are correct, and you build from that along with reinvestigation. It's something that, you know, the score will help a lot upon and I don't want to go into part of our presentation for later, but it's going to have to be a layered multi-faceted study. I greatly, greatly appreciate the efforts you're putting forth to try to come to a sound methodology for this study going forward.

MR. VANDER NAT: Thanks. Let's take a 10-minute break here at this point. We will have lots of chances to discuss, and you will see that throughout the day, the discussion is cumulative. You can always come back to prior points as you wish to do so. So, at 11:00, we'll come back together.

(A brief recess was taken.)

SESSION II: METHODOLOGY FOCUSING ON RECORDS OF CREDIT BUREAUS AND FURNISHERS OF INFORMATION

MR. VANDER NAT: Thank you all for getting us off to an excellent start. We're a little bit behind now, but maybe we can take five minutes off the lunch period. We have a rather substantial lunch period. It's an hour and 10 minutes, so we might shave off five minutes there or something to help us out.

If you'd look at your agenda, please, we're moving to Session II and we're looking at a different

type of methodology now, one that focuses on the records of credit bureaus and furnishers of information, often known as an Arthur Andersen type of study. We do not mean to imply that all of these methodologies are exclusive to each other. In fact, there is a fair amount of overlap at certain points and we recognize that. But we also recognize each study tends to rely on one thing more than another. So, we're trying to localize the differences that way.

We've asked Stuart Pratt from the Consumer Data Industry Association to start us off with a discussion of this methodology and whatever pertinent comments he wants to make about it. Stuart?

MR. PRATT: Well, thank you very much again for having me here. Let me just touch on a couple of themes that I think we can draw out of the first session this morning. It was very helpful, certainly, for me to hear the broad views around the table and I want to thank FICO for a nice presentation on just what goes into the scoring side of this. I think it's important we have that on the table.

First of all, I just want to go back to saying how important it is that we're defining accuracy as opposed to the extent this study is on completeness, also what we mean by completeness. I know that Gerry's

presentation attempted to start to put a finer point on that. Let me just say that incompleteness, you know, the error of omission, I guess as some are referring to it, concerns us quite a bit in terms of how this study goes forward simply because at its very core, the 30,000 data furnishers who provide data into the credit reporting system don't have to. That's the most important first point. None of them have to provide any data to anybody. We're glad that they provide data, but they don't have to provide data if they don't so choose, and there's no penalty out there in the marketplace for them really, more or less, in terms of providing that data.

So, that means there are going to be some data furnishers who probably don't supply data to any of the national credit reporting systems, and that may go to Ed's observation about a local lender in a local marketplace. It may also be true that that local lender simply through the years has done business with only one of what are now called the big three and so they tend to report to just that one and not the others. So, that may be a reason.

There may be lenders, and we've certainly heard testimony about this, some lenders choose not to report on the credit limit. There you get into some -- by the way, I thought the paper the Fed did was a very helpful

paper just in terms of outlining the demographics of all the issues, if you will, that you see in the credit reporting system. In that sense, it was very helpful just to say, here's all these different kinds of variances that you can identify, and in this case, do you delete the data from the file completely because you don't have a credit limit, or do you build a credit score that will deal with the absence of a credit limit where that appears in the system.

We think building a credit score where there's an absence of data and building it to be smart about -- that's the better approach because you're still using more full and complete predictive data in terms of making your final lending decision a good lending decision for the consumer and a good lending decision for lenders as well.

I think that we've been going to this truth thing a little bit, you know, what is the truth about accuracy, and I want to at least add one other column here in terms of how we're going to debate this, and that is the effectiveness of the credit reporting system in the marketplace. A lot of people pshaw this and say, well, we shouldn't even focus on that at all, we're here to focus on just the individual consumer as well, and of course, lenders are ultimately focused on individual

consumers. They want to grant loans, they want to approve loans, they want to report accurate information. We want to have accurate information, we want to make accurate information available, whether it's directly from the National Credit Reporting System or whether it's through one of the NCRA members in terms of delivering it to a local mortgage lender or mortgage broker, for example.

There has been some very excellent work done on this and we have some of those folks around the table. I think the IPI's work that was funded through the U.S. Chamber of Commerce is exceptionally important context for our discussion of credit reporting. We have more credit available to more people than ever before. Ed, himself -- I know we have some differences in terms of interpreting the data. See, Ed, I'm trying to find agreement here. You know, it's a scary thing, and Ed's -- you see Ed's eyebrows go up there. He was nervous. Where is Stuart going with this?

But I think we both agree there are more yeses than nos. Now, Ed may say, I don't like all the yeses, I think some of the yeses could be better yeses, but we're getting to yes much, much more often in our country today than ever before historically. Home ownership is at higher rates than ever before historically. There are

more credit cards in the marketplace being managed effectively than ever before. Some 85, 86 percent of files contain only positive data based on what the Fed's review showed. So, there are incredible data out there showing how successful the overall system is.

If we don't produce a report from the Federal Trade Commission that acknowledges that that is the context in which we're having this discussion, I believe the report fails miserably in terms of informing Congress first and foremost about that very fact, that we are looking at a system that is better than any other system in the country.

I was invited to go to Seoul, Korea earlier this year because Seoul, Korea was literally failing to administer any kind of credit reporting marketplace and had 23 percent default rates on portfolios, 23 percent default rates. We showed up. Why? Because they're interested in everything from how do you get people to report data. I had a gentleman from Qatar stand up and say, how do you even get them to report data at all? Our banks just don't want to do it. So, I start with that because I think it's very important to start from that point rather than from the point that there's a big, big problem on the table that we're trying to wrestle with. We don't believe there's a big problem on the table that

we're trying to wrestle with.

We do believe that these studies have to focus on not only the involvement of the consumer, if that is a route that you are planning to take, but then you must -- and I think your proposal encompasses this, but let me just emphasize it -- you must look at the data furnisher's experiences, how do they feel and believe in the data, you must look at the data user's experiences. Ed may believe that a single 30-day delinquency was consequential. I'm personalizing it to Ed. Alison, I'm leaving -- I'm going to focus on Ed, Alison. I'm just going to focus on Ed.

But it may not be. As you saw on that chart, over time, that same scoring system may decide that that is progressively less and less significant to the overall lending decision. So, those kinds of moving dynamics do make it very difficult. You know, in some way, what Richard said is very true. Consumers have a hard time actually looking at a file and fully understanding how a score analyzes everything in that file. There are fantastic tools, by the way, to help with that, better than ever before. But those are all contexts in which, I think, we need to operate here.

But I think errors of omission can be choices by voluntary data furnishers simply not to participate,

to participate with one, to participate with more than one. Credit bureaus have no power over a data furnisher to compel them to report anything to anybody. If the report does not acknowledge that, it fails miserably in its obligation to properly inform the Congress.

So, for me, those are exceptionally important starting out points in terms of how we get to where we want to be. I'll reserve some comments on cross comparisons of files because I know we have another good discussion coming up where we'll have a chance to talk about that kind of approach.

Finally, I just want to say recalling what we know -- consumers are the best test. I actually thought Alison did a very fair job of describing how -- it's kind of hard. Consumers will look, they can identify some things. By the way, consumers don't always know they've missed a 30-day late payment, they just don't know it. They don't remember ever not writing the check and they just don't know it and so they're pretty ticked off when they look at their file disclosure and see it on there.

There is a staffer on the Hill who collects credit cards from every single baseball park in the country and turns them into magnets that he puts onto his refrigerator. I asked him if he closed all those accounts, he said no. I said, do you understand in the

world of fraud today you probably should close all those accounts. They're wonderful refrigerator magnets, but you -- so, then he said, well, maybe I've closed some, maybe I've closed some, I don't remember. If he looked at his credit report -- the PIRG study acknowledged this, a reseller study that we worked with with our members acknowledged this, closed by the consumer versus closed by the lender are very significant differences in files, very significant in terms of scoring systems.

Consumers don't always remember what they've closed or not closed. It doesn't mean consumers are not good potential starting points for looking at a file, but they are certainly not an endpoint by any means whatsoever.

We did -- now I'm going to get to the study -- don't worry, Peter, you don't have to pull the hook on me here. We, too, took a look at the question of accuracy, if you will. Really, we looked more so at reliability, I guess is a better way to describe it, and in essence, we're looking at consequence, how consequential is a change to the system. This was a study conducted back in the very early '90s, '91 or so. Many lending decisions were more binary, a yes or a no approval, not approval. I think Ed said it right. We have a more stratified lending decision today where you -- so there are some

differences in terms of how we loan money today versus what we have in the study.

What I liked about this study, though, I think what we liked about the study is we did employ an outside firm, in this case ironically, Arthur Andersen. Yes, we can all laugh about this now. You notice we now just talk about the CDIA study, we no longer call it the Andersen study.

We went out and we talked -- we identified credit lenders in four different marketplaces around the country. So, we tried to distribute the involvement of lenders across the country. We asked them to give us a listing of adverse actions that had been taken against consumers, the identifying information. It was with that approach that we were then able to identify out of the 100,000 plus adverse action notices, that we were able to extract a statistical sampling of 15,000 of those consumers.

What we then started to do was to -- well, we asked ourselves some very straightforward questions. We just said, well, how many of those consumers, first of all, ever pulled their consumer report? How many of them ordered the free disclosure that Evan and Ed and others are so enthusiastic about?

I was disappointed, by the way, I didn't get a

free book at the break. Evan, I'm still waiting for that.

UNIDENTIFIED MALE: That's right. If the book is called Credit Scores and Credit Reports, it should be free.

MR. PRATT: It should be free. I think that's right. I think that's absolutely right. I'm hoping to download it onto the net and make it widely available.

UNIDENTIFIED MALE: Books are yearning to be free.

MR. PRATT: Right.

UNIDENTIFIED MALE: Perhaps it's in a library.

MR. PRATT: You still haven't rung the bell, that's good, Peter.

UNIDENTIFIED MALE: How about that report, Stuart?

MR. PRATT: Right.

(Laughter.)

MR. PRATT: 15,703 files were used for adverse lending decisions. Out of that, interestingly enough, only 7.7 percent of the consumers ever order their file disclosure. We don't know why, but we do know that. We just know that 7.7 percent or 1,223 consumers order their file disclosure. Now, of that, only 304 consumers disputed information in their file.

You know, a lot of times we talk about, do consumers -- we need studies of consumers to review files. Of course, every year, millions of consumers are reviewing files as a result of this. This is a small sample, of course, ultimately, but this is drawn from a very large statistical sample. So, 304 consumers, which is about 2 percent of the study sample, disputed information.

What we then did was go back and actually ask the lender, once file maintenance was conducted, the reinvestigation was completed and the results were then included in the file and the question was then, would the lending decision have changed? Again, in the yes or no binary world in which we live, it was really, did you approve what you previously had declined? And of that, 36 cases resulted in a reversal of the decision.

Now, what did that tell us? That told us that a very, very small percentage of the files in this study, at that time out in the marketplace, the real marketplace, drawing down from statistical sampling techniques, drawing down from samples drawn from across the United States, that very, very small percentages of files were ever implicated in a serious problem that resulted in a material effect. The material effect in this case was an approval where there was previously a

denial.

Now, I have to say I do share the basic value around the table, and that is, would we like to have had all of those cases not occur? Absolutely. Would we like to have all information reported as completely and as routinely and as timely as possible? Absolutely. But when you're talking about now not just even two billion but closer to four billion data elements being updated every month in credit reporting systems, that's a pretty incredible proxy, if you will, when you look at that 37 and you look at where we are now and we look at how accurately we're extracting data, bringing that data back to the lending community, bringing that data back to automated underwriting.

So, for us, that study was compelling and the study was compelling because it did involve consumers reviewing their files, it did involve lenders, data furnishers than agreeing with or not -- with the consumer's reinvestigation request and it did ultimately involve lenders actually determining the consequence of the change. And if a study fails to have those factors in it that you really haven't gotten to the kernel of this, there will be some volatility in scores, I suspect, shifting back and forth as a result of any file maintenance. That would happen in a completely positive,

accurate credit reporting system, right?

In the absence of any error, in the absence of any negative data, there would still be score shifting going on month by month by month. Surely, that is not what we're driving towards is a score which remains exactly the same on a monthly basis. Surely not. We're driving towards a system that works well for not just the individual consumer, as heretical as that sounds, but for the lenders and the safety and soundness of the system that we have in this country because this system is what has been the engine that has driven this economy. In that sense, I agree. It is critically important the system works well.

I think perhaps where we move apart a little bit is, I'd say it is working incredibly well for the vast majority of Americans in this country, and that's what we know as a result of this data that we've now presented.

MR. VANDER NAT: Thank you. We've asked several other people to comment further. There's Bob Hunt from Philadelphia --

(End of Tape 2, Side A)

MR. VANDER NAT: -- ask Bob to give us his comments at this time.

MR. HUNT: I have to start with this strange

statement which is, these views are mine and not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. I have to say this any time I do a talk.

Let me start with just a point about Section 319, which is what -- of the FACTA, which gives us the study requirement. It simply says that we're supposed to be looking at accuracy and completeness of credit bureau files. Now, I would argue that really what we want to be thinking about is how do you maximize the net social benefits of having a credit reporting system, and in this country, a voluntary arrangement that does this. So, probably the goal at the end of the day is not eliminating all inaccuracies.

It's going to be about -- and I'm going to conjecture here because I have no idea. But suppose for the moment that the inaccuracies are really decisive in 10 percent of the instances and that's very costly for people, but whatever you're going to recommend is going to affect policies by lenders and bureaus everywhere, you're going to need to have a handle on the costs and the benefits to be able to decide, you know, what are the best policy responses.

Now, let's talk for a minute about -- the reason why I make this point is because then the study --

you have to design the study with that in mind. What is the information that you're going to need to do this. The Arthur Andersen study -- I should say the CDIA study is -- if you look at the results of it, it's actually an interesting way to think about this problem. Stuart did a nice summary. You've got a bunch of people that were denied credit. A sample of those are pulled, about 15,000. Identifying information on those people is sent to a bureau, okay? Then as consumer disputes come in, they try to match that identifying information with the identifying information that consumers provided, and that's how they generate an account which said roughly 1,200 people asked for a copy of their report; of that, 300 disputed something in their report.

By going back to the lenders and asking them to rescore the new file, they found that 36 instances they would have changed their credit decision. As Stuart was saying, from the sample population, that means that roughly 7 to 8 percent of these people who were denied credit asked to look at their report. About 2 percent of that sample population disputed something and about two-tenths of a percent of that sample population might have gotten a different credit decision with whatever inaccurate information was taken out of it. So, that's one way to look at the data.

The other way is to think conditionally, that is, amongst the guys that request you to report, how many disputed? And the answer would be a quarter of them did, okay? So, when they saw the report, 25 percent were worried about something that was in it.

Of the people that requested their reports, 3 percent of those credit decisions would have been changed. So, all I've done is I've looked at the data differently and said, the guys that were concerned enough to request their reports, how did this behave? And we can cut it even more finely. For example, just take the guys that decided to dispute their reports, the 300 or so people. How often was the credit decision reversed amongst that set of people? And the answer is 13 percent. So, when you're thinking about sort of the policy question at the end of the day, you have to ask yourself both about the concentrated impacts, which is what these sort of conditional probabilities tell you about.

But you also have to go back and think about sort of these larger sample numbers. For example, I'm going to make a number up here but it's probably not that far off. Suppose there are about 400 million credit decisions a year made at the time that this study was done. Two-tenths of a percent reversal rate on a credit

decision is many thousands of credit decisions. Now, that's actually the wrong way to do the numbers because I guarantee you that in this sample, there were more problems in these files on average then on files in general. The problem is is we have no idea about the files in general. So, you can easily get into trouble generalizing if you don't gather the data that you need.

Now, I actually like this study for a lot of reasons. First of all, they drew a random sample, which was a pretty novel thing at the time to do. Secondly, they have a very intuitive definition of what is a critical error in a report, and that is you didn't get credit when you should have. That's pretty neat. As Stuart was pointing out, that's harder to do today because what you're going to get is an acceptance with higher interest rates or other terms and that becomes problematic today.

The other point I would make is it's a relatively efficient approach in the sense that by relying on both lenders and the Bureaus, what they could do is essentially use the data and the systems that both these guys use in exactly the way they use it, so the incremental cost of them to participate in the study was relatively low. And as we were talking about today, with the surveys, we're not sure that that's true.

Now, there are disadvantages as well. There's not -- we don't know a whole lot about the nitty gritty of this study. So, it's difficult to be able to generalize. For example, we don't know anything about the information that was corrected. For example, was it utilization? Was it duplicated lines of data, et cetera? We have no idea what it was. If we were to replicate a study like this today, we probably would like to know those characteristics of the item that turned out to be decisive.

Also, it's important to know what forms of credit were applied for. I can see the implications being different if you're talking about a mortgage, a car loan, a credit card loan, you'd probably want to segment accordingly. The most simple way I can say this is that if I was going to do the study again, I would want control groups. That is, I would want a set of consumers from the same lenders whose applications by these five institutions were accepted and I would like to be able to follow their credit report and follow their score. That way, I can compare them to the guys that were rejected.

Even more generally, what I might do is just randomly draw a sample of credit bureau files at the bureaus, okay? Now, why would I do this? The first control group says, these guys were actively looking for

credit. The second control group says, these guys are credit using Americans but they're not necessarily actively looking for credit today. And if you can compare these groups with the group the study did cover, which is the guys denied credit and requesting the reports, then you get a much better sense of the distribution of mistakes and the implications of mistakes across all of the bureau files. I think you need to know those kinds of things.

Let me -- now, suppose the Federal Trade Commission was to go this route, what are some things that they're going to have to think about today? The first thing is obvious. We have different privacy laws and constraints and even if the laws are not binding, there's this issue about whether people are going to be willing to participate. For example, if I want to get that universe of credit files, do I have to get permission first? I'm not really sure how that works.

Also, there may be some issues about trade secrets in the sense that if we really want to dig down and find out why it is that this kind of information generates big jumps in scores or exactly how we actually pull all of this stuff together into the consumers' files, you know, you guys can correct me, you know better than me. But do you worry about how much you're giving

away, about what is your business? I don't know.

Let's see. One thing -- this is true both in the consumer survey idea and in this approach is you'd like -- you're going to need some demographics. So, even if you can't get people to participate, if you could get them to give you some demographics, that's going to help you in setting up a control group and evaluating what it is that you're learning.

I'm going to -- I'll stop there, I think that's enough. Thank you.

MR. VANDER NAT: Since the comments are fairly brief right now, let's just move on the next person, and then after Fred Cate has spoken, then we'll have a group discussion.

MR. CATE: Thank you very much. I was given, I don't know, either enviable or hellish task depending upon how you want to look at it. I was asked to talk about this study and then Peter said, well, we don't really want you to talk about the substance of the study because Stuart's going to do that, and he said, of course, Robert Hunt is going to talk about the methodology of the study, you just talk about whatever's left. So, I'm going to feel free to do that.

I would also say, for those of you who missed th earlier plug, you really should go out and buy Evan's

book. He'll sell it to you right here. He calls me a top gun in it, and as a law professor I don't often get described in such militaristic metaphors and I am delighted by it. So, I would encourage each of you to buy a copy and buy one for your friends as well.

Let me just make a half a dozen observations about the study. Some of these are going to overlap what has already been said, and I would note, said by someone who frankly knows considerably more about doing studies like this than I do. First of all, of course, the study, I would assume, it would appear would be biased towards a higher error rate because we are only following up on people who had some reason to object. Therefore, we would assume that whatever the error rate is, whether we say it's the 2 percent or 12 percent or however we measure it, that the overall -- that when we try to extrapolate that to the entire population, that's skewed towards the negative.

