CONSUMER FINANCIAL PROTECTION BUREAU | OCTOBER 2021

CONSUMER CREDIT TRENDS

Disputes on Consumer Credit Reports

This is part of a series of reports of consumer credit trends produced by the Consumer Financial Protection Bureau using a longitudinal sample of approximately five million de-identified credit records from one of the three nationwide consumer reporting agencies. This report was prepared by Ryan Sandler.

INTRODUCTION

Credit reporting has long played a major role in consumer finance. Credit reports are increasingly used not only for lending decisions, but also tenant and employee screening. Because of the importance of credit reporting to the consumer finance system, the accuracy of credit reports is a perennial policy concern.[1] Studies have found that a substantial minority of consumers have errors on their credit reports with the three nationwide consumer reporting agencies (CRAs), including errors that can meaningfully affect consumers' credit scores.[2] Since the start of the COVID-19 pandemic, complaints to the CFPB about credit reporting issues have spiked, with credit reporting complaints increasing year-to-year by 129% in 2020, and is the most common complaint topic.[3] Inaccurate information may be difficult to correct—although there is a process under the Fair Credit Reporting Act (FCRA) for how both CRAs and those who furnish information to CRAs such as creditors should handle information that is disputed by consumers, this process has been criticized by consumer advocates as being difficult for consumers to navigate.[4] In this report, we document how disputes can appear in credit record data, the characteristics of consumers whose disputes appear on their credit reports, and what happens to accounts that have been reported as being disputed.

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[1] *See* e.g. Consumer Financial Protection Bureau, Supervisory Highlights: COVID-19 Prioritized Assessments Special Edition (Winter 2021), *available at* https://files.consumerfinance.gov/f/documents/cfpb_supervisory-highlights_issue-23_2021-01.pdf

[2] A 2012 Federal Trade Commission study found that 26 percent of consumers from a nationally representative sample who reviewed their credit reports from the three nationwide CRAs found at least one potentially material error in their reports (*i.e.*, an alleged inaccuracy in information that is commonly used to generate credit scores). Further, about five percent of consumers in the FTC study found errors that, if corrected, would have shifted their scores into a higher credit score tier, likely resulting in lower interest rates on an auto loan. *See* Report to Congress under Section 319 of the Fair and Accurate Credit Transactions Act of 2003 (December 2012), Federal Trade Commission, at https://www.ftc.gov/sites/default/files/documents/reports/section-319-fair-and-accurate-credit-transactions-act-2003-fifth-interim-federal-trade-commission/130211factareport.pdf ("2012 FTC FACTA Study"). An industry-funded study with similar methodology and findings to the FTC study found somewhat lower rates of errors, although the FTC study notes important differences in the methodology that likely suppressed the rate of disputes in the industry study (*See* Turner, Michael A., Robin Varghese, and Patrick D. Walker (2011). U.S. Consumer Credit Reports: Measuring Accuracy and Dispute, and the 2012 FTC FACTA Study for discussion of methodological differences). A more recent study from Consumer Reports found 11 percent of consumers surveyed had errors related to their account information on their credit report and likely understates the true prevalence, as its sample was not nationally representative, and over-represented groups that tend to experience fewer credit reporting errors. (*See* Eyaz, Syed, (2021). A Broken System: How the Credit Reporting System Fails Consumers and What to Do About It. Consumer Reports. https://advocacy.consumerreports.org/wp-content/uploads/2021/06/A-Broken-System-How-the-Credit-Reporting-System-Fails-Consumers-and-What-to-Do-About-It.pdf).

