DIGITAL MATRIX SYSTEMS

Master Credit Reporting Accuracy and Prevent Errors

Introduction

Lenders, credit bureaus, and consumers all have a vital interest in achieving data accuracy on credit reports. Companies use these reports to make loan approval decisions and depend upon their accuracy. Inaccurate information can lead to incorrect decisions that can have a negative impact on both lenders and consumers alike.

This paper explores several key questions related to this topic. What are some of the most common errors that occur when consumer data is sent to the credit bureaus? What do the credit bureaus do with the furnished data? What can lenders do to ensure their Metro 2® file submission is accurate? What can lenders do to ensure that submitted tradeline data is accurately reflected on their consumers' credit reports? How can lenders empower their customer service representatives to proactively assess and respond to consumer disputes?

How Can Lenders Quickly Resolve Customer Disputes or Prevent them in the First Place?

Accurate credit reporting is essential for lenders, credit bureaus, and consumers alike. Lenders rely on precise data to make informed loan decisions, while consumers depend on fair and accurate reports to access financial opportunities. When credit reports contain errors, the consequences can be significant. Errors can lead to misguided lending decisions, financial setbacks, and loss of trust in the system. Ensuring data accuracy isn't just important, but is critical for a fair and efficient financial ecosystem.

Savvy consumers that find inaccuracies on their credit report can choose from a few courses of action to resolve the errors:

1. File a dispute with the lender that furnished the data to the credit bureau(s).
2. File a dispute with the credit bureau(s).
3. File a complaint with the Consumer Financial Protection Bureau (CFPB).
4. Hire an attorney to do all three.

Even when the consumer has effectively communicated an inaccuracy, it can sometimes still be perpetuated on their credit report. This occurs due to systemic errors in the way corrections are recorded and transmitted to the bureaus by the data furnisher.

Many lenders are seeking to harden their internal and external quality control procedures to validate the data they furnish to credit bureaus. This means ensuring that the data is not only correct but is also accurately reflected on the credit bureau report. There can be significant financial consequences for furnishing inaccurate consumer data to the credit bureaus. For example, in January 2025 the CFPB levied fines of over $12 million dollars on a company for furnishing inaccurate data that affected the credit reports of 300,000 people[1].

Requirements for Lenders and Credit Bureaus Concerning Accuracy

Both lenders and credit bureaus have obligations to ensure the accuracy of data on credit bureau reports. According to Fair Credit Reporting Act (FCRA) regulations, lenders should establish and implement reasonable written policies and procedures regarding the accuracy and integrity of information relating to consumers that they furnish to credit bureaus. Likewise, the FCRA also states that credit bureaus should follow “reasonable procedures to assure maximum possible accuracy of the information concerning the individual about whom the report relates.”

Common Credit Report Errors

To err is human, and since the credit reporting system involves thousands of entities using varying systems to report vast amounts of data on millions of consumers, inaccuracies can happen on an individual’s credit report in several ways. The consumer might provide inaccurate information when applying for a loan, or the creditor might make a manual error when inputting the consumer information into the underwriting system. An error can occur if the bureau matches the information of a consumer to the wrong individual’s credit file. Inaccuracies can come from mistakes or missing identifying information in government files. They often occur to victims of identity theft or identify fraud. Here is some more detail on the types of errors that can occur.

Furnishing Old Information. FCRA regulations require that lenders and credit bureaus report information on credit reports that is current. If they fail to do so, they have violated the FCRA. Examples include:

- Failing to report that a debt was discharged in bankruptcy.
- Re-aging old debts by reporting them as new.
- Re-aging a debt by reporting credit information that is more than seven years old.
- Reporting an account as active when it was voluntarily closed by the consumer.
- Reporting bankruptcies and judgments that are over ten years old.
- Reporting duplicative tradelines by listing the same account as multiple different debts.
- Mixing information from the credit files of two different individuals (a relative or another with a similar name).
- Reporting someone as deceased when they are not.
- Tradelines that reappear on a consumer’s report after they’ve been deleted by the bureau to resolve a dispute.