Remember, also, even of those who were denied, only a quarter even followed up by asking for a report. So, again, we have to assume the other three-fourths didn't think they saw anything in their report that was worth following up on, that there was -- so, again, another reason we might think the data itself would be skewed towards a somewhat negative outcome.

A second observation is that, of course, this type of study always has the problem of we don't know why people ask for or don't ask for their file, and we can make certain assumptions about that, but we know, particularly those of us in the room who deal with privacy, there are lots of reasons people don't opt out or don't opt in or don't whatever, and it may or may not have something to do with discovering errors in the file.

I think it's intuitive common sense that if you saw a glaring error, a bankruptcy that you didn't declare, a significant delinquency that you didn't think was appropriate, you would be more likely to follow up, but we know there are many other good reasons, apathy being probably leading among them why we -- why people just don't follow up, don't ask for their report to start with.

The third, as has already been noted, although this was not, I think, a problem at the time the study was done, today, you know, differential risk-based pricing makes this type of study a little more difficult to do because you would have to figure out what does it mean to be denied. It's obviously not going to be that binary question anymore.

The sample in the study was large, it was comfortably large, but not necessarily representative.

So, it was chosen through methods we really don't know because Arthur Andersen didn't make the methodology in this point public. You know, we have less than 10 percent of all of the denials who were actually part of the study. Those were, again, information sought from only specific creditors and only in certain geographic markets. There's no reason, and in fact, Arthur Andersen went out of its way to suggest that there was no reason why this would skew the sample, but nevertheless, the difference between a random and a representative sample is one which the Commission, of course, is well-acquainted with and I think would have to be taken into account in future studies.

I also, like Bob Hunt, find this fairly attractive because, of course, we have a factual, actual resolution. Did it change that whether credit would be granted or not? And, therefore, we have a measure of materiality, we have an outcome that is fact-based rather than opinion-based. I, nevertheless, would just highlight, and I made this point earlier, again, the whole triggering mechanism is consumer concern. Do I, the consumer, see something I'm not happy with and just two sort of observations specifically about that. One is it means we're not measuring people who got credit, but should not have, and I think -- Stuart made this point

earlier and I think it is a very important point. If we're talking about accuracy, we can't just mean harm to an individual consumer as part of accuracy. We must also be thinking about harm to all consumers, harm to the system, harm to the efficiency and economic reliability of the system.

The other thing that this reliance on the trigger of consumer action tells us, and again, I'm not quite sure what to make, of the 267 people who actually got a report and disputed something in the report, so these are the consumers who say there's something wrong in my report, and we got to full investigation. So, in other words, they weren't pending as of the time the study's results were announced, only 36 resulted in any change in whether credit was granted or not.

Now, that means if we're going to try to measure the effectiveness of the consumer I think there's something wrong as an indicator, only about one in eight times was the consumer I think there's something wrong relevant. The other seven out of eight times, there either was nothing wrong or there was nothing materially wrong sufficient to result in a change in outcome. So, that suggests what I would call the sort of fundamental inefficiency of relying on Consumers as a place to start. If they're wrong seven out of eight times, that's

something we should be concerned about. There is certainly data from other studies that would support similar numbers.

Robert's already made the point and I don't want to expand on it other than just to say, I also thought this was a particularly efficient study. It didn't require layers of consumer counseling and lots of contact and so forth. It took advantage of an existing process. Obviously, I have no earthly idea what it cost to do, but for what it generated, I would think it was economically efficient as well.

That leaves just one last comment which, again, goes back to something I said earlier, so I will try not to belabor it too far, which is it doesn't distinguish among types and causes of errors, and I think for what the FTC has been asked or told by Congress to do, I think that's critical to make a real effort to build a study so that it has a likely chance of telling us what are the types and causes of errors.

And, again, I think at a minimum, this is a very simplistic, sort of top gun law professor's view of this, but, you know, we have at least three -- we have furnishers, we have bureaus and we have the credit grantors or the users of the credit report, and it seems to me that a study that does not make at least a serious

good faith stab at separating out what types of errors so we might know where they occurred -- was it furnisher error, is it a situation where we need more furnisher information, more consistent furnisher information, mandatory furnisher information? Was it a bureau error, was it put in the wrong place, was it sat on a desk for weeks and weeks before somebody got around to putting it in a file? Was it a data processing error there or was it a grantor error? I think that's one thing we would like to know. I think there are ways you could begin to know that from this type of a study, by looking at not just how many credit granting decisions, or in this case, pricing decisions were reversed, but also looking at why, what was the nature of the error, trying to categorize those errors in a way that might provide more useful information for the Commission and for Congress. Thank you.

MR. VANDER NAT: Thank you. We'll have a very good time here for a discussion period, so we can just start right in. As I said before, the discussion can build, you can refer back to prior things, to the immediate things. Let's just begin. Alan?

MR. WESTIN: Alan Westin. Isn't it interesting that nobody has said yet that the system of consumer reporting is not going to be a target that stands still?

In fact, it's going to be undergoing enormous change as a result of the FACTA Act and the Free Credit Report System. So, the dilemma is what's your trend line, what is your baseline against which you're then going to try to say what difference does it make that people can now get a free credit report from all three of these, what effect will that have on furnisher behavior, on CRA behavior, and recognize that even though we might say, well, consumers may not take advantage of this as much as some predictions, the fact of the matter is that we know that every time there's a column in Newsweek or every time there's a report on major television and cable stations, you get up-spikes in people who listen and say, gee, I guess I really ought to look at my report.

So, to the extent that the media and consumer organizations and industry associations incent consumers to go and look at their report, there are going to be a whole new wave of pressures and impacts on the furnisher side and on the consumer reporting agency side. So, the dilemma is how do you measure what will happen to the accuracy and completeness levels in such a turbulent environment that is going to be undergoing reactive changes to the whole driving force of the FACTA Act and the free credit reports.

MR. VANDER NAT: Um-hum. Brad?

MR. SCRIBER: I think that's a great point. Unfortunately, this study wasn't done from 1995 to 2004, so we know the impact of the 1996 laws. I would say get started now and, unfortunately, from our point of view, consumers aren't going to all get their credit report at the same time, but perhaps for this study there is a hidden silver lining to the roll-out of consumer reports. So, getting detailed demographic information about what state people are in will allow you to look at the impact, at least in the first year, and presumably this is going to take a while to really settle in.

As a consumer organization, I'd love to think that by next September, every American is going to look at their credit report, but I'm more of a realist than that. So, we're going to have an ability to look over time with each of these interim reports at what is changing, is it sinking in, are consumers looking at their reports and is it having an impact?

MR. VANDER NAT: Paul?

MR. WOHKITTEL: Paul Wohkittel. I want to agree with a lot of what Stuart said. In addition to owning a credit reporting agency in Baltimore, I serve as a consultant on three different international construction projects for credit bureaus. In Kazakhstan, we figured out a way around the participation and the

errors of omission and that was just real simple, just pass a law and make it mandatory to report.

(Laughter.)

MR. WOHKITTEL: I don't think that's going to work over here. I don't think it should work over here. I think it's great for a former Soviet country, but that's what distinguishes us from a former Soviet country.

But that being said, because someone doesn't report, that doesn't mean there are not errors of omission. This is where experts come in and also, I think, one major flaw in my thinking just because somebody does not dispute what they do not see in their credit report doesn't mean there are not errors.

As an example, we -- at the reseller level, we're down in the trenches and we're working with consumers for the purpose of getting approved for their mortgage, and a very common occurrence is that when they see their denial because of too much derogatory information, and this happens quite frequently, a lot of times the reaction is, oh, gosh, I knew not paying my Sears bill on time three years ago was going to kill me. That's it, it's dropped. They have no idea that there's a medical collection filed by Prince George's County Hospital four months ago for something they never even --

they had. This is, again, where the experts come in. This is the guidance that they need, but not only to guide them from not -- from over-dwelling on what might not be an error, but from also picking up what might not be perceived.

MR. VANDER NAT: Thank you. Evan?

MR. HENDRICKS: I wanted to thank Fred. I thought that was an excellent presentation and I truly agree with your points that -- I think one of the important things I'd like to develop is to look at areas where we have at least anecdotal evidence of chronic inaccuracy and that that should be a subset. I think Mallory raised this before. Where are the problems and how can we understand them?

I think that -- you know, we talk about bias. In the Arthur Andersen study, there was bias there because, one, the context this was going on is this is when the legislative debate was firing up and PIRG had released its studies raising serious questions about accuracy and this was the industry responding with their version of it. You know, at that time, there was a very low consciousness about the importance of credit reports. They weren't as important then -- they were very important, but they weren't as important then as they are now.

Two, credit reports were very hard to read and understand back then. I think -- I give the bureaus credit for actually making their reports much more user friendly. A lot of people still have trouble understanding them, but they're a lot better than they used to be.

But the real problem, I think, with that study is that it defines -- the only problem it defines is if you're actually denied credit and then you change it and it reverses the credit decision. Now, in the Federal Reserve Board and among economists, these are the main things that we're looking at is what is the effect on the economy, on interest rates, on how much people spend, but the Federal Trade Commission has, within its jurisdiction, the issue of fair information practices in consumer protection, and I think if Paul talked further, you would hear that there are some situations where there are inaccuracies in credit reports which can harm the individual or be considered harmful if they discover them, which might not necessarily lead to credit denials because that person's in a situation where they're not applying for credit, but they might be the victim of identity theft. They might not like being characterized along as a fraudster or as a deadbeat, though they might not be out applying for credit.

I think that we have to remember our -- you know, we have in the room Alan Westin, the creator of Fair Information Practices, and its legacy, and I think that we have to keep that in mind, that there is more at stake than just whether you're denied credit. There is people's good name and the accuracy of their information.

Now, I think that the other thing is, in moving forward, I would like to see Bill Reeder's point of enlisting the CRAs to really cooperate in many of the things that can be done here in terms -- because they are sitting on the information that determines what's in people's credit reports. So, you know, the thing I think, Stuart, the one commitment that you can make here today is to say that, you know, that the CRAs will be willing to work with the Commission and help foster these studies by making -- possibly creating certain pilot audits that we can discuss and explore to find the most effective way. But I see that as a real shortcut to getting to the underlying data and getting some very useful information. Thank you.

MR. VANDER NAT: I think Gerry wants to make a few comments.

MR. BUTTERS: Just Peter, when he asked me to speak at the beginning said, don't be afraid to say things that are obvious. Please say the things that are

obvious. And I plead guilty already because one of the things as an economist that I think is obvious is that we're not just looking at how many errors there are and how many inaccuracies there are, but we want to know what is the consequence of these errors and we want to know the cost and benefits of making changes in the system. That's actually part of Congress' mandate because they're asking us -- they didn't say specifically costs and benefits, I believe, but they did say to look at possible changes in the system.

So, I fully agree with the thrust of the comments from many people here that we should be doing that. It's not just enough to look at the errors, but also what's the cost of changing things. And one cost is that at least if you try to be very careful to get rid of all false negative information in a consumer's file, that you might drive a lot of information out of the files entirely which could lower the usefulness of credit reports in general in terms of their predictive accuracy and that could be harmful to consumers, at large, in terms of their ability to get credit.

So, those points are well taken. But the reason I hadn't brought them in yet was because I hadn't -- maybe I'm too slow here, but I haven't figured out yet how to get that discussion integrated into the design of

the study. So, that's where you could help me. You could tell me, okay, how -- when we're studying accuracy, what is the connection between these costs and benefits that ultimately we want to work into the analysis and how we should design our measurement of accuracy and completeness.

MR. VANDER NAT: And here I can remind you of the point, even though we cannot fully discuss that here or may not want to here, anyone who has suggestions on this and comments on this are invited to give them to us in writing and we will very carefully consider them.

UNIDENTIFIED MALE: Peter, could I follow up to that quickly? Back to basics, you know, the Fair Credit Reporting Act tolerates inaccuracy. It's not a strict liability statute and it doesn't require 100 percent accuracy. It requires reasonable procedures to maximize accuracy. So, it tolerates a certain level inaccuracy. In fact, furnishers get a free bite of the apple. I mean, they're allowed to report inaccurate information. It's only after that they're notified that the information is inaccurate or that they know that it's inaccurate that the liability kicks in.

So, I think policy -- you know, keep in mind the policy does tolerate a certain level of inaccuracy. You balance that against the purpose of the act and

that's the credit reporting agencies and, I think, the credit grantors have to live up to their grave responsibility to do everything to make sure the information is relevant, complete and accurate. So, I think those are the parameters to examining an accuracy study.

UNIDENTIFIED MALE: I have one request as we go forward with this discussion and it goes back to this omission question. I know that we all choose our words because sometimes in the public fora, particularly in the media fora, it's convenient to use them because they're nice, they're inflammatory, they help with your message because it will get published. But there's really no such thing as an error of omission. It's not an error. If a lender doesn't want to report its data, that's not an error. If a lender only reports to one of the three systems, it's not an error.

From what perspective? From the perspective of the FCRA which regulates individual consumer reporting agencies, individual data furnishers and individual data users on a company-by-company basis. The FCRA is not a law which regulates the industry holistically as one monolithic law. So, this whole -- would we like to solve the question of how to get more data into the file to ensure a more complete decision? Absolutely. Do we work

at that? Yes, we do. But I think that, again, the study does an incredible disservice and really promulgates disinformation if it embraces the term that there is any such thing as an error of omission, particularly in the cases where a data furnisher simply does not want to report to anybody or where a data furnisher chooses to report to one of all three.

One of the interesting outgrowths of the free file disclosure question is to what extent will there be a dispute rate associated with free file disclosures and to what extent will some data furnishers decide, well, I've had enough and I'm going to contribute to the omission side of this balance sheet because I'm going to stop reporting because I no longer want to report because I can't afford to keep handling disputes about perceptions of inaccuracy, but where I don't think I have a real inaccuracy at the table.

MR. VANDER NAT: I will briefly respond first and then I'll let others respond, also. You've raised the important point of definitions, how do you define an error of omission, and you've pointed out a way in which it's very difficult.

UNIDENTIFIED MALE: It's not an error.

MR. VANDER NAT: Right. But here's another way that -- in which it could be an error. Let's look at the

information that is in the databases of the CRA, okay? It's in the databases, it has been reported by somebody and the question is, does it have bearing on credit worthiness, would it have an impact on the consumer's credit score, and we could say there's an error of omission if there's something that's in the databases and it is -- it has bearing on credit decisions, but somehow it didn't get into the report. Now, that would be a definition under which you would have an error of omission.

UNIDENTIFIED MALE: Well, this goes back to the discussion, I suppose, of data matching, Peter, that we're having right now as well.

MR. VANDER NAT: Yes. But I'm just trying to suggest that there are definitions.

UNIDENTIFIED MALE: But there's no error. There's no -- if the file polls all of the -- if the file polls all of the data which can be polled based on the information submitted by the consumer on the application and that is delivered, there's no error.

MR. VANDER NAT: So, in terms of --

UNIDENTIFIED MALE: (Inaudible) how the law operates. I think it's very important that the BOE try to align its thinking with what the law requires or doesn't require. Peggy and I were having a quick sidebar

just on, well, how -- for example, some of the suggestions you're making in terms of, well, we're going to score all the consumers who are in non-response groups. Well, I don't know how you get to that because if they haven't responded, then they have no permissible -- you have no permissible purpose by which you're going to be able to score non-respondents to a survey of this, at least based on the way the law operates currently.

I'm just saying this -- I'm asking you to align your thinking in terms of how the BOE is going to approach the study and this is a relevant discussion to the whole comparison, file comparison question. You know, Richard and I had this discussion over at the CFA meetings before, that bureaus are not obligated to go checking each other's files to see what data the other file has which I might not have.

MR. VANDER NAT: Okay, thank you. Ed?

MR. MIERZWINSKI: You know, I just want to say from my perspective, I think that the notion of getting into a debate, you know, some semantic debate of whether the law does or does not require this kind of thing to be an error, I think, is something that would be a wrong way for the study to head. I think there's very clear Congressional intent and intent by the administrative enforcers of the Fair Credit Reporting Act that

information in credit files be as accurate and up-to-date as possible and that Congress change some of the wording of the Act this year with the integrity language on credit files to try to address this problem without going as far as we would have liked to address it further. But we have documented evidence from Senator Shelby's hearing that some credit bureaus -- excuse me, some creditors, some furnishers, are intentionally -- they know -- we talked a little bit earlier about trade secrets and we talked about, well, you know, we don't want consumers reverse engineering the credit scores so they can improve their ability to get credit. The creditors have already reverse engineered the credit score. They've figured it out. They've figured out that incomplete reporting results in their consumers' good names being cloaked and having lower credit report scores generated from the reports.

Now, I agree that the credit scoring model should try to account for the fact that not everybody provides complete information, but I totally feel that an error of omission is an error and that there are many different kinds of errors of omission. Some of the errors of omission have a huge, huge effect and impact on consumers. Sallie Mae, extremely large secondary student loan securitizer, was not reporting information on young

consumers, young consumers with very thin files.

So, this may not be -- there may be a semantic argument that can be made that you can't be sued for not having this information, but the point is Congress wants this looked at and I think it wants it looked at pretty seriously.

UNIDENTIFIED MALE: And I think from our perspective, all we're saying is that if a Sallie Mae or any other data furnisher comes up to us and says that we can furnish information, we want to furnish information, and yes, we can live by the accuracy and integrity rules that the federal agencies are going to promulgate and so on, I think we're then in a position to say we're happy to accept that information and to make that part of that consumer's file and to do that accurately. We agree with that, Ed. I'm just saying that it's hard for a bureau to be held to the term "error" when a bureau doesn't have the power to march in to a particular data furnisher and say, well, darn it, you're reporting to the one down the street, but how about us. That's very important.

I don't think that's semantics. I think that that has to do with how the report then informs the Congress of subordinate issues, if you will, that are derived from whatever the study is going to be. That's the reason for drilling down on that a little bit.

MR. VANDER NAT: Mike?

MR. TURNER: I just wanted to touch on two themes that I've been hearing mentioned quite a bit. The first is that consumers should be the ultimate arbiter of what is and isn't accurate and the second deals with what's being done to address or identify the inaccuracies or incompleteness and address it. I think that's -- the second point is very important.

If I could piggyback on Fred Cate and his earlier remark about the somewhat quixotic nature of this, when you really try and get your arms around these studies and what Congress is asking, I think it's even more complicated and I really caution against this overemphasis and potentially an over-reliance on the consumer. You know, when I first thought about this particular intellectual puzzle and how to approach these studies, I was immediately reminded of Rashomon (phonetic) and that accuracy, even assuming we can agree on a definition, varies from perspective to perspective.

And here, I think there are at least four -- and I could even be convinced five perspectives are important, accuracy from the perspective of the data furnisher, accuracy from the perspective of the bureaus, accuracy from the perspective of the two end users,

meaning institutional lenders and consumers, and I can imagine scenarios in which, for example, a data furnisher reports data to all three bureaus, but that data is inaccurate for keystroke or for whatever reason, and so, it's not an inaccuracy from the perspective of the bureaus. They transcribe that data quite accurately. It's in the reports accurately.

So, you know, how do we catch that, what is the error? Consumers may or may not identify that and we've discussed the reasons why that can happen. But these are not necessarily going to be caught if we rely just on analysis of the consumers. And this gets to my second point. The assumption is that very little is being done to mitigate against the inaccuracies and incompleteness already. We've heard Fair Isaac say, in fact, in their model, they're already continually developing mitigations. I know for a fact that the bureaus, in fact, audit data that comes to them from data furnishers for data integrity and accuracy. I know for a fact that on the end user community, that financial institutions have various means, including zip tables and others, and they use other data to mitigate inaccuracies or legacy systems that have incomplete or errors of omission, assuming we can even agree that it's an error of omission.