[3] *See* Consumer Financial Protection Bureau, *2020 Consumer Response Annual Report* (Mar. 2021), *available at* https://files.consumerfinance.gov/f/documents/cfpb_2020-consumer-response-annual-report_03-2021.pdf

[4] *See* e.g. Chi Chi Wu, Testimony before the U.S. House Of Representatives Committee On Financial Services Regarding "A Biased, Broken System: Examining Proposals to Overhaul Credit Reporting to Achieve Equity", (June 2021) *available at* https://www.nclc.org/images/pdf/credit_reports/Testimony_HFSC_credit_reporting_overhaul.pdf

We use the Consumer Financial Protection Bureau's Consumer Credit Panel (CCP) to examine the frequency and outcomes of certain disputed information on credit records. We begin by examining the characteristics of consumers who have disputes that appear on their credit records. We find that consumers with disputes reported on their credit accounts are generally younger and had lower credit scores than consumers who did not have disputes reported. Consumers who have disputes reported were also more likely to reside in census tracts that were majority Black or majority Hispanic. Finally, we track what happens over time to accounts that have disputes reported. We find that outcomes for accounts with reported disputes vary substantially across types of credit, with student loan accounts relatively more likely to be deleted from consumers' credit records, while auto loans are more likely to be marked closed and paid in full.

The CCP data include a field called the "compliance condition code," which is used to report that some information about the account is or was in dispute.[5] Throughout the report we refer to accounts with a compliance condition code relating to a dispute as having a "dispute flag" present. The compliance condition code provides essentially no detail on the content of the dispute, including whether the dispute was initially lodged with the furnisher or with the CRA. As a result, we know which accounts were disputed and what happened to those accounts after the dispute flag appeared but cannot distinguish between types of disputes, such as an account that does not belong to a consumer, or incorrect payment history. However, using the compliance condition code focuses attention on potential issues with particular accounts, rather than on the CRA's information about the consumer, such as name or address, that prior studies have found account for a substantial share of errors. It is important to keep in mind that the analysis in this report looks at dispute flags, which may not be representative of all disputes or potential errors. There are a number of circumstances where a consumer may dispute some information with a furnisher or a CRA, which would not result in a dispute flag in the CCP data. For instance, because the CCP data used in this report consists of quarterly snapshots of consumers' credit reports, we also may miss disputes that result in a dispute flag, but are resolved and have the flag removed before we next observe the account.[6]

[5] This field stems from a provision of the FCRA that forbids persons from furnishing information about an account that is disputed without also noting the dispute. *See* 15 U.S.C. § 1681s-2(a)(3). Because the FCRA also requires creditors that furnish information on a regular basis to report the voluntary closure of an account by the consumer, the compliance condition code is also used to flag accounts closed at the consumer's request. 15 U.S.C. § 1681s-2(a)(4).

[6] For example, if a consumer disputes information about an account in mid-April, and the furnisher reports a dispute flag at the end of April, but resolves the dispute and removes the flag in May, we will not observe evidence of the dispute in the next June quarterly snapshot. Relatedly, we may miss disputes where the resolution is to delete the account, and the furnisher does so in between CCP waves. In such cases the account will vanish without a dispute flag appearing.

We focus on auto loans, student loans, general purpose credit cards, and retail cards that were opened between January 2012 and December 2019.[7] These four types of credit have the largest share of accounts that had dispute flags during the sample period.[8] Among accounts opened between January 2012 and December 2019, 0.75 percent of auto loans, 0.81 percent of student loans, 2.1 percent of general purpose credit cards and 0.5 percent of retail cards were flagged as disputed in the CCP data at least once by the end of 2019. These figures are not directly comparable to the overall rates of disputes observed in other studies. Beyond dispute flags not necessarily being representative of all disputes, as discussed above, this report is focused on a subset of credit types at a single nationwide CRA and only examines accounts opened since 2012.[9]

DEMOGRAPHICS OF CONSUMERS WITH DISPUTE FLAGS

For a dispute flag to appear in the CCP data, generally a series of events must occur. First, there must be information about a consumer's account that the consumer would believe to be incorrect if they knew about it. The consumer must also learn about the potentially incorrect information, perhaps by checking their credit report. Then the consumer must actively dispute that information, either with the CRA or with the furnisher. Finally, the dispute flag must be reported for long enough that the flag appears in the CCP data, which may not happen if the dispute is resolved quickly. Each of these steps—the occurrence of errors, learning about errors, filing disputes and reporting dispute flags—may occur more often for some types of consumers than others.

