

Employment Credit Checks:

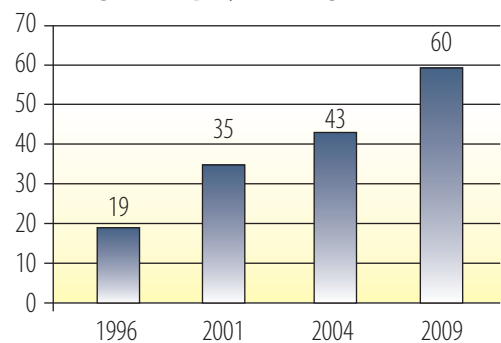
A Catch-22 for American Workers

WHAT ARE EMPLOYMENT CREDIT CHECKS?

An employment credit check is a screening process in which an employer reviews the credit history of a job applicant or promotion candidate.

In recent years, companies like TransUnion, Equifax and Experian have increased their sale of specialized credit reports for employment. Sixty percent of employers recently surveyed by the Society for Human Resource Management report that they run credit checks on job applicants.

Percentage of Employers Using Credit Checks



Source: Society for Human Resource Management

Credit checks were traditionally performed for positions in which employees have access to confidential information. Today, many entry-level service positions such as cashiers and waiters require credit checks.

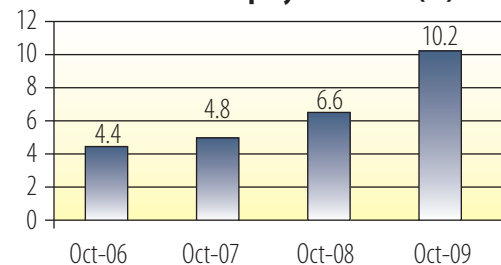
FOUR REASONS TO RESTRICT EMPLOYMENT CREDIT CHECKS

1) Employment Credit Checks are a Catch-22 for American Workers

Many job seekers across the country are caught in a Catch-22: *they're behind on their bills because they don't have a job, but they can't get a job because they're behind on their bills.*

Families across the country are hurting. National unemployment recently hit

National Unemployment Rate (%)



Source: Bureau of Labor Statistics

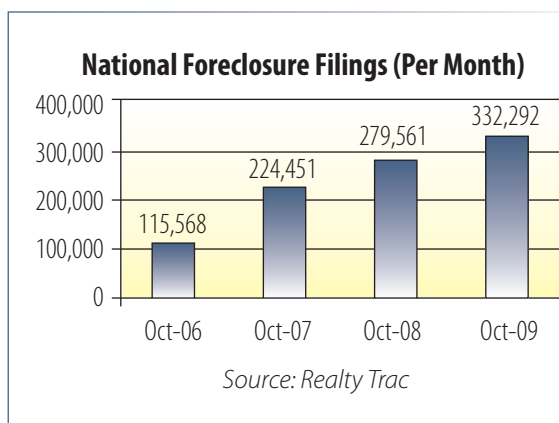
double-digits for the first time since 1983¹ and 9 million homes are expected to face foreclosure between 2009 and 2012.²

This economic situation, in addition to other life events such as divorce and medical emergencies, will likely translate into millions of blemished credit reports for years to come. Our economic recovery depends on putting people back to work, and employment credit checks are currently denying that opportunity to many Americans.

2) Employment Credit Checks Discriminate Against People of Color

Credit scores are strongly correlated with race in the United States. One study found that the average credit score for African Americans is 10% to 35% lower than the average credit score for whites, and the average credit score for Latinos is 5% to 25% lower than that of whites.³

The Equal Employment Opportunity Commission has repeatedly expressed concern that the use of credit in the hiring process discriminates against people of color.



The racial credit disparity may increase in coming years, as foreclosures have disproportionately impacted African American and Latino communities that were targeted with high-cost loans.

3) Employment Credit Checks Don't Predict Job Performance

Credit reports were designed to predict the likelihood that a consumer would default on a loan, *not* whether they would steal or behave irresponsibly in the workplace.