So, there are mitigations already in the system at every note, and in fact, rather than replicate the wheel, I think that much of the study needs to be informed by what the players in each of the (inaudible) are already doing to identify inaccurate or incomplete data and mitigate against it. Because, again, that's important to the extent that what we're really talking about here are the consequences from inaccurate or incomplete data rather than the existence.

In fact, I think the best perspective on this was put forth by Howard Beales some months back and he said, I can eliminate deceptive and false advertising, all I have to do is rule out all advertising. Well, you know, that can't be the goal in this endeavor. We have to accept that there are going to be inaccuracies and incompleteness, and I think Bob Hunt had really a -- and I tend to agree with the economic perspective on this, we need to focus on a different goal, not the elimination of inaccuracies or incompleteness, but in terms of maximizing the social benefits from improving the consumer credit reporting system.

MR. VANDER NAT: Other comments? Terry?

MR. CLEMANS: I'd like to talk a little bit about the omission and whether we want to call it semantics, whether it's an error or not, I think we have

to focus on the fact that omission is very important and it should not be a system that requires every one of the three to have exactly the same data. Obviously, you know, that's not going to happen. There would be no reason for three with that. However, we can't ignore the fact that omission has a major impact on consumers. It has a major impact on the lenders just as well. Fannie and Freddie, I think, have set the standard for that by the creation of non-traditional credit reports.

So, if there was no desire for the omitted data, they would have never come up with standards for ways to get data that is not traditionally in the repository files into consideration. So, you know, whether we say it's an error, it's not an error, I think something we all have to agree on is there's some way we need to address and that this study needs to address omitted data and take it into consideration. It is also something that maybe needs to be addressed how some data is omitted not because the lender doesn't want to report it but because there's policies and procedures in place that screen some lenders out.

The whole thing needs to be reviewed and I do -- you know, I would like to point out that, Stuart, I agree with you entirely. The system does work very well for most consumers. However, what if you're one of the

consumers that it doesn't work so well for? I believe that's why Congress has got us here today. So, while we might be focusing a lot on the negatives, we do have to pay homage to the fact that it does work very well for the vast majority of Americans and get to how many are being hurt and how to correct that and make the system better for our overall economy as well as their concerns.

UNIDENTIFIED MALE: I think from our perspective, to the extent that we can get the information and put it in the file, we're happy to do that. You know that and I think I know our members know that. I think what Gerry said was very helpful, though, that we want to understand consequence. I think that's helpful to the study and I think the cost benefit of the extent of the changes is also very helpful.

In representing resellers, we, too, have resellers who will work with files in the mortgage reporting context to update, for example, information in a file which the Fed study might identify as stale information or older information in order to show that something was closed or that a balance was older than a certain number of days. In fact, Fannie and Freddie both have guidelines which require things to be pushed forward, if you will.

So, we see that in that case, you know, really

the very members that you represent, that we represent, are part of the market solution to the fact that you can't compel or change the entire data furnisher system to make it work in just a certain way all the time. I think Paul is right. I mean, we're probably not going to be able to replicate Kazakhstan here in the United States. We probably don't want to do that either. So, in that sense, we're there.

MR. VANDER NAT: Jeffrey, I haven't heard yet from you.

MR. FEINSTEIN: Apparently, it's easy to get picked if you dump ice right next to you. A little tip for people who are trying to get called on.

(Laughter.)

MR. FEINSTEIN: We've been talking a lot about accuracy and measures of accuracy and there's three, I think, that were discussed so far in this forum, and I'm sure there are others that haven't been discussed. Consumer reporting, in other words, call up the consumer and say, hey, is this accurate; the dispute resolution process, just to see -- track the results of that; and just comparing credit bureau reports.

I'd like to suggest a fourth one that I think gets at a lot of what we're talking about and that is Stuart's study involved the collaboration of lenders and

lenders do have at their disposal the data on which statements are developed and cut. Keep in mind, this isn't going to make the study easier or cheaper. But, presumably, those statements are reviewed by consumers on a monthly basis. It has an ongoing track record of a consumer saying, hey, I have a late fee, was I late; hey, I have a balance, is that really my balance. And that type of measure compared to a credit bureau report might help to assess the accuracy of the contents of the credit report.

I'm not suggesting this is a replacement for the other measures because there are some things that this measure wouldn't get at, but it does offer a little bit of insight as to the accuracy of reporting and might preempt some of the issues that a consumer might have where they might go, oh, I don't know about this straight line.

Personally, what I would think as somewhat of an expert in credit reporting, in fact, I could probably be one of those expert consultants, I've reviewed my credit report twice, found two errors that upon research I realized weren't errors on two separate occasions. I didn't go through the dispute process. I made some phone calls, but the fact is, I, as an expert, was confused by my credit report and thought I had errors that I

probably, if on the phone in an interview, I would go, yeah, that's an error, that's a mistake, because I didn't have at my disposal the fact that the sales finance (inaudible) I opened up five years ago was going to be reported by Security Pacific Finance. So, I started making phone calls.

So, I'd like to suggest this alternative measure as another way to get at accuracy because it does have a consumer component of review in that consumers review their bills, or at least there's a presumption that consumers review their bills.

I really like the methodology of Stuart's study. I would like to emphasize, though, going on to another point, Robert mentioned the need for control groups and I think that that's a really, really important component of it. What I'm getting at here is consumers that apply for credit tend to be riskier than those who don't apply for credit. So, that particular study was dealing with people who, independent of scoring solutions and accuracy, tended to be a riskier population. Given that, they were rejected -- chances are they were rejected for legitimate reasons, given that this was a self --

(End of Tape 2, Side B)

UNIDENTIFIED MALE: -- the actual information

reported would not help, on the contrary.

MR. VANDER NAT: Thank you. We'll have one more comment before we break. Brad, go ahead.

MR. SCRIBER: Just real quick. On this question of completeness, the mandate for this study, not a law mandating that everyone report or a new policy, but this study is to assess accuracy and completeness. So, I think it's a moot point of whether the study should look at it. It's a Congressional mandate. You have to look at completeness.

It also gets to the point of what would be the impact? Well, we don't really know how many people are voluntarily reporting. We've heard that it works, but is it 50 percent, is it 20 percent, is it 98 percent? Assessing that and establishing a baseline and even tracking it over time will help us assess whether certain provisions do have the everyone goes fleeing from the system effect that we've heard so often. So, I think it's important to look at completeness. It's also important because this is a major factor in credit reports.

Back to my point about involving the credit score developers, one of the most frequently received explanations for a credit score that we found in our study was the ratio of available credit -- you know, utilization rate. This was an overwhelming top three

reason that we saw for credit scores being what they were. So, it matters. If it's wrong, it has an impact and you have a mandate to look at it.

MR. VANDER NAT: Thank you. Let's break for lunch at this time. Marie, could you give us our lunch announcement, please?

MARIE: Sure. For our speakers, lunches will be provided for you in the hall, and for those of you who do not have a lunch, we recommend two Irish pubs, the Dubliner and the Irish Times, which is right down F Street towards Union Station. It's a less than three-minute walk. And we also have the SunSpot Deli here in our building around the corner. Enjoy your lunch and we will resume at 1:30.

MR. VANDER NAT: Thank you.

(Whereupon, a luncheon recess was taken.)

AFTERNOON SESSION

SESSION III: METHODOLOGY FOCUSING ON CREDIT REPAIR REPORTS PERTAINING TO THE SAME PERSON

MR. VANDER NAT: Well, if you have your agendas in front of you, you know that we're moving into Session III and we're looking at a methodology that focuses on the credit reports pertaining to the same person and tries to infer from that various things about inaccuracy and incompleteness. We're going to start off the afternoon with a presentation by Brad Scriber and Terry Clemans.

MR. CLEMANS: Thank you, Peter. On behalf of Brad and myself, we really appreciate the opportunity to be here today and talk to you guys about the research we did in 2002. Some of this we're going to go through fairly quickly because we've talked about a lot of it already and I'm sure most of you are very familiar with it. As far as the way it will work, I'll go over some of the background on the research project and the study design itself and then Brad will come up and go over the findings and the recommendations.

This study was a joint venture between the Consumer Federation of America and the National Credit

Reporting Association. I'm sure everyone is aware of the CFA. I'm not sure if some of you are not aware of NCRA, but we are a national trade association that's been around since 1992. We represent primarily the resellers.

When we started to look at the design for this study and discuss the possibility of doing one, we looked at the studies that were done previously that we've been discussing here today. We looked at the Consumer Union and the PIRG study. We looked at the Andersen/CDIA study and we also looked at some research that we did two years after we were founded back in 1994.

That research was done where we looked at the differences between the three-bureau mortgage credit report that was starting to come into existence based on the need to fulfill the automated underwriting systems of the GSEs and the old two-bureau residential mortgage credit report.

It should be interesting to note that those RMCRs that we all used to do did include a consumer interview any time there was disagreement in the data that was found between the two repositories and the data that was on the back of the 1003 that was taken from the consumer in the loan application process.

In looking at those studies, we looked at areas that we felt could use some improvement. We looked at

some of the common criticisms that were given to the studies, you know, small samples by some of the consumer group studies, partiality by either the consumer group study or of the Andersen/CDIA study and some of the methodology that might be questioned in those studies. We also critiqued our own study as well and looked at the perceived partiality of our study also being industry, and again, the small sample.

We tried to solve these problems. We addressed the issues of the previous studies by looking at partiality in creating this joint venture. We thought if the research was done jointly, you know, every file was reviewed, the manual files were reviewed, were done with a CFA researcher, Brad Scriber, and a credit reporting expert, someone from within the industry evaluating those files and comparing and contrasting that data. We obtained the data from all three repositories, something that had not been done previously except with the study that we did in '94, and to make a substantial size study, we used automation to compare the scores and to do a large data sample.

That large data sample, of course, would be, you know, what we felt not worth much unless you had the ability to do some in-depth investigation to get at the root of some of those problems. We also -- when this

information was all gathered, we had it peer reviewed by relevant parties within the industry. We compared 502,623 consumer credit files and the three bureau files from each one of those consumers based on the score alone. Now, this was blind data. We had to eliminate all references to the consumer with this data. The closest we got to the consumer was the zip code and we generated a generic code to keep the data separated.

We focused primarily on the threshold between the prime and the sub-prime and we talked about errors in this room and we talked about how important various errors are. One of the things that we felt with the way lending has evolved is look at those who are potentially harmed the most, those that are right at the threshold of the prime to sub-prime market where an error, not a substantial error that might push them from yes to no because that is not really relevant with today's lending, but yes, but to a yes plus cost, and that might be a smaller error. When you're looking at lending decisions that are sometimes based on as small as 20-point FICO increments to price the loan, the size of the error is much more important now than ever before.

This study data was pulled randomly. It was from archived files that represented every state in the country and all U.S. territories. The credit reports and

the scores were from consumers that were actively seeking mortgages and loans at the time. The lenders had pooled almost all three files simultaneously and we did notice a variety of differences in the data and our study investigation processes were different for each phase of the study.

We know there are many challenges to what we did, also. One of the biggest challenges we had to overcome in the very beginning to even do this study was how could we investigate this in a joint venture with a consumer group using data that was pulled for a permissible purpose and not violate the FCRA or the GLB. Well, the answer to that was to go to the totally blind data. You know, you can't have a consumer report if you remove the consumer from the legal advice that we got. So, no consumer identity, no consumer report, the FCRA, GLB contractual obligations, we felt, were met.

But a blind data study like that created other problems. There was no way to bring the consumer or the creditor into the investigation. Any attempt to verify data with a consumer or any attempt to verify data with a creditor when you've lost account numbers, when you've lost the information that would document that particular file left some holes in our report that were noted by the GAO.

In the study data, we broke it down into three segments. The first segment we talked about was the half a million consumers. That's over a million and a half blind credit scores. And just identifying those scores by generic code and the zip code that was from the consumer's residence, this was a total electronic calculation that produced some of the results that used a quantification or quality control factor for the smaller studies, Sample B and B2, that were 1,751 files where we dug into the data more in-depth and compared and contrasted the information from each of the three repositories.

Now, again, we know there are some limitations here; however, we know if you're looking at three accounts from the same creditor and you're getting three different methods of reporting that, you know there's obviously some problems somewhere.

Interesting findings between all these subsets, and those Brad will go into in a few moments, but one of the things that we did keep consistent were that we collected the scores and the reason codes from each one of them. While we looked at the assessments of impact in only the smaller one and the errors of omission and co-omission from the vary smallest file that is due to the problematic issue of how much time it takes to really dig

into these files. Ed, as you well know, going through these, it is not easy. I think actually our job was a little harder because we couldn't contact the consumer or the creditor. I think this could actually be done quicker by bringing them into it to get some information from them, from the consumer, verify it with the creditor, instead of looking at the three files and trying to draw some conclusions.

One of the most important things we feel that our study did was to focus on the common element from all three phases of the study and that was looking at the credit score as a common denominator so that investigation that's done, that's a layered approach, that focuses on direct investigation, that might focus on the Andersen type study where you take a subset that is triggered from a denial or is also triggered from an approval, so you have a control group and layer it with a more massive automated approach using the credit score as that common denominator can come up with some very interesting findings, and to get to the findings, I'm going to turn it over to Brad.

MR. SCRIBER: I'm going to go quickly through this because I think a lot of you are familiar with the findings, and if you aren't, I'd be happy to give you a copy of the study or talk with you afterwards. But I

want to make sure we have a chance to talk through reactions.

This is an overview. The scores vary significantly for a given consumer among the various bureaus. The impact varied depending on the nature of the errors and where a consumer was on the credit spectrum. Some errors helped consumers, some errors harmed consumers. In a significant number of cases, it was difficult for us, again without consumer contact, to make an assessment of what the impact would be. But for those that we feel we could make the assessment on, the potential harm was significant.

The reason codes we're not going to go into very much, but they were rather vague and didn't seem to offer a lot of help to consumers.

Additional reports and mixed files were very common and this seemed to indicate a level of imprecision with matching data and a consumer at a given point. Something that I think our study offers that is very helpful is it looked at a subscriber report or -- I mean, on this same report issued, this is a report that a lender did look at in making a decision and it really gets at impact, you know, what is going to happen to consumers if they have these errors. So, I think that's a benefit. And there omissions and commissions. You

decide if they were errors.

Also, a number of consumers lacked information to assign a credit score, which again gets to the question of are people who may have reports that aren't -- or may have accounts that aren't reported being treated fairly in the system?

So, on the largest sample -- and, again, the findings between our Sample A and Sample B were very similar. We used this to sort of do an internal check on if our two approaches were getting at the same information. Fifty-point variations on 29 percent of files, 100-point variations on 4 percent of files, average variation was 41, median 35. This gives you a sense of how big the variations were and how often variations of different sizes occurred. Most often centered around the average, the median, but a significant number of consumers had very high variations in credit score.

And, again, we did a check on the different scoring models that are used to try and control for any impact that different models would have on the credit scores.

On our next sample, we're looking manually through the information. We found very similar results, 50-point variation on 31 percent compared to 29 percent,

100-point variation on 5 percent compared to 4 percent, and the average in the medians were very similar as well. There didn't seem to be a dramatic difference on how severely you were affected based on where you were on the credit spectrum. We saw high and low variations for good and bad credit consumers. The skew was somewhat towards higher variation on the low end, but overall, we were a bit surprised at how uniform -- everyone is susceptible, essentially.

And this gets also to a point I made earlier about being careful to look at the impact all along the spectrum because we know in 11 years a 750 or a 740 will have an impact that it may not have today, assuming that those numbers are still relevant, but the equivalent.

Okay, Terry's talked a little bit about this, on our second sample, how we defined at risk consumers. We used the 620 cut-off and a couple different ways of determining if you were close enough to be considered part of the bubble. In making the assessment, again, this is essentially a blind assessment, looking for logical inconsistencies that shows there definitely is an error. We tended to actually, we think, understate the impact because if there wasn't contradictory information, we assumed it was correct. So, for example, if one bureau had an account that the other two didn't, we

assumed that the account was correct on the one bureau that had it. So, if this is inaccurately included or the other two bureaus had received a dispute and removed the account, we would overstate the negative -- those consumers that are not being affected.

Again, some of the limitations of not being able to consult with the creditors or the consumers, I would add, the CRAs or some of the other groups that have been mentioned here, and in most cases, we essentially withheld our assessment. This sort of graphically represents this. About 20 percent of the sample was considered to be at risk, on the bubble, and of those, about 20 percent were considered to benefit, 20 percent were considered to have some harm occur, and in most cases, we felt that in a blind study, we didn't have the information we needed to have an assessment that would be reliable.

I mentioned this earlier. Additional reports or missing credit scores were a problem, and this gets at a segment of the population that's going to be increasingly important as credit scores increase in their currency. As more people use them and use them for more applications, those who aren't captured or don't have a trace in this -- not one database, but who aren't recorded will be invisible and this is a population we need to not

forget.

Then our very small sample, this is not meant to be statistically significant. We know it's small, but it gives you a sense of what was underlying some of these errors. And, again, omissions and commissions occurred.

And the nature of them were missing accounts that had no derogatory information, accounts with late payments, but not in collection and collections. You know, some positive, some negative information was omitted and the general tendency was for positive information to be less frequently reported than negative information. So, again, the skew towards reporting negative information that I reported earlier.

Commission -- errors of commission, inconsistencies in how frequently consumers had been late and these are primarily in what I would call historical data, so not the most recent month. So, the majority of this, we didn't quantify it, but the majority is not attributable to loading errors or timing errors. Most of these are historical two months or more in the past.

Credit limit, again, not a statistically significant sample here, but if you hold our data next to the Federal Reserve data that shows 70 percent of -- I think it was accounts, 70 percent of accounts were -- or was it consumers?

MR. CLEMANS: Consumers.

MR. SCRIBER: Seventy percent of consumers had a missing account -- a missing credit limit on an account. We found, also, a very high number. This matters. It was one of our most frequently found reasons for the credit score and if consumers are given that as a guide as to how to address errors, you know, again, we're either leading them to a wall with no door or we need to address it. Balances also were a problem and dates, which are significant in terms of the aging of accounts.

This approach has a number of strengths. As Terry mentioned earlier, we tried to build on what we saw as positive in previous studies. Some limitations, we couldn't incorporate all of what we thought was helpful. But reviews to subscriber report, it combines the benefit of sort of the consumer interests and industry expertise. The comparison of data and credit scores allows for quick quantification. The sort of nested studies give us a sense of the qualitative nature of those errors, but a large sample that can be summarized quickly was very helpful. And in some cases, we could assess whether the errors were helping or harming consumers.

Our recommendation for what this study and the 319 should look like, in our opinion, there are strengths

in all of the approaches and some of the limitations that we faced may not constrain the FTC in the same way, and some sort of approach that combines the strengths of each type of study will probably, in our opinion, yield the best results.

Consumer interviews would provide information that we couldn't get. Demographic information that I mentioned earlier we think is extremely significant; very important given the track record of sub-prime lenders and others in obscuring data, and just getting a sense of whether the system works fairly for everyone. I'll mention here, also, potential implications for women. There's been some discussion of divorces and, I think, maiden names may have an impact on women that don't affect men and other institutional or family dynamics. Getting a sense of whether men or women have equivalent error rates is important. Missing accounts, if something was not reported to any bureau, we didn't catch it. Also, if it was reported the same to every bureau, we didn't catch it if it's incorrect.

Identity theft related accounts, if it was reported accurately, we didn't catch it. Mixed files and credit limits were errors that we and others have found as significant and should be a focus, and any disputed information that's been reinserted, again, if it was

consistent, we didn't catch it.

Rescoring, I think, is an approach that has been discussed, although maybe not directly today, that would quantify the impact of errors and also the benefit of helping the consumers who actually participate in the study. That may be an incentive. There was some concern about participation, but if consumers feel that their report will be improved, that may be an incentive to remove that barrier. This could also help locate the source of the error. This is important.