In this section we explore some of the characteristics of those who have dispute flags. Throughout, we distinguish between consumers who had one or more account opened between 2012 and 2019 and had a dispute flag on at least one account of a given type of credit

[7] We begin our analysis in 2012 because the CCP does not have compliance condition codes available prior to that year and exclude 2020 in order to focus attention on "normal" disputing behavior outside of the COVID-19 pandemic. We restrict our sample to accounts that were opened during the sample period so that we can observe the entire dispute history of each account.

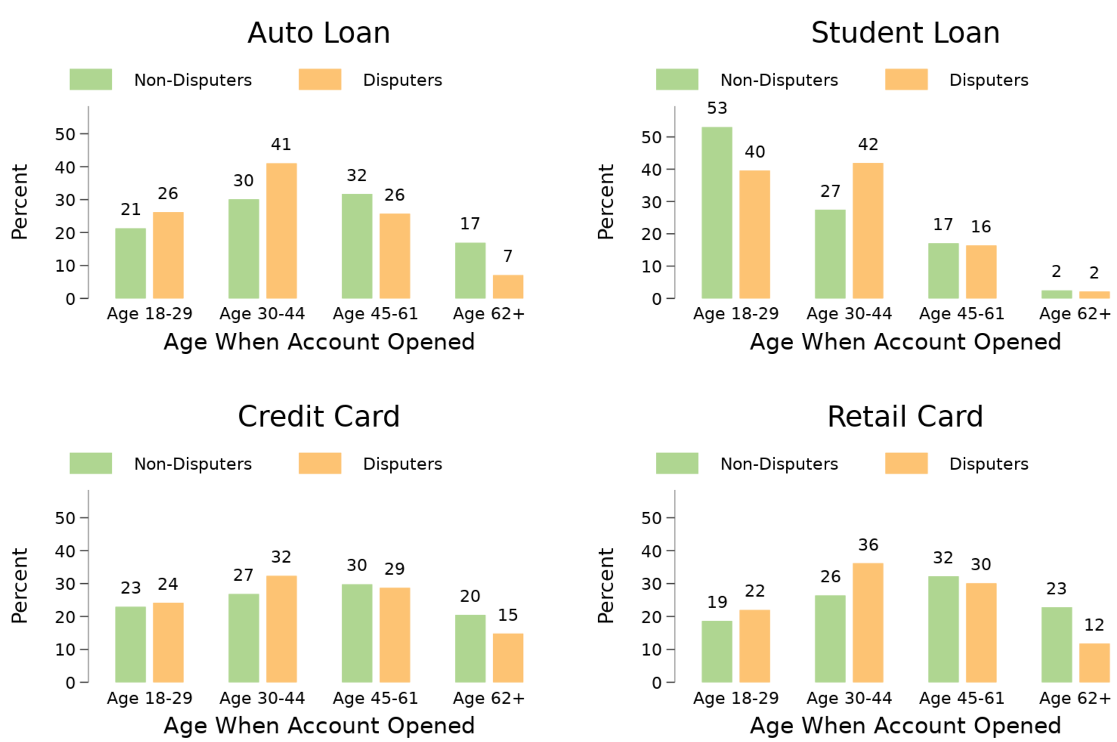
[8] Outside of credit accounts, collections items are by far the most disputed type of tradeline, with almost five percent of collections items being disputed during our sample period. A number of factors likely drive the high rate of disputes on collections, which are outside the scope of this report. *See* Key Dimensions and Processes in the U.S. Credit Reporting System: A review of how the nation's largest credit bureaus manage consumer data, (December 2012) Consumer Financial Protection Bureau White Paper, at https://files.consumerfinance.gov/f/201212_cfpb_credit-reporting-white-paper.pdf for a discussion.

[9] Consumers may not always file a dispute to all three nationwide CRAs, either because they do not check all three reports, or because the error only occurs in the database of one of the three nationwide CRAs. The 2012 FTC FACTA Report found a number of errors that were limited to one or two nationwide CRAs. If a consumer's dispute does not go to the CRA that supplies the CCP, we will not observe it in the data.