One study presented to the American Psychological Association demonstrated that credit history does not correlate with employee conduct. The study found: “from a practical standpoint, there is no benefit from using credit history to predict employee performance or turnover.”⁴

¹ Lee, Don and Jim Puzzanghera. “Unemployment rate rises to 10.2%.” *Los Angeles Times*. November 7, 2009.

² “Soaring Spillover: Accelerating Foreclosures to Cost Neighbors \$502 Billion in 2009 Alone.” Center for Responsible Lending. May 2009.

³ *Use of Credit Information by Insurers in Texas*. Texas Department of Insurance. December 30, 2004.

⁴ Palmer, Jerry K. and Laura L. Koppes. *Further Investigation of Credit History as a Predictor of Employee Turnover*. Presentation to the American Psychological Society, 2003.

Dianna Johnston, assistant legal counsel to the Equal Employment Opportunity Commission, agrees: “Employers seem to be assuming that somebody with a poor credit history is more likely to steal, and I don’t think there’s any kind of evidence that supports that.”⁵

Even TransUnion, which sells credit reports to employers, admitted at a recent informational hearing in Oregon: “At this point we don’t have any research to show any statistical correlation between what’s in somebody’s credit report and their job performance or their likelihood to commit fraud.”⁶

4) Credit Reports are Inaccurate

A 2007 Zogby survey reported that 37% of people surveyed found an error on their credit report, and half of these respondents reported that they could not easily fix the mistakes.⁷

Even the lobbying arm of the credit reporting industry admits that of the 52 million free credit history disclosures issued between December 2004 and December 2006, 8 percent were inaccurate.⁸ An error rate of 8 percent translates into roughly 16 million people whose job prospects could be affected by faulty credit reports.

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EXAMPLES OF PEOPLE AFFECTED BY EMPLOYMENT CREDIT CHECKS

Name: Debra Banks

Reason for Poor Credit: Medical Debt

Debra, who has lost multiple jobs due to bad credit, including one she had previously held for two years:

“Being hired for a job should be based on a person’s qualifications...on their skills, on their knowledge.”



⁵ Arnoldy, Ben. “The Spread of Credit Checks as a Civil Rights Issue.” *Christian Science Monitor*. January 18, 2007.

⁶ Testimony of TransUnion Director of State Government Relations Eric Rosenberg. Informational hearing of the Oregon Senate Committee on Commerce and Workforce Development. January 12, 2010.

⁷ Kadet, Anne. “Why the Credit Bureaus Can’t Get it Right.” *Smart Money*. February 2, 2009.

⁸ Pratt, Stuart K. “Credit Reports: Consumers’ Ability to Dispute and Change Inaccurate Information.” Testimony of the Consumer Data Industry Association before the House Committee on Financial Services. June 19, 2007.

“Unfortunately my credit has not improved because I haven’t been able to get a job to improve it.”

Name: Dan and Dana Denton

Reason for Poor Credit: Unemployment

Dan, who recently found work after submitting over 200 applications in the year he was unemployed:

“Good people are being ground into dust...who have worked hard all their lives and bought into the American Dream. If I’m a bartender—does [bad credit] stop me from making the perfect Manhattan? I don’t think so. What if I’m an auto mechanic—does it stop me from changing a flat? I don’t think so. It offends me, it’s immoral; it’s unethical. It’s flat-out un-American.”

Dana, who has been out of work since July 2008:

“It’s very humiliating...the fact that you have to explain yourself and your credit and you have to tell everybody your whole life story to get a job. It’s very frustrating.”



Name: Elsa Muller

Reason for Poor Credit: Separation

Elsa, who was denied a promotion to work at the bar despite her 15 years experience bartending, describes her financial situation after separating from her ex-partner:

“I couldn’t go back and pay all those bills by myself, so I was stuck with the bad credit, and he wasn’t.”

“I don’t think that a credit check is going to determine whether somebody is good at the job that they’re doing.”