A lot of people had mentioned this and I agree very much. There's not one entry point for errors. CRAs, furnishers, consumers, the way they apply for credit, there's lot of places where errors can be introduced, and the more we understand about where that happens, the better we'll be able to address it and move towards higher accuracy.

The dispute date, this has been mentioned and I'm glad Bob sort of addressed this point already. It's relevant, I think, to talk about the Andersen study. It was done 11 years ago and that's about the time -- I guess now it's about 12 years ago that it came out. That's the same time frame we're looking for now, moving forward, and we need to be sure that we don't look back at the study we do now and see mistakes that we should have addressed. I

think the biggest shortcoming here that needs to be addressed is really doing the correct analysis. Not making an assumption that 92 percent of reports that aren't reviewed have no errors is a shortcoming.

Also, looking only at errors large enough to reverse a credit denial, we know now that the world is different, and I think the parallel we can draw is that we need to look not exclusively at the bubble -- I mean, our report looked at the bubble, but we need to have an understanding of the extremes as well, because in 11 years, those extremes may matter.

This, you know, shows that an alternative interpretation of the Andersen data, which Bob has already mentioned, is consistent with the PIRG study, the latest PIRG study, that a quarter of reports consumers see as having errors. So, if you were looking for common ground, Ed, there it is.

Dispute data can be very helpful. I think there's a way to use this data that can give you a lot of insight, that's important, that can help industry improve, that can help consumers. If we understand what types of errors motivate consumers to dispute, what are the -- when does it happen? Is it after people receive adverse action notices, after they've received risk-based pricing notices, when they get their free annual report?

Understanding the dynamics of the dispute could be very helpful in understanding the nature of accuracy in consumer reports.

What's the outcome? What happens to disputes? Essentially, that's what Arthur Andersen looked at. We think that sort of an ongoing comprehensive review of dispute information would be very helpful to understand, again, if consumers are disputing information that they shouldn't be or reaching -- I think the columns that the pilot study outlines are very helpful. A consumer may dispute and it gets fixed and everyone agrees that it was an error, a consumer may have something explained and then realize that it wasn't an error or some of the other columns that were proposed. This probably would be a reasonable procedure to ensure maximum possible accuracy on the bureau part.

This study really is essential to the success of FACTA. There was concern in the past year that we didn't understand the accuracy issue and it made it difficult to make decisions. We do know that a key objective of FCRA is maximum possible accuracy, not pretty good, not right some of the time, but maximum possible accuracy. That is a fantastic standard and it's something that we can meet.

Again, I mentioned that several people

highlighted how vital accurate information and complete information -- I mean, there was incredible emphasis on complete information, that is people pull out, the system will fall apart. Well, in the same way, if we can get more people in the system, the system will be stronger. So, this is important and the GAO study pointed out that it's very difficult without trend data to understand the impact of the '96 amendments and, in general, you know, what's improving, what's getting worse.

So, the possible impact of this study is very large. Ongoing data every two years, it tells us what's happening, what's getting better, where we need to improve, it's really going to be the linchpin for FACTA, and it will be the standard that we're measured by, I think.

The interim reports also allow for adaptation to market changes. Credit scoring is going to evolve. New applications, different people are going to be using this tool in different ways that we can't anticipate right now completely. We can do our best to start the study with a broad baseline that allows us to compare data that may not matter now, but we think will matter later so that we have trend data and not just playing catch-up. Again, the importance of various errors are going to change. Some of this I've already mentioned.

You know, changes both in the credit scoring models and how people use them.

That's the end of our comments. Thank you.

MR. VANDER NAT: Thank you for your presentation. I think at this point we could move to about a 10 or 15-minute discussion of what has been presented because quite a lot was presented here, and then after that point, we will receive further comments from Michael Turner.

So, who would like to begin the discussion with an observation, comment or question? Please.

MR. HENDRICKS: You realize, in some ways, you don't need to reinvent the wheel. This was the best study of credit report accuracy ever done and they've laid out a methodology, which I think we can build on, and I think the infrastructure for conducting this study, having the resellers pulling reports like this, provides a very rich field of information to do a study. So, I think that we should build on this and then look at the weaknesses that Brad has identified and Terry and then go further by using the position the FTC is in to make it that much better.

MR. VANDER NAT: Thank you. Stuart?

MR. PRATT: In contrast to what Evan just said, I would say the study falls short of one of the FCRA

requirements because it attempts to insert that there's an error of omission concept into what the FCRA currently requires, or at least how Evan characterized what the CFA study attempted to do. So, to the extent that a study of cross comparisons is going to lead to a conclusion that there's an error rate associated with the fact that a lender chose not to report to all or chose not to report to any, we think that that part of the study in particular is troublesome.

Just to point out, an error of omission was that it's reasonable procedures to ensure maximum possible accuracy, not simply the objective of maximum possible accuracy. That reasonableness standard was inserted for the very reason that you couldn't possibly build a system based on purely a maximum possible accuracy standard when you're managing four billion updates of information and 200 million credit reports every month of every year. That's very important.

So, I think if we're going to stay on the same plane here, then we ought to make sure we're describing the operational law accurately in terms of how it operates relative to our members and Terry's members, by the way. I think that's very important, and I'm sorry to see that you omitted that from the presentation in the first place, Brad.

MR. SCRIBER: It's in there.

MR. PRATT: I'm sorry.

MR. SCRIBER: I could go back to the slide and show you where I do have it in there.

MR. PRATT: Well, I'm just saying you -- all right. At the end of the day, the FCRA is the measurement, the benchmark, I believe, and so I know the study is looking at accuracy and completeness. But the key here is, I guess, Peter, that it can't -- a study that says, ah-ha, there's somebody who's not reporting, well, you really just need to decide why somebody's not reporting in the first place. That's not an error, that's not a failure of the system, if you will. There's just maybe some -- and by the way, depending on how the accuracy and integrity rules are issued, there may be a community of lenders who are even larger who say I just can't continue to work under this regime or this set of requirements that the FCRA requires of me. I think I'm going to back out. That may happen.

We don't know that that's going to happen, I'm not saying that that's going to happen. But I think that's relevant, if you will. So, to the extent that the study begins to create a finger-pointing kind of effect by saying, look, look, there's something missing and trying to find an accountability for that, I think the

study falls short of what it really should do in terms of informing Congress at the end of the day.

In terms of score variance, I think that this study speaks very directly to what the marketplace would acknowledge anyway. You've never heard the CDIA say, no, it's not true that there are score variances because there are score variances. There's no doubt about it. I mean, you could read the Fed Report and get a lot of reasons even from the Fed Report in terms of here's differences in terms of how files operate in the marketplace. So, I don't think we should run away from that issue. If we could have more complete information in every file, I think that our members would be in support of that as well. So, again, I don't see any real difference in goal here when it comes to that as well.

I guess what I'm concerned about is making sure that we're asking the right question. When we see score variances, the real question is, what should a lender do about the score variances that they see. That's the real question on the table at that point in time. That has nothing to do with an accuracy study or a completeness study. That just really has to do with a question of what should a lender do when it sees three different scores and they vary by 250 points.

MR. SCRIBER: Well, I mean, first of all, I

think -- I'm willing to agree with you, Stuart, that --

MR. PRATT: Can we make a note of this?

MR. SCRIBER: Yes.

(Laughter.)

UNIDENTIFIED MALE: That you're both at the same meeting is (inaudible).

MR. SCRIBER: That it's not really -- some of the things we're talking about are not errors of omission and if we take the example of Capital One not reporting credit limits and only the balance, which tends to harm consumers if it makes them look like they're maxed out on their credit report --

MR. PRATT: And we would like to have that credit limit.

MR. SCRIBER: Right. And we would like you to have it. And --

MR. PRATT: There's more agreement right there. This is very exciting how this is happening.

MR. SCRIBER: And then, also, I think in terms of finger-pointing, we should be -- it should be from the get-go. This is an issue that's not really the responsibility of the credit reporting agencies and no study should say that this problem is the fault of the credit reporting agencies, that some lenders don't report credit limits. I mean, that's a decision by the credit

lenders and you have no leverage to make them change.

On the other hand, we are trying to get a study on the accuracy and completeness of information, and systemwide, we do have a problem if consumers' credit limits are not reported. This is just one example. And that ends up making them look less creditworthy than they are. So, I mean, maybe we shouldn't define that as an error of omission, maybe we should define that as an attempt to shaft consumers, you know. But the fact is that it does directly impact accuracy, completeness, relevancy and fairness and so, therefore, it should be a subject of the study.

MR. PRATT: I'm not suggesting that. What I'm trying to make sure we're doing here, though, is properly characterizing one element that you may want to look at in this study which is whether some data is present or not present. But the extent that it's characterized as an error, you're automatically converting this into the pejorative and saying that it is always an attempt to shaft the consumer. Our challenge may be, and candidly for lender data furnishers out there, the challenge may well be that they say I have a choice in terms of how I think I'm doing in the marketplace. I'm either going to report in the way that I wish to report or not at all, one or the other, because it's important to me and it

costs me a lot of money to acquire each of those consumers that I have in my portfolio.

So, from our perspective, and I think that's a sensitivity you have to have in all of this, that a data furnisher, too, may say I just need to have the flexibility to report what I believe I can report and it's not an attempt to shaft as much as it's an attempt to protect the very positive market that they have. I'm going to let data furnishers speak for themselves.

But from our perspective, it's just simply a fact that at the end of the day, an omission of data is not an error and we're going to stay on this theme throughout this discussion and we'll just probably bore you to death with it at the end of the day, Gerry and Peter, but it's very important that this element of this discussion doesn't remain under the rubric of error.

MR. VANDER NAT: We understand your point. Gerry?

MR. BUTTERS: I was just going to say, we knew coming into this that incompleteness would be a source of a lot of strong feelings and disagreement and we are even more aware now and we will be very careful how we characterize things.

UNIDENTIFIED MALE: I'll just add one comment here. I agree with Stuart's statement that when you see

this variance in score, what do you make of it, and the question is what does a creditor do with it, okay? But there's another element here which is a hypothesis which is open to a test and you could, I think with sufficient resources, ask the following question, does the variance in the score on the same report, among the three, have any correlation ultimately with the inaccuracy of the report? It is a fair hypothesis, although not proven, that the greater that variance is, the more likely it may be that there's a problem somewhere in that report. Now, that's a testable hypothesis if you had enough resources to devote to it.

So, it may ultimately be that the variance in the score is related to the issue of accuracy or inaccuracy, but that we have not yet done the study to show what that connection is.

MR. VANDER NAT: Anyway, I'll take other observations. Karlene?

MS. BOWEN: I think it goes without saying that everyone here agrees that the more data and the more accurate data, the better the whole system is going to be, and that goes without saying and we all agree with that. But there's also a cost associated with that and I think that's part of the point that Stuart's getting to over and over and over again, that the cost involved in

having perfect data is going to come back to, guess who, the consumer. And so, trying to balance that out is the humongous task that you have when you perform this study, and I don't envy you trying to do this.

There are -- when I think about how you choose to do the study, that's one important phase of this, and as you go through that process of selecting which methodology you're going to use, I'm sure that once you finally select it, you'll come up with another set of questions to ask many of the people in this room to fine tune that. So, I know this is just the first phase.

So, I'm not going to comment on the particular benefits or cons of the various study options at this point, but I do want to step back a second and mention something that Paul mentioned earlier and a couple other people mentioned, that we have to also remember the value of the system we have in the United States. We do business internationally and we are the only country that has this type of system and it is such an incredible benefit to consumers. That doesn't mean it should stop here and that the improvement should stop here. I'm not saying that, but we do have to sit back and remember that once in a while.

So, now to get to what I really wanted to say, as you're performing this study, I think there are three

phases of it, and the first phase is selecting and doing the study, and that's what we're focusing on today. It's easy to think that that is the most important phase, that's the most important part of doing the study. To me, that is an important part, but you're going to do a good job. I don't think anyone here would argue with you. You're going to find a way to do the study and there will be issues no matter what process you select.

But the next two pieces are, to me, what's more important, and that is how you interpret the data. And Brad brought up a very good example of that. Gosh, there's two ways to have looked at that same piece of information and both of them tend to have a biasness to it. Both ways tend to have a bias to it. I like the first way personally, that only .2 percent have errors. But there's -- it's going to be so important how the data is interpreted and how that analysis is written up.

There was a study done and you may have heard this example before, but there was a study done that said, wow, every time there is a house fire, the more fire engines that show up at the house fire, the higher the probability that someone's going to die in that house fire. Therefore, there must be -- it must be in our best interest not to send fire engines to house fires, okay? Well, that soon defeats the whole purpose and that's what

we're all trying to prevent from happening here, gosh, that we don't put so many things in place that all of a sudden we have nothing here to protect the consumers in the first place. That's going to depend a lot on how you analyze the data that you do eventually get out of the study.

And then the third point is the summary of the analysis. That sounds a little redundant, but it's really not. The summary of the analysis is really where the sound bites are going to come from that go to Congress, that go to the media, and that's what we're going to hear repeated over and over and over again. When I think of past studies that have been done, what sticks in my mind, and believe me, I read these studies, but what really sticks in my mind is, oh, my gosh, 33 percent of the files have errors in it or 66 percent of the files have errors or whatever the numbers are. That's what sticks with me.

So, we have to be so careful in those final little sound bites to make sure that they are fair and accurate and are actionable sound bites. Because if we say, wow, 60 percent of the files have errors in them, consumers will react to that adversely and there will be constraints put in place that may result in some of the things that Stuart's saying that, wow, then all of a

sudden it's not going to be worth it for a credit grantor to report because the constraints will be so extreme.

So, I would not want to be in your shoes today, but I want to keep in mind that there are those three points to keep in -- as you go through the analysis, that doing the study is only the first piece. How you analyze the data and then summarize that for Congress is hugely important as well.

And I want to make one comment on this lack of data, lack of credit limit reporting. Sometimes someone will score lower and sometimes someone will score higher. It will go both ways and I just want to keep that in mind. So, there's pros and cons. That's a minutia piece of information, but I just wanted to point that out.

MR. VANDER NAT: At this point, let's turn to a presentation by Michael Turner.

MR. TURNER: I just wanted to thank Peter and Gerry for inviting me and actually some of my colleagues from the Information Policy Institute. I'm going to try and be very efficient primarily because much of what I wanted to say has already been said and I'll avoid redundancy. Also, it's 3:15 in the morning for me right now. I just came back from India and arrived in this bizarro parallel universe where Stuart Pratt and Evan Hendricks are agreeing.

(Laughter.)

MR. TURNER: So, I think that sets the context for the afternoon, in fact.

I'm going to keep my discussion very narrowly focused. I was asked to speak to the NCRA/CFA study, both methodologically in terms of soundness and also some of the conclusions. So, inasmuch as I said much has already been addressed, I'm going to skip around somewhat. I apologize for the incoherence. I hope you understand and I promise to be twice as coherent next time I speak.

A couple of remarks initially. I am on the record as having praised this study at the Info Flow Workshop that the FTC put together last year. I do think it's very quality work for a first generation study and I think some serious findings did fall out of this analysis. That's not to say that I agree with everything and that's not to say that there aren't weaknesses. But, you know, it's important and it took me a long time in graduate school to realize that I would never write the perfect article or the perfect paper, and there would always be flaws. Yes, there are flaws, but there's some valuable learning in this paper. So, it's maybe even a more bizarre universe because now I'm agreeing with Evan.

(End of Tape 3, Side A)

MR. TURNER: -- but with that said, there are some -- I think your summary of analysis point is quite accurate. My problem isn't necessarily with the methodology, it's the way that the conclusions were presented. And what the press latched on to when the study was released were the conclusions that came from phase three of this analysis where you had a sample size of 51 files. That's a minuscule sample size and that's been a problem not just in this study but in many of these studies on the completeness and accuracy of consumer credit reports. No meaningful inference can be drawn from a sample size of 51 files. I'm sorry and I'm sorry those findings made it into the press because it does, in fact, impact consumer's perception of the accuracy of their credit reports and that's, in fact, what the press did focus on.

But with that said, phase one and phase two of this analysis actually were quite helpful and quite useful. I do think that the decision by the NCRA and CFA to focus on the potential impact of score variation on a group of consumers -- and here they selected a bubble group in and around 620 which was the cut-off between prime and sub-prime, it's a helpful first cut. I think that moving forward a more nuanced analysis is necessary. I think that breaking up the trenches into prime, near-

prime, non-prime and sub-prime, and in looking at the risk tiers within those trenches would be much more helpful in terms of assessing the impact of score variation, if any were identifiable on the differences of consumers, because one can imagine all sorts of scenarios within the three criteria that they established where a variation of the consumer score -- and 50 points may not even be one standard deviation by the way -- wouldn't have much of an impact. So, I think it does matter.

So, you really need to look at are we talking about -- and, again, it's not just a binary approval or non-approval, how does it affect the impact of assess to credit, if at all, and how does it impact the terms of the credit, and that's something that can only really fall out of a more nuanced analysis. But, again, that there were potential impacts in those is suggestive that this is meritorious and it does warrant, methodologically, further analysis. So, I think that that's the most helpful contribution, at least of this study.

In phase two -- and this is to Robert Hunt's point, it's quite important to discuss the universal or the broader findings as well as the concentrated findings. When they discuss the phase two findings they basically concluded that phase two findings with the

broader sample or their baseline were very consistent with the smaller group of phase one. And, you know, you look at 5 percent in their phase one analysis had a variation of 100 points or greater, but in phase two in the larger sample size, it was 4 percent. Well, if you present it like that, you know, 1 percent difference, that's not very important. But then, actually, 1 percent and 5 percent is a 20 percent decline and that's pretty significant.

So, you know, how you package and present the data, you know, industry typically tends to be accused of playing statistical games, this does matter, that's a significant drop. So, I think we need to be paying careful attention to the presentation of the data because, you know, there are very different interpretations that fall out.

And here, again, to Stuart's point, many of the errors of omission and errors of commission, there were a whole variety of errors that were identified in this study and it's entirely unclear to me which of them matter, if at all -- and, you know, we covered this earlier. I think it's quite important that maybe some stratified analysis occur where we focus only on those errors that seem to have the most significant impact and that's where the learning from Fair Isaac and others who

are developing algorithms for risk modeling comes into play. But, you know, in many cases, these errors of omission are really not at all errors and they're not the fault of the credit bureaus certainly. They're not unintentional omissions. So, we need to be very careful about calling those errors and making too much about the frequency of these errors.

Certainly, the government has been aware of this, some gaming of the system. There have been attempts made to remedy this both in terms of letters from government officials, but also the credit bureaus have taken actions, in some senses, to encourage data furnishers not to under-report. So, it's not a phenomena of which people are unaware and it's not one that hasn't been addressed at least in some capacities. But, you know, it may, in fact, be an area where additional analysis needs to occur.

I also think that -- and I'll take this opportunity to plug the longitudinal component of this analysis, you know, I don't think it's a negative that this is an 11-year mandate. Most of the analysis that's occurred in terms of accuracy of consumer credit reports has really occurred with interest rates that have been steadily declining really since the late '90s. Well, we need to look at the impact of a complete business cycle

on the efficacy of the National Consumer Credit Reporting System and I'm not sure what the Federal Reserve will do today or in the future in terms of the federal funds rate, and obviously, the ever ballooning federal deficit certainly will have an impact on longer term interest rates and 30-year fixed mortgages. But, you know, we do need this type of analysis -- longitudinal analysis to assess the impact of the business cycle, if, again, this study can be done with all of the problems, various and sundry, that have been discussed.

So, you know, I think -- the other real criticism I have of this is that the phase three analysis, the findings that fell off of a smaller group of phase one, well, there were significant differences, even though they were understated between phase one and phase two and, you know, the inaccuracies and incompleteness were more pronounced in phase one. So, to select a group from phase one, in fact, overstates the degree of inaccuracies and incompleteness. And, again, that's something just we need to be mindful.