("disputers") and consumers who had an account opened between 2012 and 2019 but the CCP data did not show evidence of a dispute ("non-disputers").[10]

Figure 1, below, shows the age distribution of consumers who opened a new auto loan, student loan, general purpose credit card, or retail card account between 2012 and 2019, broken out by account type, and disputer/non-disputer status.[11] In principle, we might expect older consumers, who typically have more experience with the credit system, to be more likely to dispute. However, disputer consumers were generally younger than non-disputers. For instance, about 30 percent of auto loan non-disputers were between 30 and 44 years old, while among auto loan disputers, 41 percent were in the 30 to 44 age group. The one exception to this pattern is for student loans—while student loan disputers were more likely to be in the 30 to 44

FIGURE 1: AGE DISTRIBUTION OF CONSUMERS WHO DISPUTED AT LEAST ONE ACCOUNT OPENED BETWEEN 2012 AND 2019 COMPARED TO THE AGE DISTRIBUTION OF CONSUMERS WHO NEVER DISPUTED AN ACCOUNT OPENED BETWEEN 2012 AND 2019



[10] A consumer who only disputed a general purpose credit card would be a disputer when examining the distributions of credit card account holders, but a non-disputer for auto loans if the consumer had an auto loan opened during the sample period.

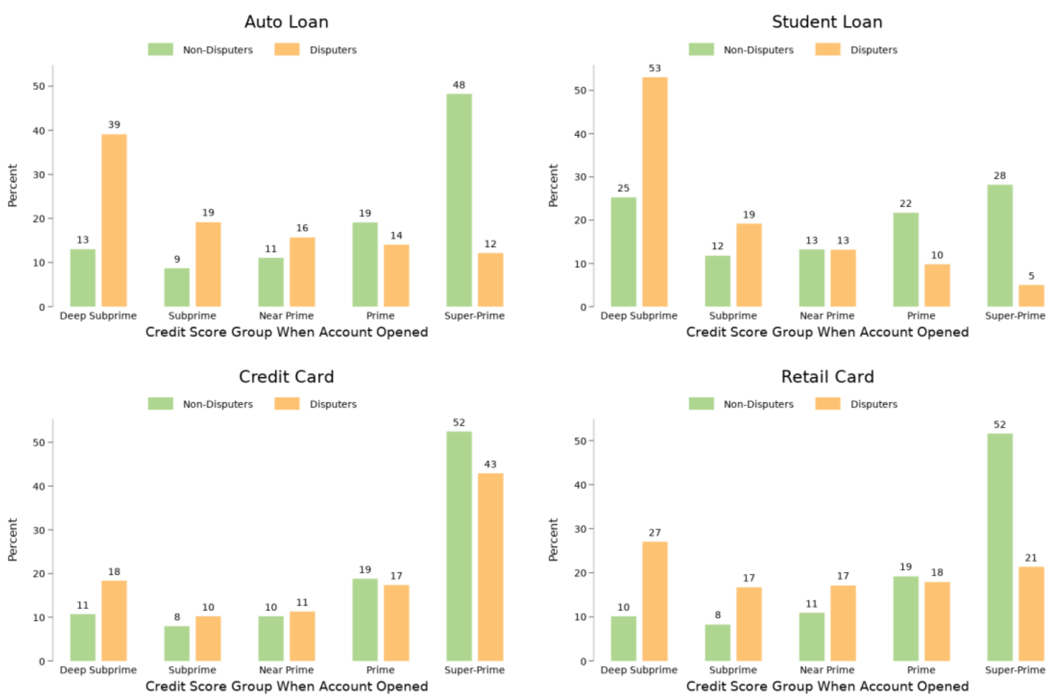
[11] For this figure, age is as of the year the account was opened.

age group, disputers were less likely to be in the 18 to 29 age group. This is likely due to the specific features of the student loan market—consumers with a student loan opened in their 30s are more likely to have refinanced or consolidated a loan, and such loans may be more likely to have reporting issues that lead to disputes.

