CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 29, 2003

National Consumer Credit Reporting System Improvement Act of 2003

As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on September 23, 2003

SUMMARY

CBO estimates that implementing this legislation would cost about $13 million over the next five years, assuming appropriation of the necessary amounts. We also estimate that enacting this legislation would reduce revenues by $4 million over the next five years. The bill also could affect direct spending, but CBO estimates that any such impact would not be significant.

This legislation would provide new consumer protections against identity theft (that is, fraud committed using another person's identifying information) and would permanently extend the provisions in the Fair Credit Reporting Act (FCRA) that prevent states from imposing new restrictions on how financial institutions share consumer information. In 1996, FCRA was amended to create a uniform national standard for consumer protections governing credit transactions, but that standard is scheduled to expire on January 1, 2004. The bill also would give consumers access to certain financial records, help ensure the accuracy of credit reports, enable consumers to "opt-out" of receiving certain commercial solicitations, and provide protection of consumers' medical information.

The National Consumer Credit Systems Improvement Act contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the costs would not exceed the threshold established in UMRA ($59 million in 2003 adjusted annually for inflation).

The bill would impose several private-sector mandates, as defined in UMRA, on consumer reporting agencies, individuals and businesses that print electronic credit card receipts, mortgage lenders, credit and debit card issuers, debt collection agencies, and certain

companies affiliated by corporate control. CBO expects that 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.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of this bill is shown in the following table. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 800 (general government). For this estimate, CBO assumes that the bill will be enacted in the fall of 2003 and that spending will follow historical rates for similar activities.

	By Fiscal Year, in Millions of Dollars				
	2004	2005	2006	2007	2008
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
FTC Activities					
Estimated Authorization Level	5	3	*	*	*
Estimated Outlays	4	3	1	*	*
Financial Literacy and Education Commission					
Estimated Authorization Level	1	2	2	0	0
Estimated Outlays	1	2	2	0	0
Total Proposed Changes					
Estimated Authorization Level	6	5	2	*	*
Estimate Outlays	6	5	2	*	*
CHANGES IN REVENUES					
Estimated Revenues	-2	0	-1	0	-1

NOTES: FTC = Federal Trade Commission; * = less than $500,000.

BASIS OF ESTIMATE

CBO estimates that implementing this legislation would cost about $13 million over the next five years, assuming appropriation of the necessary amounts. We also estimate that enacting this legislation would reduce revenues by $4 million over the next five years. The bill could affect direct spending, but CBO estimates that any such impact would not be significant.

The bill would require the Federal Trade Commission (FTC) to prepare a model summary of rights for consumers who believe that they may be the victims of fraud or identity theft and for consumers who want to obtain or dispute information contained in consumer reports. The FTC also would be responsible for developing procedures and forms for consumers to use when reporting identity theft to creditors and credit-reporting agencies, for implementing a public education campaign on the prevention of identity theft, for conducting various studies on consumer credit and how to improve the operation of FCRA, and developing guidelines and regulations regarding identity theft and credit reporting. Finally, the legislation would require the FTC to compile consumer complaints about incomplete or inaccurate information in their credit file and submit those complaints to each reporting agency involved with the file.

The bill would require the federal banking agencies—which includes the Office of the Comptroller of the Currency (OGC), the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the Board of Governors of the Federal Reserve System (the Federal Reserve)—and the National Credit Union Administration (NCUA) to issue various guidelines and regulations concerning identity theft, credit reporting, and use of consumers' medical information by financial institutions and to produce studies on information sharing practices by financial institutions. Finally, this legislation would require the Federal Reserve to conduct ongoing audits of information contained in consumer reports prepared or maintained by consumer reporting agencies to ensure that such information is accurate and complete. In addition, every two years the Federal Reserve would be required to submit a report of their findings to the Congress.

The bill also would establish the Financial Literacy and Education Commission to improve public awareness of financial matters, including the availability and significance of credit reports and credit scores. The Secretary of the Treasury would serve as the Chairperson of this commission, which would be composed of the respective heads of each federal banking agency and the NCUA as well as representatives from various other agencies.

Spending Subject to Appropriation

Based on information from the FTC, CBO estimates that the studies, public education campaigns, guidelines, and regulations required under this legislation would cost that agency $4 million in 2004 and $8 million over the 2004-2008 period, assuming appropriation of the necessary amounts.

Based on information from the Treasury, CBO estimates that the Financial Literacy and Education Commission would cost about $5 million over the next three years, subject to the availability of appropriated funds. Such funding would cover personnel and administrative costs and costs associated with establishing and maintaining a Web site and a toll-free number. In addition, this legislation would require the General Accounting Office (GAO) to assess the effectiveness of the Financial Literacy and Education Commission no later than three years after the enactment of this legislation. CBO estimates that the GAO study required under the bill would cost less than $500,000.