Methodologically, you know, the approach wasn't fundamentally flawed, but it's just the selection criteria involved here. So, I will say as a first generation study, these studies are very difficult and there is learning in this as there's learning in the

Andersen study and I wouldn't throw the baby out with the bath water. I think that -- I don't know if I would say it's the best study ever done and this is the foundation, but, you know, certainly the authors of the study do deserve serious laud for their efforts.

So, I think I finished in eight minutes. I'll turn the floor over.

UNIDENTIFIED MALE: I'll just make one comment here about the issue of how the data is ultimately packaged, and at another effort at transparency, there's a lot of in-house discussion about those very same issues, so that whatever report is first written, you can be sure it goes through many drafts and it has lots of review by lots of different people and part of what they're thinking about is what is the sound bite effect of this. And so, be comforted that that receives very careful scrutiny before anything is ever put out as a report.

MR. VANDER NAT: Let me open again to the floor discussion, comments, observations. Who would like to go first? Fred?

MR. CATE: This is really, as much as anything, thinking out loud, but this seems the right group in which to do that. I think there's a ton of value and great interest in comparing reports across bureaus, and

it's something factual, it's something we have, it's one way of moving away from something that just relies on consumer interpretation. I guess I think going back to much of the comments made earlier, it does heighten the importance of figuring out what are we doing with that data; in other words, what's the value of that comparison?

It's not quite clear to me what it is. It seems to me that to say -- I was very sorry to hear Evan say this was the finest accuracy study ever because it might make you also doubt my top gun attribution, but I mean, that's nonsense. It doesn't say a lot about accuracy at all.

I think it does say something very important and I think we run the risk of undermining the study and of taking away the value when we say or when it's promoted as this tells us a lot about errors and inaccuracies and so forth. It really doesn't. You know, it tells us a lot about how the credit reporting system may operate. It tells us a lot maybe about the problems of furnishers and the fact that furnishers aren't obligated to furnish. It may tell us something about timing of the way data is recorded. And I guess this still keeps coming back to me about the importance of defining what it is you want out of this study, you know,

what's going to be -- and then what would be most valuable in terms of, not so much even thinking just the packaging, but what would -- Congress presented with these numbers, other than the sort of flashy conclusion, a third of all credit reports are inaccurate, which the study, to my mind, doesn't support, what might we be able to actually tell Congress out of a study that would be valuable.

And this is where I think it might be useful, and maybe this is for the next panel, and I really do mean to pose this as a question for people like Bob Hunt or Robert Avery, people who have done a lot of this type of work in the past. What types of elements would make it useful to get what types of outcomes? And maybe by thinking of it both ways, what outcomes do you need, what categories of outcomes, would come back to say what types of methodologies would be most useful.

MR. VANDER NAT: Thank you. Other observations? Yes, Nick?

MR. SOULELES: I have a follow-up actually on that question. I don't know whether -- let me take a step back. I was going to ask earlier, do we know what fraction of lenders get multiple reports, you know, two or three, and then if there are differences, how do they respond. It's related to the issue of material

differences before. You could ask, well, in that situation, is a lender more likely to turn someone down? Even that isn't sufficient because if one lender turns the person down, they might go to someone else. So, how would you get at the ultimate effect on credit supply?

Well, there is one potential answer here. If you have panel data from these bureau reports, you could look at the total amount of credit held by these guys. Now, you're going to have to make some assumptions about credit demand, credit supply, you know, it might not be a random draw that these guys had differences in their scores. But one very interesting question is -- and I don't know if you have the data to answer it, but if you do, it would be tremendous -- when you see someone with a large divergence of scores, compared to some control group, and who knows what that would be, how much less credit do they get? If the answer is no -- none, then you draw different implications in terms of the effects.

So, I guess one way to put the question is do you have a panel of the amount of credit held by these -- it's just a -- it's a cross-section.

UNIDENTIFIED MALE: No, we don't have that.

MR. SOULELES: Well, one answer is, gee, if you need to see -- even in a cross-section you could say, you know, do they have less credit -- it's not clear how the

-- the causation is tricky there. But one answer to your question is, what are the implications of this on the amount of credit (inaudible).

MR. VANDER NAT: Thank you. Yes?

UNIDENTIFIED MALE: I was just going to say in terms of the question that you're trying to answer in Congress and whether it's an error of omission or how you want to characterize it, the proper characterization, if the question is to what extent do -- what's reported in the credit bureau files representative for everyone or to what degree do you have accurate representation of credit profile for each individual so that what is true in terms of their behavior and their credit, as opposed to what gets reported into that profile. And so, trying to assess a systematic bias or some sort of systematic problem in -- not a problem, but not an accurate representation for some lenders, and some individuals, they operate in a particular area of a market where people simply don't report because it's not cost-effective or it's too costly to report on them. So, I guess what you're really trying to do is get an accurate representation of a credit profile for each individual.

Now, to what extent do the profiles that appear in credit bureau files differ from a "true" reflection of the profile that should be reflected for an individual

for all the credit activities that they're involved in.

So, if you get a description or somehow get a characterization of what that ought to be from a study -- so if you establish the truth and then you say, well, what is represented in the actual bureau files and how does it differ from the truth, then the question is, well, what are the methods for accommodating or dealing with that in terms of you make everybody -- the people who aren't reporting on a systematic basis report. Well, it would be too costly for a lot of those people, perhaps, and they wouldn't report, they'd drop out and the system goes down.

Well, are there compensations that the system can make once you know what the truth would be or should be for people reporting? In other words, maybe in the sub-prime market are people who get shunted to a sub-prime market. Lots of people find themselves there because certain lenders don't find it in their interest or it's too costly to report for them. Well, you could make some sort of allowance for that profile of an individual or some -- how you deal with the scores that you do have. Fair Isaac probably already does that to some degree for score providers to build that and model that.

So, I guess the study, in my mind, ought to be

establishing, well, what are the pieces of information that get systematically left out as opposed to better left out here and there but it's not systematic. So, characterize what the state of affairs is.

Then the cost-benefit analysis, well, what do you do about it and that sort of thing? It might -- it may be nothing. The cheapest thing to do is just recognize that this is the way things are and figure out what compensations might be reasonable to take actions. So, at least that's the question, I guess, that I would be asking and trying to get a handle around and a description of. Rather than characterize it as errors of omission, just how do things deviate from a perfect system basically if you had a perfect system at work?

The other thing in terms of an observation they couldn't -- you guys couldn't, in your study, go back to consumers and have them reconcile this because you had a blind study. I don't know if someone were to do this again or to go to bureau records and analyze a blind file, a large blind file just to establish universes or samples, basically, that characterize different subsets of consumers for which you wanted to get more information.

If one got a blind file but with some kind of sequence number or something on it such that once you

established through analysis of a blind file, a lot of patterns and questions, hypotheses that you wanted to go explore, if there was a way where bureaus themselves could -- we've designed an instrument or something like that where you wouldn't be able to go and have -- administer that instrument and send it out, but if bureaus could send out an instrument with a sequence number tied to it, solicit consumer reaction to a sample that was designed after you got a -- after you developed a sample, send out a questionnaire, get answers or have a blind phone kind of question -- solicitation basically or actually have repositories solicit participation of individuals and they say yes or no, that they would agree to be contacted or whatever, such that you could link back through the sequence number reactions from consumers obtained various ways to augment what you observed in the blind file with the credit data alone and build that other information in there, that seems like a way of going beyond just what you could essentially observe in the file.

MR. VANDER NAT: Terry, I noted that you wanted to make a comment on this.

MR. CLEMANS: Yeah, I've got a couple comments. Your first question, in the research we did in 1994, we wouldn't call this the perfect report because it's not

utilized by the GSEs primarily now. HUD still recognizes it, but the residential mortgage credit reports, 19 percent of the RMCRs, the two-bureau files, had data on them that was disclosed by the consumer to the loan officer on the back of the application or was discovered with the consumer interview in the process of developing that report. So, I mean, that's a significant number in '94. I would guess that number is probably getting larger today as there's fewer affiliates in the network that are no longer gathering as much data locally from smaller creditors. There's a lot of small creditors that don't get into the system, not because they don't want to be in the system, because they're not allowed in the system. So, that's an issue.

In regards to your second point about the blindness of it and a way to bring the consumer into the process, we would hope that with the powers of the FTC and a mandate from Congress, there would be a way to get the consumer actively involved where it wouldn't have to be a blind study, perhaps. I don't know, that's more of a question for you guys.

MR. VANDER NAT: There are many in-house discussions on admissible purposes and what actually the authority is to engage in this study, what are the implied things that we can do and we have to leave it to

our legal staff to tell us that because it is a delicate problem and always the safe thing is to say within the permissible purposes of the FCRA and the obvious one is the consumer gave you permission to look at their report. That's what you want.

Now, if you didn't get this -- it is a very difficult legal issue and since I'm not a lawyer, I won't speak to it, I just recognize the issue. But ultimately our legal staff is going to advise us as to what we can and cannot do in this area.

Yes, Nick?

MR. SOULELES: I'm not a lawyer either, but just to push on that point, another alternative is you might decide in order to get the right sampling, if your interpretation of current law doesn't let you pull reports on people who don't want to participate or won't allow you to add the consumer reports to the analysis, one possibility, maybe it's naive, is you could go back and say to achieve your goals, Congress, we need an exception.

MR. VANDER NAT: Again, that's one point of discussion. I mean, these are things that are out there for consideration and that's certainly been recognized. But we don't know the answer to it. I mean, it's --

MR. SOULELES: I'm not a lawyer, I was just

making the point that there is a distinction between your interpretation of current law and regulation and --

MR. VANDER NAT: Right, right, right.

MR. SOULELES: -- possible future --

MR. VANDER NAT: And certainly you raise a point that can be considered, yes. Other observations, questions? Ed?

MR. MIERZWINSKI: I wanted to get back just briefly to one of what I think is the most significant points of the CFA and CRA study, and I think it gets to -- a lot of people have been referencing the fact that we have the greatest credit system in the world and I think even Evan and I agree that we have a good credit system, but it could be a lot better. That's all we're here to do.

Maybe you could use the language from the Act, from Section 607 that I think Stuart was quoting earlier. You've got to use reasonable procedures to come up with the maximum possible accuracy of your study to try to figure it out.

(Laughter.)

MR. MIERZWINSKI: But we respect that you're going to have to do that. You're going to have to make some assumptions and do that. But anyway, the most important part of the study to me is the idea that -- the

finding, excuse me, the finding that up to eight million Americans could be wrongly characterized as sub-prime due to variances in their credit scores, and I think the study has to ultimately really take into account not just the cost to the industry, that's one part of maximizing net social benefit is to weigh the benefits against the costs of the system. But you've also got to look at what happens to the consumers who are hurt the worst and how do you quantify and value the cost that they are paying in the cost of increased credit, in the cost of denied credit, in the costs that they're paying going through life, paying too much for credit?

Now, if everybody all paid equally too much because of variables in the system, maybe you would argue the system is working well with its variances and problems that it has. But if there are eight million Americans that are being treated badly, I just want to reiterate that you've got to make sure that you address that in your methodology and really try to drill down into that further. That's all I wanted to say.

MR. VANDER NAT: Other comments, observations, advice? Yes, please, Mallory?

MR. DUNCAN: A few thoughts. One -- and, again, I hate to be the one that keeps coming up with the frustrating comments on this panel, but it strikes me

that achieving a true measure of accuracy is going to be impossible. It's just -- it's a doomed effort. Take a consumer who is 30 days late. If you pull the consumer in, show them the report, they can say, I wasn't 30 days late and then you can begin the investigatory process. But my guess is that on looking at a report, there will be a consumer who, in fact, was 59 days late but the creditor reported and said, paid as agreed. Now, that is an inaccuracy, and yet no questioning of the consumer is going to uncover that, no reinvestigation is going to uncover that and we don't know if there are far more of those than there are the 30-day late. So, you've already got this large hole in your investigation.

Secondly, in terms of variations in numbers, if I were to take the SAT twice, I might score 1300 the first time and 1375 the next time. Is one accurate, one inaccurate? It's the same me, same data going into a test on two different days. The real question is, what does the creditor do with that information? How do they compensate? Now, in this case, the creditor is the school. Some schools will take the higher score, some schools will average the scores. And so the real question is, what's -- that brings us back to materiality. So, I think we're going to keep circling back to that rather than looking for very small

variations.

Lastly, in terms of accomplishing the study, if you want to get even a full accuracy, you're going to have to involve the consumer very directly. Now, think what that means. If a consumer pulls a report, potential data points in that report, say that they've got 20 credit lines, 12 reports per year over the last minimum seven years, that's potentially 1,700 data points. Few consumers are going to be able to analyze that on their own and give you a very accurate figure. So, you're going to need an expert and a very few experts who can stay with those consumers and treat every one of them the same.

So, the idea of having 1,000 reports out there with 50 different analysts isn't going to work because the inconsistency just among the analysts is -- you can't deliver the kind of training that would be necessary. You need a very few people talking with a core of consumers and try to pull out of that the kind of recommendations that you can use going forward with Congress. Anything to try to come up with a very precise number is not going to work there.

MR. VANDER NAT: Thank you.

UNIDENTIFIED MALE: Just one observation. In the presentation it talked about increasing number of

price points and that's probably true, there will be more. You know, today we have more stratification of offers than we probably have had in the past. I think this goes to Gerry's observation about cost benefit, though. At some point, you're going to have to debate with yourself the cost benefit of trying to perfect price point offers relative to certain amounts of information versus other effects that that might have on that very same system. We've talked about some of these in sort of the hypothetical, you know, to drive towards always getting it just exactly right for every consumer rather than 95 percent of consumers.

It is probably -- and I think this is important for the study, at least for all of you who are developing the study to consider some of these issues as trade-offs rather than a linear path down which you can go and you will inevitably, at the end of the day, get to something better on the other side. You might be able to get to -- you know, one kind of result could be getting to better I have less data, but it is more timely. Another might be I have more data, but some of it is less timely. Get rid of all the old data, right, because it's mostly older data.

How about not reporting mortgage information because derog mortgage information, I think in your

study, was one of the areas where you had the least updated amount of information, right? So, just get rid of that data.

Now, hopefully, some of us are cringing when we start to think about these kinds of options out there, right? But I think it's very important to begin to realize this, we're moving beyond the pale of perfection and towards what I think is a trade-off kind of analysis. Many of these analyses may enter benefits to the ultimate kind of discussion that we have to have.

But I think it's very dangerous to think that we're heading towards some pure truth that exists out there that we have not yet found and that we're going to get there and we'll be able to get something that is just absolutely definitely better in all the different ways. The files will be more complete, the files will have more information, the files will be more timely, that all of this will exist.

In the voluntary system that we have with the fact that amazingly enough -- and I guess I still have to keep saying it, we live in not just a good credit system, we live in an incredible credit system. I had an Austrian Data Protection Commissioner go, we like our system because there's not much information, everybody looks the same, so everybody will get a credit offer.

UNIDENTIFIED MALE: It doesn't work.

UNIDENTIFIED MALE: Right. At least economists are all laughing at that.

(Laughter.)

UNIDENTIFIED MALE: And I said, well, thanks for sharing. What else can you say at that point? We were so just diametrically opposed in our view of where we needed to be.

So, I believe you're heading towards a trade-off debate, not just purely a linear truth here that you're going to get to at the end of the day. The trade-off is going to be that -- and I think also some of this is really going to be predicated not so much on the purity of the data, but the smartness and the incredible smartness of the lending community to work around some of the variances in data that exist today, and there's an incredible intelligence out there in terms of how well our credit lending system operates, how smart the lending community is, how smart the score developer community is.

So, some of the issues that we have raised today are, yep, not perfect. I think I heard a score developer say, I could do better if I had all the credit limits out there. But would it be worse if you just had no data whatsoever, if you did not have any of that tradeline upon which to base part of your lending

decision? I suspect that is a worse outcome.

So, I think that it's very important you begin to get your balance sheet out on this one because this is not going to be a clean discussion down toward the linear truth. I think that that is probably as important as anything, that there isn't a silver bullet. I think Congress is kind of looking for that. Isn't there a silver bullet? Isn't there something that's just definitely better? You know, one of the market responses to the fact that there are variances in files -- and, you know, we were in there with the RMCRs back when they were being used as well -- was that you had resellers. You know, mortgage (inaudible) companies even in our membership would update information in files. That is a market response to the fact that there's some unevenness in the kind of information that the Fed analyzed in its study.

So, I think a report has to acknowledge that, that there are, first of all, trade-offs potentially to some of the kinds of ideas you might drive towards and also that there are marketplace work-arounds all the time, that lenders are always looking at ways to pick the very best file that's most predictive for them, which by the way is another good thing, right? I mean, it should be a good thing. Portfolios that perform well are good

portfolios overall. That's just framing thoughts, I think.

MR. VANDER NAT: Gerry?

MR. BUTTERS: Your comments prompt me to raise a fairly speculative question for everyone. If the industry generally has the incentives to get things right because through the combination of the lenders and the credit reporting agencies working to try to get good information to lenders to make good credit decisions, if this works out in a way so that the incentives are generally right, then it would be difficult for the government then to follow up and know in as much depth what the industry is doing and to try to improve on it.

So, it seems to me that the argument that the industry is getting things wrong must be based on the premise that there's some systematic bias in the incentives of the lenders and/or the credit reporting agencies, and -- so, I'd like to know if people think they're -- especially I'd like to hear from the economists here. Is there such a -- do you think there is such a market failure, so to speak, that needs correction or is there not?

UNIDENTIFIED MALE: Well, one of the things that we've talked about in the past was in terms of collecting as much information and keeping it as accurate

as possible is allowing the bureaus to get together and overcome some of the antitrust concerns, because as it is now, a creditor can play off one bureau against another if one bureau decided to try and enforce more constrictive reporting.

So, I mean, there are market failures in that sense in the sense that one company can play off a bureau against another and it's hard for the bureaus individually to enforce as much accurate reporting as possible.

One thing that I wanted to emphasize was this question of materiality. In my mind, at the end of the day, the worst thing that could happen is you guys come out with a report that says 75 percent of the reports have errors. If it turns out that most of them are immaterial -- as it's been pointed out, the marketplace does a lot of things to overcome data quality concerns.

One of the things we don't -- we didn't refer to the issues that we discovered as errors because it's in the eye of the beholder and many of them are clearly not errors, but they certainly are data quality concerns. Certainly knowing what the models consider in terms of how the attributes are put together is critical to decide what information you should bother having your consumers look at and challenge, if you will, or question, because

it doesn't do anybody any good to have consumers get free reports, identify lots of irrelevant things that are wrong with their reports or incomplete with their reports and have everybody spending money tracking them down.

The second thing is the market also responds or has responded in how they use the data. So, for example, data -- in the area of prescreening, typically one report is pulled and it's used. In the area of mortgage lending where three reports may be pulled and there's reconciliation of the differences, the market may have already responded in the area of mortgage credit and there are data quality concerns, but maybe they're all resolved or substantially resolved through the market mechanism we have.

So, depending on the kind of credit or the type of use we're talking about, this materiality makes a difference. Some issues are important for some parts of the market and they're not very important for others. The harm to a consumer is different. If I don't receive a solicitation because they happen to pull the Trans Union file and it was incomplete, that's a lot less important to me than whether I get my mortgage or not. So, I think you have to think, also, about how it's used in the market, the kinds of products involved.

MR. VANDER NAT: Let's take about a 10-minute

break here. Let's come back at about three minutes or four minutes after 3:00.

(End of Tape 3, Side B)

(A brief recess was taken.)