Next, we examine the distribution of credit scores of disputers and non-disputers, using one of the commercially available credit scores included in the CCP. Because both disputes themselves and the information that is disputed may affect credit scores, we classify consumers into bins based on the credit score from the quarter before the account was opened.[12]

Figure 2, below, shows the credit score distribution, showing the share of disputers and non-disputers in each credit score bin. For all four types of credit in the figure, disputers were much more likely to have low credit scores when the disputed account was opened. For auto loans, student loans and retail cards, the share of disputers with deep subprime (below 580 and

FIGURE 2: CREDIT SCORE DISTRIBUTION OF CONSUMERS WITH A DISPUTE FLAG ON AT LEAST ONE ACCOUNT OPENED BETWEEN 2012 AND 2019 COMPARED TO THE CREDIT SCORE DISTRIBUTION OF CONSUMERS WHO NEVER HAD A DISPUTE FLAG ON AN ACCOUNT OPENED BETWEEN 2012 AND 2019



[12] Consumers who were unscored when the account was opened could, in principle, have their score affected by the disputed information, if the disputed account was opened prior to the first score we observe in the CCP.

subprime credit scores (580 to 619) was roughly double the share of non-disputers in the same credit score buckets. There are a few possible explanations for this disparity. It may be that consumers with deep subprime and subprime credit scores are more likely to experience errors in the first place. It also may be that they are more likely to check their credit reports more frequently than consumers with high credit scores. The FCRA requires creditors to send consumers an "adverse action" notice when they deny a consumer's credit application based on information in a credit report,[13] which in turn may lead to the consumer checking their full credit report or otherwise learning about the potential error. Since deep subprime and subprime borrowers are more likely to have a credit application denied, they would be more likely to see an adverse action notice as well and may take advantage of the statutory right to obtain a free report after an adverse action has been taken.[14]

Finally, we examine the geographic distribution of accounts with dispute flags. Table 1, below, reports the percent of accounts of each credit type that had a dispute flag between 2012 and 2019, broken out by the racial and ethnic makeup of the consumers' census tract of residence. Dispute flags were significantly more common from consumers residing in majority Black census tracks compared to consumers residing in majority White census tracts. For instance, 2.8 percent of auto loans opened between 2012 and 2019 belonging to consumers residing in majority Black census tracks had a dispute flag at some point, compared to just 0.8 percent of auto loan accounts belonging to consumers residing in majority White census tracts—more than three times less. This is consistent with prior Bureau work showing that residents of majority Black census tracts file the most complaints per capita through the Bureau's complaint portal, the majority of which are related to credit reporting.[15] Consumers residing in majority Hispanic census tracts were also somewhat more likely to have a dispute flag than consumers residing in majority White census tracts, although the gap is smaller for these consumers. For residents of majority Hispanic census tracts dispute flags were about half again as common for auto loans, student loans and retail cards, and for credit cards the rate of dispute flags is about the same as for residents of majority White census tracts. Residents of majority Asian census tracts seem to

[13] *See* 15 U.S.C. § 1681m(a).

[14] *See* 15 U.S.C. § 1681j(b).

[15] *See* Kirvan, Lewis and Robert Ha, Consumer Complaints Throughout the Credit Life Cycle, By Demographic Characteristics, Consumer Complaint Research Brief (September 2021) available at https://files.consumerfinance.gov/f/documents/cfpb_consumer-complaints-throughout-credit-life-cycle_report_2021-09.pdf. This phenomenon also appears in other official consumer complain databases such as the Consumer Sentinel database managed by the Federal Trade Commission. *See* Devesh Raval, Which Communities Complain to Policymakers? Evidence from Consumer Sentinel, Economic Inquiry, Vol. 58, Issue 4, pp. 1628-1642 (Oct. 2020), http://dx.doi.org/10.1111/ecin.12838.

TABLE 1: PERCENT OF ACCOUNTS OPENED BETWEEN 2012 AND 2019 THAT HAD A DISPUTE FLAG, BY RACIAL AND ETHNIC MAKEUP OF THE CONSUMERS' CENSUS TRACT OF RESIDENCE

Census Tract Race/Ethnicity	Auto Loans	Student Loans	Credit Cards	Retail Cards
Majority White	0.8	0.9	2.5	0.6
Majority Black	2.8	2.4	4.7	1.4
Majority Hispanic	1.3	1.3	2.7	0.9
Majority Asian	0.8	0.8	2.8	0.6

have dispute flags appear on their credit reports at about the same rate as residents of majority White Census tracts for all four types of credit shown in the table.

