



**CONGRESSIONAL BUDGET OFFICE  
PRIVATE-SECTOR MANDATES STATEMENT**

September 9, 2003

**H.R. 2622**

**Fair and Accurate Credit Transactions Act of 2003**

*As reported by the House Committee on Financial Services on September 4, 2003*

**SUMMARY**

H.R. 2622 would permanently extend the national credit reporting standards in the Fair Credit Reporting Act (FCRA) which is scheduled to expire on January 1, 2004. The bill would prevent states from imposing new restrictions on how financial institutions share consumer information. The bill also would provide new consumer protections against identity theft (that is, fraud committed using another person's identifying information). In addition, H.R. 2622 would give consumers access to certain financial records, promote increased accuracy of credit reports, and provide protections of consumers' medical information.

H.R. 2622 would impose several private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA), on consumer reporting agencies, individuals and businesses that print electronic credit card receipts, certain mortgage lenders, financial institutions, credit and debit card issuers, and debt collection agencies. CBO expects the direct costs of those mandates would exceed the annual threshold for private-sector mandates (\$117 million in 2003, adjusted annually for inflation) in at least one of the first five years the mandates are in effect.

**PRIVATE-SECTOR MANDATES CONTAINED IN BILL**

H.R. 2622 would impose private-sector mandates, on consumer reporting agencies, individuals and businesses that print electronic credit card receipts, certain mortgage lenders, financial institutions, credit and debit card issuers, and debt collection agencies by:

- Requiring free credit reports upon the request of an individual;
- Requiring truncation of credit card account numbers on receipts printed electronically;

- Requiring disclosure of credit scores when approving certain loans; and
- Requiring certain fraud alerts and blocks in consumer credit files.

## **ESTIMATED DIRECT COST TO THE PRIVATE SECTOR**

CBO expects the aggregate direct costs of the private-sector mandates in the bill would exceed the annual threshold established by UMRA (\$117 million in 2003, adjusted annually for inflation) in at least one of the first five years the mandates are in effect.

### **Consumer Access to Credit Reports**

Section 501 would require consumer reporting agencies to provide an annual free credit report upon the request of an individual. Based on information from industry and government sources, CBO assumes a threefold increase in the number of individuals requesting a free credit report each year. CBO estimates that the additional direct cost to consumer reporting agencies for providing mandatory free credit reports would be \$1.00 to \$2.00 per report with a total cost ranging from \$30 million to \$60 million per year.

Under current law, if a consumer disputes information contained in their consumer file at a consumer reporting agency, the agency must reinvestigate the disputed information free of charge. The mandate requiring free credit reports would have a secondary effect. The number of consumers who would exercise their option to receive a free annual credit report would likely increase the number of subsequent reinvestigations. According to industry sources, the cost for additional reinvestigations would be \$7.00 to \$8.00 per reinvestigation. Assuming half of those individuals who receive a free credit report dispute the information requiring a reinvestigation, the total cost would range from \$110 million to \$125 million per year. Such cost would not be direct cost, as defined in UMRA, and would not count towards the statutory threshold.

### **Truncation of Credit Card Account Numbers**

Section 203 would impose a private-sector mandate by requiring individuals and businesses that accept credit cards to truncate the credit card account numbers by including no more than the last five numbers on an electronically printed cardholder receipt. The mandate would take effect three years from the date of enactment for machines currently in use and beginning in 2006 for machines put into service after January 1, 2005. According to the credit card processing industry, some systems are currently in compliance because they are

capable of electronically printing truncated account numbers on customer receipts. In order to comply with this mandate, some merchants would have to make modifications to their systems, including software reprogramming, formatting changes to dial-up terminals, and purchase of new printing devices. Costs to replace machines would range from \$300 to \$1,000 per unit. Assuming merchants would have to replace 25 percent of the currently used machines in 2007, the cost to replace such machines, including programming modifications, would amount to at least \$85 million in that year.

### **Disclosure of Consumer Credit Score**

Section 502 would require certain mortgage lenders that use a consumer credit score in approving loans to provide a copy of the credit score and associated information received from a consumer reporting agency to the customer as soon as reasonably practicable. Based on approximately 13 million annual mortgage loan applications affected by this provision, and handling and mailing costs provided by the industry, CBO expects that the direct cost to provide such information would range from \$35 million to \$55 million per year.

### **Fraud Alert in Credit File**

Section 202 would require consumer reporting agencies to include a fraud alert in the file of a consumer and disclose to the consumer that they may request a free copy of the file when the agency receives a direct request that a consumer has been or is about to become a victim of fraud, including identity theft. A consumer reporting agency would also be required to include an active-duty alert in the file of an active-duty military consumer upon their request. In addition, section 205 would require consumer reporting agencies to block any information in the file of a consumer that the consumer identifies as resulting from an alleged identity theft and confirms with a police report. An agency also would be required to notify the furnisher of the information identified by the consumer of certain information regarding such a block. According to the consumer reporting industry and government sources, the national consumer reporting agencies generally provide such alerts and blocks voluntarily. Therefore, CBO estimates that the direct cost to comply with those mandates would not be significant.

## **Other Notification and Disclosure Requirements**

Other provisions of the bill would impose private-sector mandates as follows:

- Prohibit any person who receives a copy of a police report from a consumer regarding identity theft from furnishing any negative information on the consumer to a consumer reporting agency;
- Require a financial institution that extends credit to provide a one-time notice in writing to a customer, no later than 30 days after the institution furnishes negative information to a consumer reporting agency regarding credit extended to the customer;
- Require credit card issuers to clearly and conspicuously disclose to a consumer their ability to increase an annual percentage rate in certain circumstances when making unsolicited offers of credit to consumers; and
- Require a debt collection agency that learns information in a consumer report is the result of identity theft or otherwise is fraudulent to notify the furnisher of the information or the relevant consumer reporting agency that the information is fraudulent.

Based on information from various industry and government sources, CBO expects the direct cost to comply with those mandates would not be as significant as the direct costs of other mandates in the bill.

In addition, the bill would impose other private-sector mandates as follows:

- Require a consumer reporting agency that receives a request for a consumer report using an address substantially different for the addresses in the consumer's file to notify the requester of the existence of the discrepancy;
- Require credit and debit card issuers that receive a request for additional or replacement cards on an existing account within a short period of time after receiving a change of address form to notify the cardholder at the former address or use other means to confirm the address change; and
- Prohibit a consumer reporting agency from providing credit reports that contain medical information with some exceptions and would require medical companies to identify themselves as such when reporting credit information.

According to industry sources, many entities currently comply with such requirements voluntarily, and therefore, the direct cost to comply with those mandates would not be significant.

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