SESSION IV: WHAT HAVE WE LEARNED - IS THERE A BEST COMBINATION OF THE REVIEWED METHODOLOGIES

MR. VANDER NAT: -- and we're going to continue with that here in the final session and we've asked various people -- and you can see their names there on the agenda -- to just take the lead and offer their input and whether in favor of our earlier consumer survey idea or not, we're equally interested in hearing critique and hearing what may be a problem there, and we've heard that, too. But we certainly want to hear from everyone their true and frank opinion.

So, we'll start with Robert Avery from the Federal Reserve.

MR. AVERY: Thanks, Peter. What I'd like to do -- my sense is that, A, I'm really pleased that you're doing it and we're not doing it. Let me keep reiterating that. This is very hard and my guess is that you're not going to find any one study that's going to answer all your questions. You're going to get pieces of the puzzle from various different sources.

Let me comment on what is an alternative that

hasn't been mentioned but one that we've been pursuing. We have now just received our third national representative sample of -- it's really a dump of all the electronic files that typically would be used by a scorer from one of the three bureaus. We got one in 1997, 1999 and 2003. It's about 250,000 people. It's identical to the data that FICO would get when they do their -- develop their performance model.

We have written one article, we're updating it, but where we've tried to use this as a source of information on addressing the issue of error, and let me suggest or at least make some suggestions about how this might be potentially a complimentary tool to other sources in getting at this issue.

First of all, let me say what you can't do with this. You clearly can't get at the issue of frag files or misapplication of files to consumers because you basically see what the bureau's assigned. So, you really can't address that at all.

Secondly, you can't address or at least you can't directly address errors of omission because, obviously, they're not in the file. But what you can do is we do think that there are a number of things that you can use these files particularly if you do it on a recurring basis and sort of track things over time, that

you can learn from these that are relevant to the question of whether you use errors -- data quality issues that Glenn used.

It seems -- so, let me just recite -- go through a number of the things that we think you could use it for based somewhat on our own experience. You can certainly identify some sources of missing information. Credit limits is an obvious example of that.

But there are other items that you can track. One is you can identify lenders that don't report any minor delinquencies. One use of the file we found was to sort things by lenders. You can identify how many lenders only report derogatories despite -- look at how many that don't have any accounts in good standing. You can report how many don't report minor delinquencies. You never see a 30 or 60-day. You can clearly also identify lenders that no longer report anyone and these are clearly signals of lenders for whom the files can't be updated. You know, we can identify someone who's not reported any borrower in the last year. If you have a very large national representative sample, presumably you should be able to identify those lenders or at least approximate it.

You can also use the data to -- one of the areas that we focused a lot on is stale information. And

just to -- again, along with the sort of legalistic discussion of errors we've had, let's say stale information we define as information that was accurate when it was reported but no longer necessarily reflects the consumer's present circumstances. How's that as a -- we had a lot of difficulty figuring out what to call it.

But in some cases, it's clearly inaccurate. Let's say a consumer that reported -- was reported as being 60 days delinquent a year ago and it's carried that way. It may still go on the FICO score. If it's five months ago, it would probably still go in. Well, it can't be 60 days delinquent. It's either been paid off, it's gone to 90 or it's gone to -- but it's probably not 60. That's probably the best bet.

And you can look and see how prevalent these kinds of -- whatever the -- data quality issues there are, track them over time and -- another example -- further -- we argue you could go a little further with that. You could try to look at what the implications would be if you had updated. You can simulate various scenarios about what might be the case. For example, if those 60 days were all paid off, let's suppose they were -- instead of -- what they really were were a mortgage, change servicing, it was refinanced, they didn't get the

notice out to the department handling the servicing of the mortgage, they just didn't get a payment, they recorded it 60 days past due, but, in fact, the mortgage was already re-fied. So, it's inaccurate and they just don't report it anymore. That -- you could say well, what -- that should have been reported correctly. What would be the impact on somebody's score? So, that's the kind of simulation exercise you can go through.

One of the things that we're doing now -- you can also look at duplications. One of the things we've tried to do is to look at, for example, potential overlaps. If an account is sent to a collection company, it should be taken off the tradelines and then just reported in the collection accounts. We tried to look at -- guess using various items how often it appeared that they were duplicated. We also looked at collection items themselves which are just loaded with a lot less information in the collection items and it looks like they are messier. I'll just use that term, public records. How often they appear to be potentially duplicated. You see exactly the same item, but two slightly different dates, a different docket number.

Is it really a person went bankrupt twice in the three-month period or have they just refiled but under slightly different terms? Those are the kinds of

things you can track getting this nationally representative sample.

Now, where we think it is most useful is this issue of materiality. The problem you're going to have, unless you can piece together errors and relate them back to an individual and an individual score and then track how the score would change were the error not to have occurred, you really can't get out the issue of materiality. So, one of the things that we are using our data for is as a template for simulating materiality. Let me, in two seconds, just describe kind of the procedure.

We had Paul Calem (phonetic), one of our colleagues, estimate -- fit a function to the bureau score, which is on our records, to approximate it using some sort of linear weighting of the attributes that are believed to go into this. So, we have a linear approximation to the score. And then we reverse engineer all the attributes, so that we actually figure out how they calculate what is the months since most recent delinquency for a retail trade. In the latter, we've done very accurately. We have 99.8 percent, I think, accuracy in the reverse engineering. So, we're reasonably confident in that.

And now, we take an example, like let's assume

that the mortgage that was reported as 60 days, let's assume all of them were actually paid off accurately, and you just go back in the data, you reset them all to paid as agreed and rescore and look at the change in the score that would be implied by running it through your model.

An example of where we did this is the student loan reports. We simulated, well, what would be the effect is Sallie Mae didn't report student loans and we simply took half of the -- they had about half the student loans. I think we took a set of lender numbers that added up to half the student loans in our file and we simply removed that and rescored all the people. Interestingly, just to show you that this is much more complicated than you might think, that exercise showed to us, on average, this helped students, it didn't hurt students. The reason being they are thin files. So, if you have a derogatory, you're going to get in the marginal rate. You're going to get 620, 580. You don't have any good reports. The students that had good reports still are thin even though they had one -- so, now they have one good loan rather than -- or two good loans rather than one.

The help to the group that were in the -- the marginal students were much more likely to have a derogatory on their student loans. So, in total, by

removing the set of people -- you know, like 25 to 30 that had student loans -- were collectively helped by Sallie Mae not reporting it. So, that's an example of where you really would get a very different inference than you would -- everybody would think, well, my gosh, this is just hurting all those small thin file students that don't have much of a record and you're taking away that one. Sure, you are hurting those students. But interestingly, collectively as a group, as a whole, you're actually benefitting them by not reporting it. That's an example.

Some of them -- another thing we did to show you how you might even look at the issue of omissions is take the set of lenders we identified as sub-prime, by having half of their loans be made to people with scores below a certain level, that did report satisfactory accounts -- so that's the conditions -- and now you say, well, what would happen if they simply had not reported the satisfactory accounts for those people? And you take them out and rescore it. That is an exercise that simulates what would the impact be if a sub-prime lender chose not to report their loans.

Now, it doesn't tell you how often that happens. We don't know. That's an area of omission. But I'm citing that as an example of how you could use

the file to look at issues of that type. Even where you can't measure the incidence, you could use it as a template. My guess is having this kind of a template would allow you to take bits of information from other sources and use it as a way of simulating any potential impacts.

Now, just in closing, there's a cost to this, and it's actually a pretty significant cost. We have received just unbelievable support and assistance from the bureau we've been working with. In a way, I often have trouble understanding why they're doing it. But these have -- there is zero documentation. We receive a tape and it just -- we receive a tape and we have to figure out what's on there, what all the codes are. There's a little assistance from them. It's not always right when we get it. They are not used to dealing with people that get a dump of their files and want to go look at it the way we're looking at it.

So, we have had to -- and we have a mainframe and this thing is a big file. It uses a lot of -- thankfully, it's free, but it's not an easy file to use. So, there's a very significant investment of time and effort in -- this is not something you can casually use. Reverse engineering it took a lot of effort. But I think the reward is, if you do make that investment, that

you can get a much better understanding of the nuts and bolts of how this works, and that may be a critical piece of glue as you put together your study to think about.

So, that's -- I'd just encourage you to go down that route as using that as a potential complimentary -- not that there aren't other things. I'll let others comment on the value of the other things.

MR. VANDER NAT: Thank you much. Now, we'll hear from Greg Elliehausen from the Credit Research Center.

MR. ELLIEHAUSEN: I was asked to discuss the ideas of using consumer survey methods to review and identify possible errors in credit reports as a basis for assessing the accuracy of data. The type of survey I will discuss is one similar to the one outlined in the RFQ for the FTC pilot study.

I've had a quite a bit of experience with consumer surveys over my career and I'll discuss this survey on the basis of my experience.

First, in my judgment, a survey of a representative sample of consumers would be a necessary part of the analysis of accuracy of credit reports. Only a consumer can identify some errors or omissions. Discrepancies in credit reports do not necessarily indicate errors and the absence of discrepancies does not

mean that there's no error. Focusing on certain events such as credit denials on mortgage applications provides an unrepresentative sample of consumers and credit histories. Thus, if one wants data on the overall prevalence of errors or omissions in credit reports, a consumer survey appears to be needed. Since consumer's credit opportunities, for example solicitations, often -- or the type of solicitation that they get, often depend on information on credit reports, concern with the accuracy of credit reports is warranted.

Consumer surveys are not free of errors, of course. Consumers may not be completely representative because the sample frame does not have complete coverage of the target population and because sample consumers refuse to participate and respondents may make errors in responding to questions. The remainder of my remarks will address briefly each of these areas.

Inadequate sample frame for representative sample of consumers, I believe, is not a big issue. Credit use is not a rare event by far. Most consumers use credit. Random digit dialing, which samples telephone numbers, is widely used to obtain representative samples and would work for a survey of credit reports -- about credit reports. This method obviously does not cover households without telephones.

About 6 percent of households, which are mainly low income households, do not have a telephone. Because of the great cost advantage of telephone surveys over face-to-face interviews, telephone surveys are commonly used, even to study disproportionately low income populations.

It is often -- the under-coverage is often compensated for construction of weights. This may be an imperfect compensation. Households who do not have telephones may disproportionately use low income market retailers, rent-to-own stores or pawn brokers who do not report and may be untypical of other low income consumers. But I think there's no low cost way of avoiding this bias and these customers are perhaps another study.

A mail survey would not be an attractive alternative to a telephone study. Any benefits from representativeness in the sample frame would be more an offset by the low response rate typical in mail surveys.

It is not clear that any special sampling is needed to analyze particular groups. If one is concerned with errors in accounts with negative information, the random sample of a few thousand respondents would be sufficient for analysis of this group. As measured by FICO scores, about a fifth of consumers have information

in credit reports that causes them to be considered high risk of serious delinquencies or other serious adverse behavior, and about half of consumers have delinquencies of 30 or more days over a four-year period.

Turning next to the problem of refusal to participate, the process of interviewing consumers about errors in credit reporting is more complicated than the typical consumer survey. There are multiple steps in the process with breaks in the process and the need to recontact respondents.

Let me go through the steps. You have to contact a consumer, agree -- obtain agreement to participate, request credit reports, then there would be a break. The consumer receives a credit report. You have to recontact the consumer, interview, identify possible errors and omissions and decide to request an investigation, another break in the process. Send a consumer a form requesting for investigation, the consumer submits the form requesting an investigation, another break in the process. A consumer receives report of the investigation. You recontact a consumer in an interview. This process is cumbersome and raises concerns about participation and attrition.

The incentive to participate in the survey may be greater than the typical survey. There are both

public and private incentives to participate. The public benefit is to provide information that may guide public policy. This benefit should not be underestimated. This may be one reason why government-sponsored surveys often have higher response rates than private surveys. The private benefits are the receipt of credit reports at no cost, assistance in understanding the information in credit reports and assistance in investigating possible errors. There may also be -- at the end of this, it may be possible to offer a monetary incentive for completion of the program, that may also reduce attrition.

Provided that there's an assurance of legitimacy and confidentiality, resistance to initial participation is probably not a big problem. However, the breaks in the process provide the consumer with opportunities to refuse to cooperate further. This seems the greater concern.

A good questionnaire design and interviewer training can help mitigate attrition. The interview length must not be too long. You have to limit the amount of information that you collect. That means you can't collect information about all possible errors. One has to focus on certain items that are deemed most important.

Making the process of investigating errors as

easy as possible for the respondent will encourage the respondent to follow through to the end. And as I mentioned, it's possible a monetary incentive for completing the process would be effective.

Finally, I'd like to discuss response errors. I will use a cognitive framework of the response process to do this. This process consists basically of five stages, end coding, comprehension, information retrieval, judgment and communication. In formulating an answer, the respondent must first have the knowledge required to provide a valid response. Most respondents likely have knowledge of their own credit history; however, consumer's conception and that of a creditor or researcher may differ. An example that was discussed many times already today, a consumer may view a long inactive credit card account as closed, but creditor may not. Many consumers may not be willing to adjust their views. The researcher needs to recognize such situations in designing a questionnaire and collect information that allows them to identify these situations.

The next stage is comprehension. There must be a shared meeting among the researcher, the interviewer and the respondent with respect to questions. Credit reports have terminology that's unfamiliar to many respondents. The questionnaire will have to be designed

to help respondents understand the information in the credit report. Training interviewers to answer respondent's questions about credit reports and appropriate responses can facilitate respondent's comprehension and thereby increase the likelihood that responses will be accurate.

The next stage in the response process is the retrieval of information. Ideally, the respondent would access records, but the consumer may not retain records for some accounts and records for other accounts may not correspond because differences in timing. If no records exist or if retrieving information from records is too difficult, the respondent may attempt to recall information or estimate the correct response. This is likely to be typical. Some respondents may (inaudible), that is, they'll exert minimal effort in responding, providing answers that they view as good enough rather than precise results.

An interview who probes completely and persistently until an acceptable response is obtained can counteract some of the effects of satisfisance (phonetic).

The last two stages of the decision process involve the respondent's judgment of the appropriate response and communication of that response to the

interviewer. For closed-in questions, the respondent decides which response category is retrieved -- fits the retrieved information. For an open-end question, the respondent formulates his own response. If a respondent perceives legal, economic or social threats, he may alter his response accordingly. Deliberate mis-reporting can often be mitigated by emphasizing the neutrality of the interviewer and the survey sponsor.

If adequate assurances about sponsorship and confidentiality, the subject matter would not seem to be so sensitive, but deliberate mis-reporting is especially a great concern. The Federal Reserve Board's survey of consumer finances have, for many years, contained extensive questions about credit use and payment behavior, including questions about delinquency and bankruptcy. The data are subject to error, but they have been useful in predicting consumer credit behavior in many studies.

Reporting errors are much more likely to occur because of consumer's inability to recall some information precisely or because a satisfising (phonetic) behavior. There may be some situations in which consumers perceive that an error is in their favor and be reluctant to identify an error regardless of whether it is in their favor or not. In these situations, it is

unlikely that consumers would be willing to initiate an investigation or even admit it. One cannot force consumers to seek an investigation against their will. This possibility is unavoidable, but it's not, in itself, a reason to reject the use of survey methods.

In summary, I believe that a consumer survey is a necessary part of a comprehensive analysis of consumer credit reports. The consumer survey is the only way to obtain data for a representative sample of consumers. Such a survey will be difficult and very expensive. I think Bob mentioned that the Survey of Consumer Finances cost $6 million. This has many more steps than the Survey of Consumer Finances. So, it will be very expensive.

The data will also not be without error. However, there is sufficient reason to believe that consumers will be willing to participate in such a survey and they will be able and willing to report much of the requested information. It's important to use professional interviewers for these surveys. The training of interviewers in persuading respondents to cooperate and provide valid answers is very important. They will require additional training on credit reports -- on interpreting credit reports.

Ultimately, a pilot study like the one that the

Federal Trade Commission proposes is the only way to obtain more information about how severe the problems are and a more precise estimate of the costs of such a project on a national scale. It's an effort that's, I think, well worth doing.

MR. VANDER NAT: Thank you, Greg. I think that during this session that we'll just have various people state their views and then at the end of the various statements then we'll conclude with some more group discussion. So, right now, we'll move to Alan Westin from Privacy in American Business.

MR. WESTIN: In his famous oath, as you may recall, Hippocrates told physicians, first do no more. After reading all the reports that have been published in surveys, listening to the discussion, I'm seriously concerned that there's going to be nothing but harm from this exercise, and I want to take a few minutes and explain why.

First, a little historical perspective. I think I'm the only person in this room that testified in Congress for the Fair Credit Reporting Act when it was originally introduced after having studied the way that the credit bureau system had developed in the 1960s. And my first perception is that the Fair Credit Reporting Act with all the amendments down to last year is actually the

most successful statute in the world on data subject access correction of errors, moving an industry into the proper relationship in a fair information practices sense to the American consumer, and it has made the American credit reporting and consumer system astonishingly effective.

Sometimes there's been a discussion here as though credit is in short supply and we've got to protect people and they need to get to it. Hey, anybody gets credit. The industry pushes credit out constantly. And even though there can be some wrong situations, the general one is that with the Fair Credit Reporting Act as the framework and the incentives of the American marketing system driving the provision of the offering of credit, ours is an extraordinarily lubricated credit reporting system.

When I travel and meet with data protection commissioners around the world, they're the ones that say, look, you passed the first major statute in the world on fair information practices. It works well and more people look at their record and get their record corrected than in any other system in employment, insurance, health, anywhere under any legislative framework.

I'd be the first one to say that it's been an

interesting interaction between the industry and consumers on making that happen, as there have been changes in technology and applications, the industry has, in a real sense, been dragged kicking and screaming before Congress so that each time in 1996 and then in 2003, very important expansions and enhancements and improvements of FCRA have been legislated, and then generally after that, the industry said, gee, that's great. I mean, we can live with this and it's going to work and it will make our system better. That's the dynamic of any industry in relationship to consumer protection or legislation.

But I think what's important is to see that this industry now as a result of the 2003 Act and other things is in a tremendous state of potential change. The FACTA Act, as I mentioned earlier, will have each individual able to look at their credit report and that will create new interactions and great pressures, expenses on furnishers and on the industry, and there will be a major adjustment to that which we really don't know the parameters of that yet.

And then I.D. theft is already corrupting many of the record systems because of the activities of very creative and dangerous fraudsters which means that instead of having a proper data system without criminal

intrusions, you've got data systems that are being corrupted by the activities, not just of the identity theft people, but also of the credit repair clinics and other kinds of harmful inputs to the data systems that are going to be studied here.

Then you have the merger of banks, insurance and investment companies which makes some of them say, gee, we don't need credit reporting at all, we can do this ourselves with our own data about our consumers, and so you have a change in the way in which credit reports may be used in the future inside some very, very big and important players in the financial services industry. Then, again, you've got some major conflicts unfolding between privacy protection in the society and accuracy of credit reporting. As we limit the use of the Social Security number and other forms of identification for good reason and to try to limit identity theft and other kinds of forays on consumers, we're making it harder to accurately connect pieces of data and to achieve non-fragmented records about consumers.

In the same way that HIPAA has resulted in some significant problems in hospitals and law enforcement and other kinds of things, you sometimes pay a price for privacy protection. We know, many of us, that it's worth it, but it has an effect on these systems that we're

looking at. So, how to factor in changing privacy limits on higher accuracy in credit reporting systems is really very important to keep into account.

So, what do I conclude from this? I'm very worried that as I listen to the conversation, there seems to be a consensus that it will take multiple surveys with different samples and different criteria in order to try to assemble the mosaic that could give us some good conclusions. I don't think you're going to have the money to do that and I'm afraid that what's going to happen is the FTC is going to say, gee, we have limited funds, we're going to have to compromise, we won't do all the studies that we need to do or we'll do them but we'll cut back on the samples because we can't afford it.