Although the differences in the rates of dispute flags between residents of majority Black and majority White census tracts are striking, there are a few important caveats to this result. First, census tract race and ethnicity is strongly correlated with other characteristics that may affect the propensity for a dispute flag to appear, particularly credit score, which Figure 2 showed strongly predicts dispute flags. It may be that the disparity in dispute flag rates by census tract race in part reflects the patterns in credit score.[16] Second, census tract race is only a proxy for consumers' actual race—the statistics in Table 1 will to some extent include Black consumers in majority White census tracts who dispute, and White consumers in majority Black census tracts who dispute.

OUTCOMES FOLLOWING THE APPEARANCE OF DISPUTE FLAGS

When furnishers and CRAs receive a dispute from a consumer, the FCRA generally requires them to investigate the dispute and take certain steps if information is found to be in error. Generally the investigation must be completed within 30 days, after which the account information should be updated if appropriate, and if a dispute flag had been reported the dispute flag should, in principle, be removed or changed to indicate the investigation is complete. In practice, if a dispute flag was reported initially, that initial dispute flag frequently remains for significantly longer than 30 days.

To analyze outcomes for accounts with dispute flags, we first examine these accounts just before and immediately after a dispute flag appears in the consumer's credit record. Table 2, below,

[16] However, if we conduct a more sophisticated analysis and hold constant consumer age, credit score, and census tract median income, we continue to find some disparities in dispute rates by consumers in majority Black census tracts, although the gap shrinks somewhat from what is presented in Table 1.

TABLE 2: CHARACTERISTICS OF DISPUTED CREDIT ACCOUNTS IMMEDIATELY BEFORE AND AFTER THE FIRST DISPUTE FLAG APPEARS

Average...	Auto Loans	Student Loans	Credit Cards	Retail Cards
Number of days account reported before dispute	856	1026	767	741
Credit score before dispute	596	571	672	616
Credit score change after dispute	6.3	13.4	3.2	6.2
Percent delinquent before dispute	39.2	33.1	20.7	38

reports key statistics about these accounts at the time of the first dispute flag. The first row of the table reports the average number of days that accounts with dispute flags of each type of credit were reported on consumers' credit reports before the dispute flag appeared.[17] On average, accounts with dispute flags were reported for over two years before the dispute flag appeared, with the average student loan with a dispute flag being reported for almost three years before the dispute flag. It makes sense that student loans might take longer for disputes to appear, as most student loans do not begin repayment until the borrower leaves school, and it seems likely that there is less reason to dispute an account where no payment is due. Consistent with Figure 2, above, the second row of Table 2 shows that credit scores of disputers tend to be fairly low prior to the dispute, although disputers of general purpose credit cards are the exception here—the average credit score of a credit card disputer in the quarter prior to the dispute flag appearing is close to the average for all consumers who recently opened a credit card. Credit scores increase slightly on average following the appearance of a dispute flag, consistent with consumers being more likely to dispute negative information.[18] Indeed, around a third of auto loan, student loan, and retail card accounts with dispute flags, and a fifth of credit card accounts with dispute flags, were delinquent immediately prior to the dispute flag appearing.

To examine the final outcomes of accounts with dispute flags, we follow accounts opened between January 2012 and December 2019 that had a dispute flag at some point until the

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[17] The vast majority of accounts that eventually have a dispute flag are reported to the nationwide CRA within 60 days of the account being opened, but a small share are reported a year or more after the account was opened, ranging from less than one percent of eventually-disputed auto loans to just over five percent of eventually-disputed retail card accounts.