Direct Spending and Revenues

The NCUA, the OTS, and the OCC charge fees to cover all their administrative costs; therefore, any additional spending by those agencies to implement the bill would have no net budgetary effect. That is not the case with FDIC, however, which uses deposit insurance premiums paid by banks to cover the expenses it incurs to supervise state-chartered institutions. (Under current law, CBO estimates that the vast majority of thrift institutions insured by the FDIC would not pay any premiums for most of the 2004-2013 period.) The bill would cause a small increase in FDIC spending but would not affect its premium income. Based on information from the FDIC, implementing the bill would have a minor impact on the agency's workload.

CBO estimates that the Federal Reserve's costs associated with the rulemaking and studies required under the bill would be minimal. However, the audits and related reports specified under the bill would require the Federal Reserve to purchase additional data from credit bureaus to develop new software and models, and conduct in-person interviews with consumers. Based on information from the Board of Governors, CBO estimates that complying with the requirements of the bill would increase the Federal Reserve's expenses by $2 million in 2004, by $4 million over the 2004-2008 period, and by $8 million over the 2004-2013 period. The Federal Reserve remits its net income to the Treasury, and those payments are classified as governmental receipts, or revenues, in the federal budget. Therefore, increasing the Federal Reserve's costs by the aforementioned amounts would result in an equal reduction in federal revenues.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The bill would permanently prohibit state and local governments from enacting laws that are different from the Fair Credit Reporting Act in certain specified cases. Such a preemption of state law is an intergovernmental mandate as defined in UMRA, but CBO estimates that would not impose significant costs on state and local governments. Therefore, the cost of the preemption would not exceed the threshold established in UMRA ($59 million in 2003, adjusted annually for inflation).

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill would impose several private-sector mandates as defined in UMRA on consumer reporting agencies, individuals and businesses that print electronic credit card receipts, mortgage lenders, credit and debit card issuers, debt collection agencies, and certain companies affiliated by corporate control 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;
- Requiring certain fraud alerts and blocks in consumer credit files; and
- Requiring additional notifications and disclosures to consumers.

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 211 would require consumer reporting agencies to provide an annual free credit report within 15 days from the date of a request from an individual by mail or through an Internet Web site. 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.

Truncation of Credit Card Account Numbers

Section 113 would impose a private-sector mandate by requiring individuals and businesses that accept credit cards or debit cards to truncate the 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 first 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. 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 212 would require mortgage lenders or anyone that extends credit for consumer purposes secured by a dwelling and uses a consumer credit score for approval of such credit to provide a copy of the credit score and associated information received from a consumer reporting agency or third party to an applicant 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 112 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 152 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 provisions of the bill addressing fraud alert coverage would impose private-sector mandates as follows:

- Require credit reporting agencies to coordinate consumer complaint investigations by developing and maintaining procedures for the referral to other credit reporting agencies any consumer complaint alleging identity theft or requesting a fraud alert or block; 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 be small compared with the costs of the three most costly mandates in the bill.

Other Notification and Disclosure Requirements

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 from the addresses in the consumer's file to notify the requester of the existence of the discrepancy;

- Require credit reporting agencies to provide certain information, including a summary of rights to be prepared by the Federal Trade Commission, with each written disclosure sent to a consumer;

- 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.

The bill also would require companies affiliated by corporate control that share information with affiliates for the purpose of making certain solicitations for marketing purposes to give consumers notice of such sharing and provide consumers the opportunity to prohibit or modify such solicitations. Based on information from various industry and government sources, CBO expects the direct cost to the private sector would be small compared with the costs of the three major mandates in the bill.

PREVIOUS CBO ESTIMATE

On September 3, 2003, CBO transmitted a cost estimate for H.R. 2622, the Fair and Accurate Credit Transactions Act of 2003, as ordered reported by the House Committee on Financial Services on July 24, 2003. CBO estimates that enacting H.R. 2622 would cost about $7 million over the next five years and any impact on direct spending and revenues would be insignificant. The National Consumer Credit Systems Improvement Act would preempt state law in the same way as H.R. 2622, and CBO estimates that the two bills would have an identical impact on state and local governments. H.R. 2622 contains most of the same private-sector mandates as this Senate bill, including mandates requiring consumer access to credit reports, truncation of credit card numbers, disclosure of credit scores and fraud alerts in consumer credit files. CBO estimates that the direct costs of those mandates would exceed the annual threshold for private-sector mandates in at least one of the first five years the mandates are in effect.

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