I very much agree with all the people who had said, are you really capturing the dollars that are involved here? You need experts, you need a variety of samples. You may have to pay for the credit reports. You may have to give monetary incentives to the people who are going to be giving you the information. You may have to go back and do record checks with the furnishers. If you add up those kinds of costs, I think you're going to be in a staggering large, relative to the federal budget, kind of cost for these surveys. And it's normal behavior to say, hey, we've got to work with the best

we've got, Congress gave us a cattle prod and so we've got to do what we're told, and there will be fatal flaws in this exercise.

Now, we all agree that you can't pursue perfect so you settle on what could be done. But if what can be done has really fatal errors and wounds in it, then you have to ask yourself what can you do. Obviously, go to Congress and ask for more money. That may not be the most realistic Washington solution, but it may be, in fact, the reality one.

Is there anything else you can do? Well, at the least, I think, this first couple of studies ought to be called experimental. There ought to be a way of saying we draw no statistical conclusions from our first set of studies. We are trying to get our arms around a problem that everybody agrees ought to lead to improved credit reporting and improved consumer decision making, et cetera.

So, that means that you have to communicate in a way that all the spinmeisters will not be able to change, that this is not yet a dependable study. This is experimental, it's provisional, it really has to be communicated as something that is trying to get it right. You will not get it right, I'm sure, the first time with the amount of money that you will have. So, the trade-

off is present this as something that is a small work in progress and build toward in the second iteration or the third iteration what could be reliable studies from which statistical judgments could be made.

MR. VANDER NAT: Thank you, Alan. In response to that, we did follow that advice in our very first pilot study where we say expressly that no statistical conclusions will be drawn from the pilot study.

MR. WESTIN: Carry on.

(Laughter.)

MR. VANDER NAT: All right. Let's continue with Richard Le Febvre from the American Credit Bureau and AAA Credit Expert Counseling Services.

MR. LE FEBVRE: Well, everybody who knows me, everybody knows I'm pretty blunt, and so I want to have a couple of disclaimers. One, with regards to repositories, this is not an attack on the repositories, nor is it an attack on Fair Isaac, but I want to show you what reality truly is. I'm going to skip some of these because I've been given a time frame, but, again, basically pretty much what we've talked about here as far as what an inaccuracy is.

Now, my interpretation as a past CRA, a credit inaccuracy is any misleading, incomplete and/or outdated data which fails to convey the full and true picture of

the consumer's credit risk, credit capacity, credit standing, credit reputation and credit worthiness.

Who's to blame? Is it basically the repositories? Absolutely not. And as you see me go through a lot of this. There are issues here with regard to incentives with regards to credit furnishers.

Accounts and bankruptcy, between the three repositories you'll have two -- basically two different types of ways in which they handle bankruptcy tradelines. Trans Union and Experian makes the account number match to the list of creditors. Equifax has a different approach. Re-aging, again, another way of regaming the system with regards to changing the date of occurrence or date of first delinquency. The seven-year statute of limitations starts at the date of occurrence. So, if it's being re-aged, it's a way to keep the statute running.

Duplication of accounts, consumers got a double and triple ding for the same bad debt creating a false representation. This shows a false picture of a consumer's credit reputation and credit (inaudible).

We've talked about omission. Don't touch that one.

(Laughter.)

MR. LE FEBVRE: Now, we did -- I want to tell

everybody, one, you're dealing with some -- I've been in the credit industry for about 15 years. There's probably more education in this room that it's absolutely scary. Everybody's got an MBA.

What we did for 1999 through 2000, we logged in all of the credit reports and we broke them down to these basically six categories. We classified them as minor errors and what we classified as major errors. Now, this is a scoring system not to compete with Fair Isaac because it's not a predictor. It's an accuracy checker is what we called it. I created this back in 1998. Because we were one of the first resellers that had the ability to rescore, we needed some way of determining what the error rate was in a consumer's credit file. We went back to elementary school and we produced this to the mortgage brokers so they could turn around and give it to their consumer, especially when you're sitting at a 672 and you need a 680 to get 2 percent down versus 10 percent down.

Here's our study. Basically, what we did is we tracked approximately 10,000 credit reports, untouched and we looked at them based -- if you can see here what we classify as missed reporting and gross errors, and again, on the other slide, we broke it down to exactly what the differences are. Again, after rescoring -- does

everybody understand what rescoring is, by altering the data that was inaccurate at the bureaus and update, you re-pull the file and it generates a new score.

Could consumers need rescoring? Again, this tracks the consumers who are sitting at 750, they should have had a 770 hypothetically. So, it's not breaking it down according to scale.

Now, here's what happens in reality. This is what goes on each and every day in the mortgage arena. It's a cartoon made to make a point. Now, here's our first example, and you can see what happened. You have a difference in score of 142 points. First item, right here, Discover Card was reported to Experian, one times 30, date of delinquency 5/96, reporting to Trans Union as agreed, reporting to Equifax, again with that same one times 30, late 1996. Verizon, date last reported, September of 2000, August of 2000, August of 2000 again with the other bureau. It is feasibly impossible to be 60 days past due with one month date of last reporting. And this is basically the rest of the credit report.

So, you're looking at basically two derogatory items in a consumer's credit file, look at the discrepancies in the scores, 583, 725, 680.

Retired female, 106-point differential based on a one times 30, one times 90, one times 120 and one times

150. Scores, right here, right here and right here. Only derogatory item on her credit file is Macy's. New scores, 743, 733, 744.

This is probably the most alarming one that we did over our period of time. Minority consumer, there's a big issue on the Hill these days, is credit scoring discriminatory? Consumer, three-year unpaid credit file, mortgage paid on time. The only derogatory item on the consumer's credit file is this past due 30 days with Discover, which was an error. So, again, a thin file, one $10 mispayment. This is -- I think I addressed this before. This is what we called an unmerged file. Here's Discover reporting to all three bureaus. It's reporting past due 30 to Experian as agreed, with Trans Union as agreed, with Equifax. Scores, here's the differences right here. Scores went up with Experian because they updated the file. Scores took a negative nosedive, 587, 551, 587 and 588 for one $10 mispayment, which, again, was an error.

Example four, CVC pulled a report on behalf of a lender, Beacon score 520, 506 Empirica and Experian 541. The problem with this file is when it was pulled, there are a total of 20 charged-off accounts belonging to his son. Everything on this gentleman's credit file belongs to his son. When we pulled it, because they

wanted rescoring, we pulled it, the only file that we got was Equifax with -- and, again, this was still inaccurate because it still belonged to his son. But the point is, you have different credit reporting agencies using different software to access credit files. You have one that reported 20 charged-off or collection accounts and you have another one, when we pull it, which was one.

Merged blending problem, again, quality control by the lender, denied the consumer, based on this tradeline right here. General Motors was reporting one times -- three times 30. In the mortgage arena, any delinquencies in the last 12 months is a major no-no. That's CISCO, CBC. Again, General Motors reporting three times 30. Now, here's the problem. All three repositories -- again, this is not a repository issue, this is a furnisher problem. What happens, this is called mortgage blending. If you add Trans Union, Equifax and Experian together, you get three times 30. It's a dispute that can never be corrected if the consumer disputes the repositories at three times 30.

This is -- example number six was the Washington Post article where we took a lawyer out of Orange County and rescored her and moved her 200 points. Basically, the problems in her file were repossession, numerous account balance errors, late payments and paid-

in-full mortgages. Mercedes Benz was reporting a car that she didn't own as repossessed. I'm not showing you the whole file, but I make my point. Her scores, 597, 569, 580. After rescoring, 780, 738. And there's the problem, Mercedes Benz was reporting the account -- it says, paid-in-full, but the account was not even hers.

Example seven, differences -- I gave you an example of Sears before, we see this every single day. Reposit -- in this case, Unified, REF -- I don't know exactly who that is -- reports seven times 30 to Equifax, eight times 30 to Experian, two times 30 to Trans Union. Look at the discrepancies in the date of last delinquency, '97, 2000. Big issue with a consumer's credit score. Again, here, three times 30 with Equifax and Experian, never delinquent with Trans Union.

Consumer reporting -- Greenpoint reported her six times 30 days delinquent, all within the last 12 months. All three repositories in this particular issue, meaning Greenpoint reported it the same to all three. You have -- this is what we'll call a universal data form. This is the form in which the credit grantor sends to the bureau on a manual or an automatic basis. You see right here, May 25th, 2001, first UDF to correct the mistake. Still not correct. Again, April 2001, very clearly, it's to remove the six delinquencies that were

in error. Again, May 14th, 2001, still reporting six times 30. It didn't get corrected until we actually rescored the consumer file.

Last example, public record, one of the things that Hogan and most of the other credit -- public record data furnishers, they don't -- they have not figured out a way to report that that's a $9 judgment in favor of the plaintiff. It comes up as a $9 judgment against the plaintiff.

And here's my issues with regards to --

(End of Tape 4, Side A)

MR. LE FEBVRE: -- create a standard of practice to define clearly what an inaccuracy is in a consumer report. Use a combination, in my opinion, of the CFA, NCR study in conjunction with certain percentage of consumer overview. A panel of independent experts or at the FTC then must review all credit files in order to determine a true inaccuracy. And that's basically my presentation on what I saw for 15 years. This is not abnormal, this is what we saw every day. There's truly nothing the repositories can do to stop it because as resellers, we saw their variations in scores, we saw them. And when you get the same furnisher reporting totally different sets of data, you question the integrity of our credit system.

MR. VANDER NAT: Thank you, Richard. We will have one more presenter and then we'll enter into a group discussion. We have Joseph Duncan from the Information Policy Institute.

MR. DUNCAN: I was waiting for Evan to do his. That's all right. Did you skip Evan?

MR. VANDER NAT: I'm sorry, I was reading too quickly. I did not mean to miss you Evan. I truly did not.

MR. HENDRICKS: That's an omission, we don't know if it's an error.

(Laughter.)

MR. VANDER NAT: No, that was an oversight.

UNIDENTIFIED MALE: We tend not to think that was an error, actually.

MR. HENDRICKS: Quiet.

(Laughter.)

MR. HENDRICKS: Anyway, Richard had a great segue because as someone who watches this system very closely through cases by working with attorneys in this area and by doing the research that I've done, I think that we do have strong evidence of inaccuracy at least in certain circles. We just don't know how pervasive it is. That's why this study is so valuable. Therefore, I'd like to sort of identify some of the areas of accuracy

and inaccuracy and come up with ideas as to how we might want to approach this.

But I, too, favor an experimental approach, but also a pluralistic approach. I think that we've talked about consumer surveys, we've talked about looking at the universe trying to get a global feel. But I think also part of this survey ultimately should be drilling down and looking at what -- looking at the areas of chronic inaccuracy and finding out what is causing those chronic inaccuracies. I think that will be very helpful.

Professor Westin already mentioned identity theft. Identity theft is a direct assault on the accuracy and integrity of credit reports and the main damage from identity theft is cleaning up the pollution of the consumer's credit report. I think also, notably, identity theft started out as a person by person crime; now it's sort of gone wholesale. Now, gangs are doing it. They're getting into databases, they're hiring insiders, they're hitting many mailboxes at a time. If they can't convert the mail into an identity theft instrument, then they sell it to a fence which can.

There's many different ways that identity theft is happening and from identity theft, we have this issue that's come out recently in the press, the issue of subfiles that when an identity thief applies in their own

name, but uses the Social Security number of the victim, then that creates a subfile and when the victim tries to find out what's in their polluted credit report, they can't get the subfile because it's in the name of someone else. So, this algorithm allows the disclosure of the victim's file but doesn't allow the victim to come back and get his or her file so they can start cleaning it up. This is part of an ongoing investigation in Utah and I think there's other litigation pending over this. It's a very significant problem. Again, we don't know how extensive it is.

Similarly, mixed files was identified as a problem in the early 1990s through the PIRG studies and through enforcement actions by the Federal Trade Commission and State Attorney Generals. All the evidence I see, including the CFA/NCRA study indicates that mixed files continues to be a problem here 13 years later, and I know that at least one CRA and possibly all of them have not significantly altered their algorithms for matching and merging data.

Therefore, despite the fact that we've had these consent decrees -- the consent decrees form the basis for the 1996 amendments and the need for even a higher and more specific standard of care has led to FACTA, but there still has not been, in my opinion,

significant adjustment upwards of the rigor in which we try and make sure that people are who they say they are when we merge their data into the (inaudible) credit report and disclose it to a credit granter. And, of course, identity thieves have benefitted from this situation. It all goes to, again, a direct assault on accuracy.

Then we have -- another thing that's interesting, and it's a little farther out there, but I think it's something that we have to keep in mind just to see if there's any correlation is that bankruptcy statistics spiked. They basically held steady around 840,000 a year, but then in 1995-1996, they spiked to about 1.1 million bankruptcies. Elizabeth Warren has done a lot of terrific research on bankruptcy, but I thought it was interesting that this happened to coincide with when preapproved credit card offers became much more prevalent and those, of course, are based on credit reporting.

Now, I'd be the first one to say that there's no way that I think that the rise in bankruptcy is caused by credit reports or the credit reporting system, yet I think we have to be careful to make sure we look to see if there's a link there and I don't think anyone's done that yet. I think one way you could go from bankruptcy

cases and maybe back up is another -- maybe that's a study for another day, but it's something that we want to keep in mind.

And then the final issue is that as we talked about free reports, the credit reporting agencies were known to have said that they weren't as concerned about giving out the free reports as they were about handling all the disputes that would come in after people started reading them.

Now, you still could say that that's because people are going to misunderstand their credit report and things that are not truly inaccuracies are going to cause those disputes, but I still think that's an indication that there's a significant level of inaccuracy out there, and as Professor Westin pointed out, we're going to learn a lot more about this in the coming 18 months as more and more people, we expect, will be getting their credit reports.

So, in terms of looking at this universe of chronic inaccuracy, I think one place that we'd consider starting is complaints to the Federal Trade Commission. It's my understanding that the FTC has gotten some 15,000 complaints per year or so about problems with credit reports, and that's a universe of people that clearly have some kind of problem that have figured out that you

can complain to the FTC and have written to you, and I think that's a cry for help. I think that's a universe of people that would be easy to get in contact with and that would be very revealing in terms of are there consistent patterns running through that universe of people. I think they would be very willing to cooperate.

Similarly, we have victims of identity theft and victims of mixed files, I think, would be harder to reach, but certainly both the FTC survey and the identity theft resource center have already shown that there's a direct correlation between being a victim of identity theft, problems with your credit report, the damages they're trying to clean up and the chronic inaccuracy that occurs. In the FTC study, I remember there were percentages of how many people were satisfied with their relations with the credit bureaus is one of the statistics buried deep in there. So, I think there's potential there to understand what are the patterns.

I think another very fascinating possibility, and this is something you'd really have to find the right scope to make it manageable, like maybe just do it in a zip code or -- and this is where we really need ideas, but to do a Social Security number audit. To take a defined universe, because there should only be one person associated with one Social Security number, yet there's

anecdotal evidence to indicate that there's a lot of different names and addresses -- because of mixed files, because of identity theft and because of, you know, perhaps the matching algorithms, there are a lot of different names and addresses associated with one Social Security number. That would be something you could do in an automated way to get some really interesting leads and then decide, is this manageable to dig down further and get more -- is there a chronic inaccuracy here?

Finally, in the General Accounting Office report, I think that the one that came out this last summer, Stuart's group provided some statistics where they said -- this goes to the issue of investigations, reinvestigations, disputes. According -- the CDIA said that 46 percent of the disputes were verified as reported, and I'll stop right there because we've seen several cases because, when people dispute a lot of times, I mean, they're supposed to investigate but the credit bureaus and the credit grantors don't really investigate. They just do an automated comparison of what they reported before to what's being disputed. So, rather than really investigate is what they reported before accurate, they just say, we confirm, we verify that's what we reported before, and they side-step the issue.

So, we've seen a lot of cases where when they say this is verified as reported, they were not going to the underlying truth, and they were perpetuating inaccuracy and they were perpetuating problems for that consumer trying to get it cleaned up. So, the whole -- we know that most people request their credit reports after they get an adverse action notice. So, the whole issue of drilling down into this universe's statistics could be very revealing. Besides those that were verified as reported, 27 percent were modified or updated per the furnisher's instructions, 10.5 percent had data deleted per furnisher's instructions, 16 percent had data deleted due to statutory time limit. So, all those -- some very interesting possibilities, that's data that's already captured.

In closing, I'd like to say, you know, we talked about the materiality of, you know, if someone's -- the real issue is if someone's denied credit, and we know in risk-based pricing that the harm -- the credit and the pecuniary harms are going to be much more subtle, but they'll be real nonetheless. But as economists, I think you also want to identify the other costs that are involved here. There are harms in costs that are recognized by the law as actual, and that's the harm and the cost of trying to clean up a

credit report that's inaccurate, the time it takes. So, it's time, energy and there's sometimes lost opportunity because you have to spend your time doing that rather than something else. I think there's also a certain level of frustration and emotional distress, which is also recognized as a harm and a cost.

So, I think that we want to -- as we look at the costs, realize that there's more at stake here for consumers than just the pecuniary costs. Thank you.

MR. VANDER NAT: Thank you. I guess now we move to Joseph Duncan from Information Policy Institute.

MR. DUNCAN: Thank you very much. It's tough to follow all these comments that have been made today. What I want to do is offer some summaries about what I think are four areas that need some attention. But, first, I'd like to congratulate FTC for having this forum. I think an awful lot of interesting comments have been made that will be nuggets for you to consider, that will be useful. I think an awful lot of good information has been revealed. Clearly, there's a Congressional mandate to work to improve the credit reporting function, which I happen to believe, along with some people around this room, is one of the key drivers of the U.S. economy.

Alan Westin did a nice job of pointing out some of the changes that will flow because of the law itself

in terms of people looking at their credit reports. I would just like to add to that that we also have increased use of searching for, shopping for credit and automated underwriting. Those are our fundamental changes in the way that credit is allocated. Those are accelerating and changing the environment.

I'd also like to comment on the fact that we are leaving, in an economic sense, an unprecedented period of low interest rates. During the refinancing of housing, a huge percentage of refinancing has been in variable rates. Some are variable in three years from now, some are variable one year from now. As interest rates rise, households are going to find a squeeze on their finances because of that adjustable rate taking money out of their pocket.

So, while we begin to look at the impact of credit reporting, we're going to be doing it in an environment of growing credit risk. So, that adds another dimension, which I think we need to track. This really brings me to my major point, which is that the FTC has a unique opportunity because this is the start of a longitudinal program which will hopefully extend for 11 years and is almost destined to be 11 years of dramatic change from our present condition.

So, I think the early design needs to try to

capture information at this turning point and see what the effects are. I think that will be something we haven't talked about today but may, in the long term, be very valuable.

The other three things I want to comment on besides the longitudinal analysis are the issues relating to the consumer and the need for robust sample design, which was covered a little bit earlier, and the definitions of accuracy. I, obviously, can't deal with those in detail, but I have a couple thoughts on those four subjects.

When you think of longitudinal research, there are two forms of it. One is cross-sectional. You're doing a similar survey in different years or maybe every two years, maybe every year, and you get a cross-sectional picture of what's going on at that time. But another form of longitudinal survey is to have a panel or a cohort that you follow over time, and I would suggest that when we're looking at credit, we actually need to do both of those. We need a profile of the credit reporting function to look at some of the issues that have been posed around this table on a cross-sectional basis year after year. But we need to select a sample of people to follow over time, and I think if we capture that we'll -- the two approaches will provide an enhanced perspective

on a longitudinal basis.

Turning to the consumer, we really focused on the consumer today in many ways because the consumer is the ultimate person in terms of knowing about their own credit report, although I would suggest, as many other people have, they don't understand what credit reporting is, they don't understand how to read the files and they would be absolutely bewildered by the previous presentation as to what that means for them. I don't think any of the consumers, including some of the experts around this room, would be able to pick out all those points.