[18] However, there is significant variation in credit score changes, with ten percent of disputing consumers having their scores fall by 30 points or more and ten percent having increases of more than 40 points. There is also substantial variability in consumers' credit scores from one quarter to the next even in quarters where there is not a new dispute flag, although the average change for the typical quarter is close to zero.

account was either removed from the consumer's credit report or reached the end of our data in December 2019. We focus on four potential endpoints:

- *Dispute code removed*: The account is still open and previously had a dispute flag, but the flag was since removed.
- *Account Deleted:* The account was not present in the consumer's credit report in December 2019, and still had a dispute flag when it last appeared.
- *Account Closed:* The account was marked closed and, if relevant, paid in full. This does not include accounts that were also deleted—closed accounts that were opened in 2012 or later generally should not have been deleted by December 2019 if they were valid accounts.[19]
- *Account Stops Updating:* The account was still present and reported as open in December 2019, but its balance had not been updated since at least before October 2019.

Figure 3, below, shows the share of accounts with dispute flags that were in each status over time, starting from the day the accounts were reported as opening, with a separate plot for each outcome.[20] After a dispute flag first appears, outcomes vary substantially across the different types of credit. A substantial share of auto loans with dispute flags is ultimately closed, with more than 40 percent of auto loan accounts with dispute flags closing with the dispute flag still present within four years of a dispute. In addition, about 17 percent of disputed auto loans were closed at the time of the initial dispute flag and an additional four percent were closed within the first quarter after the dispute flag first appears. Some of the high rate of closed auto loan accounts is due to the relatively shorter term of auto loans, as many of these accounts were paid off according to the normal payment schedule. Other closed auto loans go directly from having a substantial balance to being marked paid in full, without evidence of a lump sum payment being made. Previous Bureau research has documented that reporting of actual payment information can be inconsistent,[21] but some of these may be cases that were incorrectly marked as still open but were revised to show as closed.

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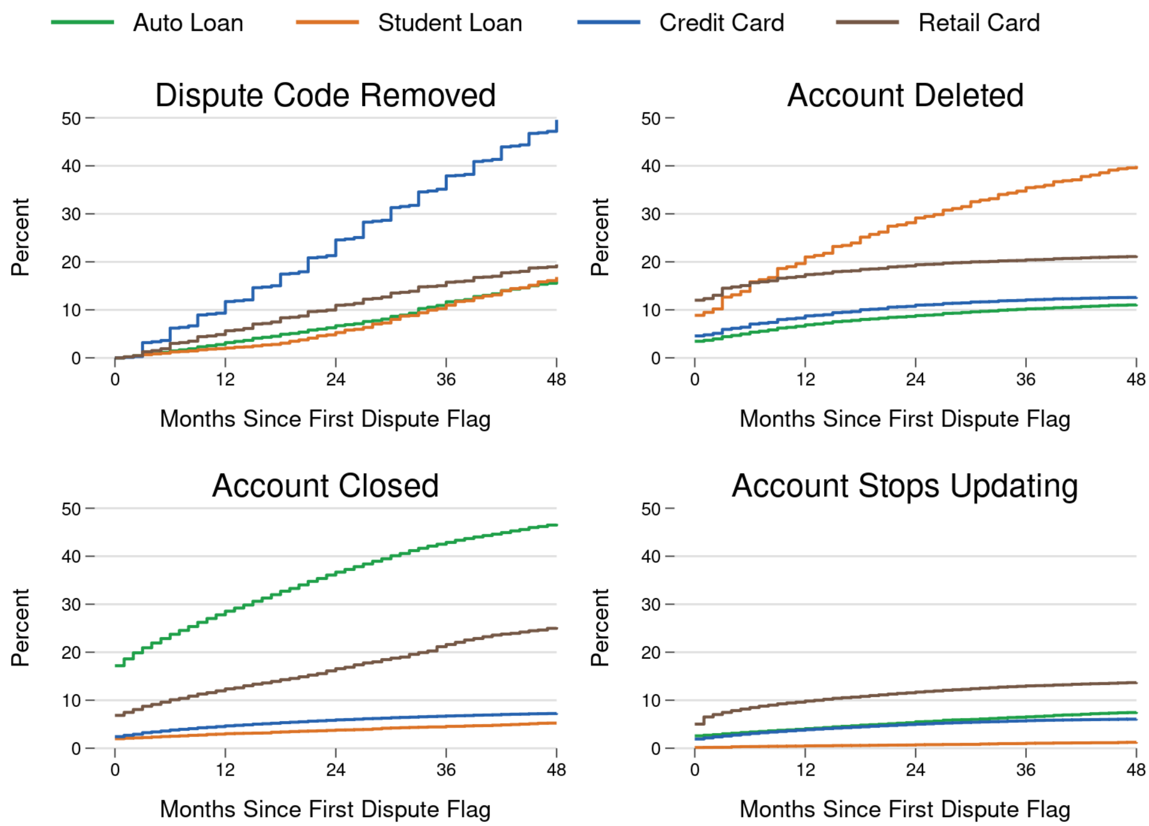
[19] Generally positive information on closed accounts remains on a consumers' credit report indefinitely, while negative information is removed after seven years. Since our sample only includes accounts opened in 2012 and later, the vast majority cannot have been closed for seven years by December 2019, even if the information was negative.

[20] Specifically, the figure plots the cumulative incidence of each outcome, a measure which accounts for both censoring (accounts disappearing from view because they reach the end of the sample in December 2019) and competing risks (accounts disappearing from view because they have experienced one of the other three outcomes).

[21] Herman, Logan, Jonah Kaplan and Austin Mueller, *Payment Amount Furnishing & Consumer Reporting* (Nov. 2020) Quarterly Consumer Credit Trends Report, available at https://files.consumerfinance.gov/f/documents/cfpb_quarterly-consumer-credit-trends_report_2020-11.pdf

FIGURE 3: STATUS OF ACCOUNTS THAT EVENTUALLY HAVE DISPUTE FLAGS, BY NUMBER OF MONTHS SINCE FIRST DISPUTE FLAG



A large share of student loans with dispute flags is ultimately deleted. This largely reflects inconsistent reporting of student loans (disputed and not-disputed alike). Although we link student loan accounts across quarters of the CCP to the extent possible and count transferred loans as a continuation of the pre-transfer tradeline, a disappeared account could be due to accounts being consolidated in a way that appears to be a new loan in the data. Indeed, a substantial share of student loans that did not have disputes were deleted between 2012 and 2019, although apparent deletions were about 30 percent more common for student loans with dispute flags than student loans without dispute flags. It is possible that some of these disputed accounts were incorrectly attributed to the wrong consumer. In particular, about 13 percent of student loans with dispute flags are deleted in the quarter following the appearance of the dispute flag—these deletions may be more likely to be directly related to the dispute flag than deletions that occur later. Although deletion of disputed accounts seems to be more common for student loans than for the other types of credit studied in this report, the aggregate number of affected loans is not large, particularly since many apparent deletions are likely due to inconsistent reporting. In all, about 40 percent of student loans with dispute flags are deleted within four years of the dispute, although given the relatively low rate of student loan disputes, this represents less than 0.2 percent of all student loans opened between 2012 and 2019.

For general purpose credit cards, a large share has the dispute flag removed with the account remaining open. This may be due to consumers disputing individual charges on a credit card account—in such cases even if the dispute is validated, the resolution would not remove or close the account itself. On the other hand, retail cards are significantly less likely to remain open with the dispute flag removed compared to general purpose credit cards, and instead are more likely to be closed or deleted. It is not clear whether this is because of the disputes being of a different nature compared to general purpose cards or whether consumers are more likely to close a retail card that has disputed information since they likely are not relying on that account as a primary means of payment.

CONCLUSION

This Consumer Credit Trends report documents some key patterns in the use of dispute flags that appear in credit record data such as the CCP. In brief, dispute flags appear to be more common for young and low-credit-score borrowers and more common in majority Black census tracts. Once a dispute flag appears, the outcomes for disputed accounts vary markedly across types of credit. While providing some key facts, these results also raise further questions. In particular, an important subject for future research is whether these patterns are driven by differences across groups and credit types in the type or frequency of the underlying issues that result in a dispute flag, or whether they are driven by furnishers' practices for reporting dispute flags or responding to disputes.