So, there is a problem of educating the consumer that has to be part of a consumer survey. Now, we've talked about using experts. I would like to add to the experts two other ideas. I think it's possible to develop a set of written materials that explain to consumers some of the elements we're investigating. In fact, that could be part of a mailing that they receive as they participate in the survey. So, the consumer can read some materials and learn about what they're looking at on their own.

Additionally, I think we ought to seriously consider using computer-aided instruction to train the experts. Now, I don't mean to teach the experts, but to

give the experts a format for approaching and dealing with the consumer so you have consistency across the realm. Otherwise, you have, as has already been mentioned, I'm just underscoring it, different experts treating different people and getting different results. It's the experts' differences that you're analyzing, not the behavior of the consumer. So, I think we do have to help the consumer along and the consumer is a focus, but I think those two things would help.

The third topic is really the demographics that we've talked about. When you sit -- I'm a statistician fundamentally and when you sit down and you draw up a set of survey designs that say I want to fill in the following cells, you suddenly discover that we're talking about an awful lot of cells because we want to look at geography, we want to look at ratios, we want to look at income and other basic demographics. We want to look at various markets, like credit cards versus mortgages versus insurance. Now, you can't do that, I don't believe, in one survey. That's already been commented on by a couple people, but I think you really have to follow some of the suggestions made today to develop a set of modules to answer some of these key questions.

You first have to determine out of all of the dialogue today, which are the key questions you want to

focus on. You can't do them all in the beginning, regardless of what the budget is. You have to constrain it to some extent.

But I think there needs to be, at the very beginning, a clear commitment to a large sample that will let you get that fine grained or you're not going to get anywhere in the end. You won't answer many of the questions that have been posed. I think a modular approach is very, very possible to be economical.

And then finally, and I leave it until last because I think it's the most difficult, we really had an extraordinary discussion about what is accuracy, and we haven't really decided that today and this kind of a group is not going to decide that.

But I think the FTC has to set down very carefully and define two things, what kinds of accuracy are you looking at and what metric are you going to use to measure them? That has to be done before the whole thing begins or we'll be in trouble down the way. But if you combine a good longitudinal survey design, a good relationship with the consumer, sufficient sampling and clear definitions of accuracy, I think this is potentially a very powerful tool for keeping the U.S. economy healthy.

MR. VANDER NAT: Thank you very much. We have

a few minutes left of group discussion. I suppose you're all rather tired and you've all heard an awful lot. I'm not sure how many people will still volunteer to say anything, but we're very happy yet to hear from some speakers. Tom?

MR. DANCHIK: Just a couple things. I know everything I'm going to say you've already heard, but material impact, the key there that I see is it's going to differ. That material impact is going to differ across each data furnisher or each lender who's trying to make this lending decision based upon this information that's presented in this report. It makes the FTC's job much more difficult to determine what's material. There might be different pricing points across different lenders. If you brought five or ten lenders in here, showed them all the same file and said what price are you going to give them, I think that's going to differ. Some are going to even say no to that consumer. It depends which area of the market they're focused on.

So, you're going to have to segment beyond just yes, no and what price point, you're going to have to look at, well, what segment of the population does the lender typically work in. I would agree that the system works better than any other system that's out there. We have also had companies come from China to say, how

should we create our credit reporting agency so that we can do the kinds of things that you can do in the United States. So, I agree with the folks, and I think everyone has said, yes, it works very well. There's that question about how much better can we make it.

Any inaccuracy that's out there that is typically focused on one of the CRAs is going to be dealt with by the marketplace. If there's one CRA that has a problem, the lenders have no problem going to that particular CRA and letting them know of our displeasure with something we're seeing on the file. Now, I don't recall having to do that recently, but that is something that we certainly would not be hesitant to do at all.

So, there's a set of checks and balances that are out in the market today. You heard how the mortgage industry pulls all three files. Well, why do they do that? They do that in order to make sure they can give the person applying for that mortgage the best decision they can. So, depending on what kind of issuer you are, sometimes you might pull one, you might pull two, you might pull all three bureaus.

Just completeness, is more data better? Yes, typically. But there -- you can get credit if you want credit. I would have to say you can find someone out there that will grant you credit. So, if I say no,

you'll go find someone else.

And then the last thing I want to say is, I've just got to take a slight issue to something that Evan said that said the CRAs and the data furnishers don't do an investigation in regard to disputes. I 100 percent disagree with that. We do do an investigation. We look into our records to see what's there, we look at statements if we need to look at statements, to make sure that that dispute is responded to correctly.

The other issue that's a little misleading is the fact that, you know, 46 percent of them were verified. Well, out of the ones that weren't verified, if somebody's disputing a balance, that can change very, very quickly, or if someone's disputing a date on a credit report, that can also change very, very quickly. And as a furnisher of data, I have to say, well, modify the data, even if it -- the date just changed because the account cycled. So, you have to be very careful when you look at those things in regards to timing. Thanks.

MR. VANDER NAT: Thank you. Yes, David?

DAVID: Hi, David (inaudible) from Credit Expert. I just wanted to touch base on two different points of feasibility that people have addressed briefly I think today, but not in any depth.

Two points of feasibility. First, feasibility

in terms of solutions. That's something that we haven't really discussed very much today. There's a lot of debate about the approach and trying to measure inaccuracy, regardless of how you define it. And that's definitely a very important first step, but we do recommend that concurrent with that, there is an effort to determine possible solutions and the feasibility of those solutions. I think that would tie into what a few other people have voiced today where then, therefore, we would be able to -- as results come out from findings regarding amounts of accuracies or inaccuracies, you'd be able to combine that with -- or temper it with potential solutions and the feasibility of those solutions and provide some cost-benefit guidance so that it is more of a fair assessment of the current situation in the industry.

Feasibility of the solutions should be a relatively -- I look at things very simply. I would think that it would be a very simple easy thing to determine. The sources of errors that are occurring today, regardless of how you define them, we know them, we know what they are. There's no mystery. So, people could feasibly start looking into this now. We know what's causing the problems, how do we address them, what's the cost of doing that, the cost to the industry,

how does that roll down to the consumer?

And then additionally, the other type of feasibility that I wanted to address is the feasibility of performing the studies. I've heard a number of people say today, you know, talk about limitations on resources, access, funding. I would ask the Commission to really look outside the box and consider that. Don't apply the same constraints to this study going forward that traditionally or historically existed in previous studies. There are things available, mechanisms and technology that is available today that can automate processes, making it more efficient, making it less costly, allow for larger sample sizes, as Mr. Duncan pointed out. Also, to take some of the subjectivity out. Technology that can benefit the experts or coaches that are involved in the process by providing a more objective basis from which they can work.

MR. VANDER NAT: Thank you. Anybody else want to offer any concluding comments or observations? Yes?

UNIDENTIFIED MALE: Actually, I guess -- I would simply summarize by saying, it looks like to me that there are two tasks that ought to be taken in echoing Mr. Duncan's comments in terms of the first looking at the type and incident of inaccuracy on items that are important for various different credit decisions

and differing populations, and that seems to me was offered in a number of people going through data that already exists, repository data and designing a study that is -- or the types of populations that you believe have perhaps differing behaviors or differing kinds of outcomes or things that are of interest, stratifying sample -- getting a stratifying sample of those individuals, looking at credit bureau reports, a cross-section to identify within files the type of information, assess difference in scores, identify score pattern differences, score changes.

Those score changes basically can help you then identify -- and perhaps variance in terms of things that may not be embedded fully in a score, but lenders underwrite on in terms of their override sorts of things that beyond what's in a FICO score, people -- lenders may look at, bankruptcy at a certain time or different points in time. So, additional credit factors that are in a file that you know that various lender operations underwrite on, look for those types of changes or impacts. If it was there before, now it -- I mean, it wasn't there before, now it's there essentially. That would give you a population to go -- further do kind of a study on to see was it disputed. There would be dispute things in the files and non-dispute things in the files,

something like the study that was done before.

But in designing that population initially from your basic sample design, keep a sequence number or something in the file such that you could ultimately, after you narrow down on a population or a sub-population, sub-strata, if you could obviously go in with names beforehand and draw a sample or -- from this which becomes a blind sample which you can then analyze and find out where are these patterns to be investigated, one could later go back and associate names, not necessarily directly, and see if repositories or someone can solicit additional information -- participation. People have to participate but they could be approached, basically, to see if there's resolutions.

One is identify what's important. You have pricing points that are different for different lenders, different types of things. To the extent that it's risk-based pricing on pricing points, it's easier to access harm necessarily like this simulated sort of a thing because when we have score differences, that translates into, okay, what would be the impact of that if somebody were underwriting this. So, you can more or less look at the magnitude of is it important or not, under what circumstances is it important.

The second thing, once you learn from that kind

of analysis of files, you can basically have a panel -- set up a panel -- a stratified random survey panel which you follow forward with people buying in at the beginning and giving the authorization to examine their credit reports over time, how they change, and you can periodically go and see -- approach the people and have some ability to follow financial -- get financial information directly from the consumer, like what kinds of credit have you opened up, see if it gets reflected in the file, a way of basically independently sampling a population through either survey or a contact or written records that they hold or something like that that you could match to see does that get reflected in credit files, on credit scores, if you're trying to get an idea.

Not on everything necessarily, but on the things that you've determined are important and have for credit decisions and essentially make a difference. While you won't necessarily get accuracy on the whole state of affairs, you can develop over time some -- in fact, does the system work well for the things that are important essentially and where does it not work as well and are there things that could be used to improve it or is this as good as you can get. Do a cost-benefit assessment where you find out, well, things aren't perfect, but this may be as perfect as you can get it for

the costs that have to be incurred to try and get it more perfect.

MR. VANDER NAT: Thank you. Donato, did I see you have your hand up?

MR. VACCARO: I was just going to make the suggestion like the gentleman before about thinking outside the box. One thing that I think would cost a lot of money that -- Alan Westin earlier was saying one of the biggest -- one of the big concerns is about the cost that would be incurred by carrying out such a grand project, and one of the ways to reduce the cost is to maybe focus on a group of people that may not be representative of the national population but may, in fact, help us to do what we want to do, which is to, first of all, explore what some of the inaccuracies and problems are in credit reporting.

So, by somehow -- I can't come up with something creative immediately, but somehow coming up with a creative sample, getting a group of people that would, first of all, be interested in doing this kind of thing and participate -- that's another fundamental obstacle is just getting people to be so involved and spend so much time to give us the information about their personal lives. But by obtaining a really eager sample, by engaging them and getting information we need from

them, though it may not be nationally representative, it may, in fact, provide us the information that we need.

All I'm doing is suggesting that we step outside the box and consider that we don't necessarily need a nationally representative sample at first and, in fact, that might be exactly what helps us to move along further with the process of getting to that goal eventually.

UNIDENTIFIED MALE: I mean, that would fit into Alan's suggestion that the design is experimental. From that subset you just mentioned, you would not be drawing statistical conclusions, I imagine.

MR. VACCARO: Well, you could -- you wouldn't be able to draw statistical conclusions that would be generalizable to the national population, but as long as you specified caveats and explained what, in fact, your conclusions related to, do we know what a certain subgroup of the population said or people like this, then anyone using that information could make their own conclusion about what they think that means. But the point would be just very clear about what your population is and then, you know, use that information as needed.

UNIDENTIFIED MALE: You could identify where the system isn't working as well and follow that population through to find out if there are ways to --

the extent to which it's not working and if there are ways to improve it basically.

MR. VANDER NAT: Please.

UNIDENTIFIED MALE: Along a similar line to your point, if you look at the social sciences literature, most of the research done there is on college students, and yet, they're making these extrapolations to the population at large, what will somebody do in a certain situation.

But what that really does is identifies -- whatever the social science is, whether it's psychology or sociology, it identifies an underlying process that might occur given different operationalizations of that process. And I think your suggestion really is -- it's not about looking at specific consumers and types of consumers, it's really just looking at credit reporting in general and by just kind of looking at an eager population, you're really getting at some of the fundamental processes underlying reporting because there's really nothing intuitively that says to me that an eager population is less likely to have some sort of reporting error than a non-eager population. As I say that, I can think of exceptions at that point. An eager population is probably more likely to pay their bills on time, i.e., not have collections and so forth.

But along that same theme of eager population, I hear a lot of people talking about longitudinal studies and I think that's a great idea, it would be very expensive. But just something for you to keep in mind when scoping that out is given how expensive the study could potentially be if you did a longitudinal study and how painful this could be for a consumer to track them over 11 years and every year or two have this interview, there's going to be a big attrition issue, and that attrition is probably not going to be random. In other words, it's going to be in the people that are most likely to have those painful phone calls or those painful interviews.

So, in planning out such a study, you really need to keep attrition in mind as you pursue these goals, and that might be a reason to not pursue a longitudinal study. You really have to look at what could you potentially gain from a longitudinal study as opposed to just doing those kind of fixed snapshots over time of different operations. So, just a thought for you to keep in mind.

MR. VANDER NAT: Thank you.

UNIDENTIFIED MALE: (Inaudible).

MR. VANDER NAT: Yes.

UNIDENTIFIED MALE: That is it may be that if

you define the areas you want to study rather than trying to do -- and this is a variation of what people have said -- one large study, you do several different studies focused on that particular issue. So, that, for example, if the question is, are furnishers furnishing information accurately, look for a population, perhaps students, who are brand new to the credit market, and there's likely to be very few other effects showing up in their credit report other than whether or not they're being furnished accurately, and use that. Then put that issue aside and say you found X percent error. You can then apply that error to a more robust study of another population, are their files -- an older population, are their files being merged properly, and you don't have to reexamine the underlying furnishing issue when you go to the merged issue and so forth, for each portion of the study.

UNIDENTIFIED MALE: I have a slightly different take on the last few minutes of discussion. We already know an awful lot about where there are differential weaknesses in the current system, and I'm thinking of the (inaudible) study in particular. So, I think it's awfully important to get to a representative sample. I don't -- you know, if we want to know something about accuracy of the system, I think it's awfully important to get to a representative sample as quickly as possible.

So, from my perspective as an econometrician, I can -- the only reason I would see to use an unrepresentative sample is for early feasibility studies as you initially discuss. I don't see the value of studying college kids at all. I just don't know how easily that sort of example generalizes. We already know a lot about where to proceed.

As far as I can tell, the two main sampling issues are -- that have been thrown out today are, do you start with the grand design that Greg had mentioned where you start with a sample of consumers and get everything on them and check -- and start from there with the checks, or do you do something along the lines of what Bob and Terry and Brad have done which is, the expert starts examining the data for inconsistencies and it only goes to the consumers at that point? The latter, as people have pointed out, will not find all possible errors, but it is a lot easier and cheaper. I think -- as far as I can tell, Bob hit the nail on the head, the main trade-off is this sampling issue. Do you go for everything at the start? Is it worth the cost?

But I strongly feel it's got to be representative awfully quickly.

MR. VANDER NAT: I saw a hand here somewhere else. Yes, Bob?

MR. AVERY: Well, I mean, Nick just said it, I would urge you all -- of all of the comments I've heard today, the one thing I think would be most dangerous is not to do a representative sample. This whole issue has suffered from convenience samples, from self-serving studies, and I think if you go down that track, you're just -- you can write the spin right now as to what's wrong with it. I think you'd be much better off with a somewhat imperfect design, but one which is representative. You can always attempt to prune a representative sample. You can take a sample of people and look at those that just got credit within your representative sample of consumers and maybe focus in on them. But you know the framework within which you're dealing.

The one area, though, that I might urge you to put a lot of energy into thinking about -- it's very clear, for example, if you did a CFA study and you start with Social -- people who just got a mortgage, they almost surely started with Social Security number and they just got a mortgage or they applied for one so they probably have clean credit. You could think about doing a different design, which is starting with a mailing list, starting with a mailing list that's typically used for preapprovals or from Social Security numbers or from

random digit dialings. Each of those frames is actually different, even if you did a representative sample of the frame. And it may be one of the things you can do is to see how different a CFA study would be if you started with a mailing list, a list of names and no Social Security.

How much error is there across the bureaus in that compared with Social Security numbers, or take the same set of people (inaudible) get a Social Security number for some people and see how much more accurate the scoring -- the variances -- whether they're different if you sent in the Social Security numbers versus matching by name. But not -- in any of those instances, I'd urge you not to deviate from representativeness of whatever the target population you're going after. I just think that's a big mistake.

MR. VANDER NAT: Yes, Stuart?

MR. PRATT: I couldn't resist one more comment here at the end of the day. I'm going to leap over all the methodological discussions that we've had. The FTC brings with it a different weight in terms of what this study will mean to many different audiences. The speed with which you rush to conclusions before you've understood the system really will dictate, I suppose, in some ways the success or the failure of the study. I

think that taking your time in terms of experimenting with the best methodologies is important and you shouldn't feel the need to meet a December 1st deadline of determining the first and best and only methodology or methodologies. If it takes you two years to experiment, to move towards the one that you think is best, I think you should do that. Because whatever you publish, if it is wrong, it could have very serious effects on a system which is working very well.

We shouldn't be driven by the emotions of any member of Congress individually or corporately in terms of what you do. What you do will be different than anything we have done by extraordinarily large margins. So, the extent to which you produce data which is somehow (inaudible) benefit to the debate, that's fine. But the extent to which you rush towards managing the politics of the Hill, I think the more you drive yourself in the wrong direction.

So, I encourage you all. I'm sure I'm preaching to a choir in some ways, but I encourage you all to approach this with extraordinary care, to experiment carefully with the methodologies that you believe are best, to apply the cost-benefit analysis in terms of ideas and to encourage a penetrating dialogue of, I suppose, the ideas that you come out -- that you

draw from and the conclusions that you draw from the raw data sets that you ultimately develop. If you develop your conclusions and your analyses without additional input along the way from, candidly, many of us around this table who live and breathe this industry day in and day out, then the study, again, could fall short of the methodology and the raw data could be fine, but the conclusions drawn from it could fall far short.

For me, at the end of the day, it really goes back to this -- Karlene's observation. What you put in the bullet points is going to be the final word, and I don't care what you do to try to control that. So, at the end of the day, my concern is that the bullet points are right the first time through.

MR. VANDER NAT: Thank you very much. I think we have come to the end of the day. In some ways, Stuart, you have anticipated my own concluding comments, so I won't repeat too many (inaudible). I've gotten to know Stuart very well and he's sent me a number of emails over time on different topics, and quite often, he's already anticipated what it is that I'm going to say. So, he has some perception here.

One of the great benefits of this roundtable to us is that we've gotten to know many of you and we do intend to keep in contact with many of you because we do

need this kind of expertise. So, you will receive back from us emails and we appreciate your comments. Let me say, again, for some of you, if you feel that you want to submit something in writing to us, do so and we will be glad to consider it very carefully. I want you to know that in-house, the FTC has a lot of discussion about these points and there are similar in-house discussions and debates. And at this point, nothing is a settled matter. But we certainly appreciate it, and I think we've learned an awful lot from this day. I'm glad that this session is being transcribed because we're going to reread this transcription very carefully because there were wonderful nuggets all along the way which we couldn't fully appreciate at the moment, but upon rereading them, we definitely will benefit from them.

So, I think we've come to the end of this session and I want to thank you all very much for having come to join us today. Thank you.

UNIDENTIFIED MALE: Thank the FTC.

(Applause.)

(The roundtable discussion was concluded.)

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I HEREBY CERTIFY that the transcript contained herein is a full and accurate transcript of the tapes transcribed by me on the above cause before the FEDERAL TRADE COMMISSION to the best of my knowledge and belief.

DATED: AUGUST 4, 2004

ELIZABETH M. FARRELL

C E R T I F I C A T I O N O F P R O O F R E A D E R

I HEREBY CERTIFY that I proofread the transcript for accuracy in spelling, hyphenation, punctuation and format.