Reporting Inaccurate and Incomplete Information. Lenders and credit bureaus cannot report information that they know or should know is inaccurate. Examples include:

- Reporting a settled or paid in full debt as charged-off.
- Reporting an inaccurate balance.
- Reporting an overdue payment when the borrower actually paid on time.
- Reporting an account as someone else’s.
- Listing a cardholder as debtor when they are actually an authorized user.
- Reporting an account previously marked as identity theft.
- Reporting incomplete payment history.

Failing to Follow Dispute Procedures. When a consumer files a dispute, the bureaus have a duty to conduct a reasonable reinvestigation of the consumer’s credit dispute. They must correct any inaccurate information or delete the debt from the consumer’s credit report if they have not verified within 30 days. Common violations include:

- Not notifying the creditor of a consumer’s dispute.
- Failing to conduct a “reasonable reinvestigation” of a dispute.
- Failing to remove incomplete or unverifiable information within 30 days of receiving a dispute letter.

Common Mistakes on Auto Tradelines

Several auto lenders offer loans to borrowers with subprime credit scores. The lender might be a bank, credit union, a specialty finance company, or a “buy-here-pay-here” car dealership. Borrowers with subprime auto loans usually pay higher interest rates and more frequently default on their auto loans. Two or three consecutively missed payments can lead to repossession.

Occasionally a lender might misreport the repossession event to the credit bureaus. This can happen for several reasons, including manual coding errors or using a legacy system with outdated rules to service the loan portfolio. Common mistakes include:

- **Incorrect date of the repossession**
  The credit report may not reflect the true date of repossession, especially when the lender sells the vehicle to a third-party debt buyer. This can re-age the debt making it more damaging to a consumer’s credit score.
- **Incorrect Balances**
  The balance shown on the credit report does not include the proceeds from the sale of the car. This is a potential violation and needs correction.
- **GAP insurance coverage**
  If the borrower totaled the car in an accident, or lost it due to theft, there may be a portion of the balance left over that the GAP insurance coverage did not pay. Occasionally lenders might then mistakenly post a repossession on the borrower’s credit report because of their automated system.
- **Auto Loan was charged-off, but the auto was never repossessed**
  Sometimes a borrower’s auto tradeline is marked as repossessed even though the vehicle was never actually taken back by the lender. Consumers in this situation often find themselves with a car that they cannot dispose of because they have no title.

Even if the lender rightly repossessed the car for missed payments, incorrectly reporting the event to the bureaus can leave a lasting mark on a borrower’s credit report. If enough borrowers fight back, it exposes the lender to audit by the CFPB for potentially mismanaging the loans. The frequency at which consumers are filing complaints with the CFPB, as well as filing disputes with the bureaus and lenders, is increasing. A cottage industry of law firms and credit repair companies has arisen that specialize in rectifying such mistakes on the credit report.

What Happens When Credit Bureaus Receive Information From Data Furnishers?

The credit bureaus have designed processes to standardize, automate, and check the quality of incoming information supplied by tens of thousands of data furnishers. Before accepting information, bureaus indicate that they perform quality control and background checks on would-be furnishers. Most new and existing furnishers provide consumer data electronically to the bureaus using a standardized data format called Metro 2®. The Consumer Data Industry Association (CDIA) developed the Metro 2® format and has refined it over time.

A key step in the organization of data that makes it possible to create credit reports is the “matching” process by which the credit bureaus assign incoming tradeline data to consumer-specific credit files. Each bureau has spent decades developing and refining their unique and proprietary data architectures to manage the “matching” process. Accurately matching tradeline information to the correct consumer can be quite challenging. The absence of an objective, universal third-party source of information to verify against makes the process more complex. Similarities between consumers’ names and addresses (particularly amongst relatives) or colloquial variations in their names (e.g., Kimberly, Kimmie, Kimi, Kim etc.) occasionally results in inaccurate matches depending upon the sophistication of the matching algorithms used and the quality of the input data provided.

Metro 2® Input File Accuracy

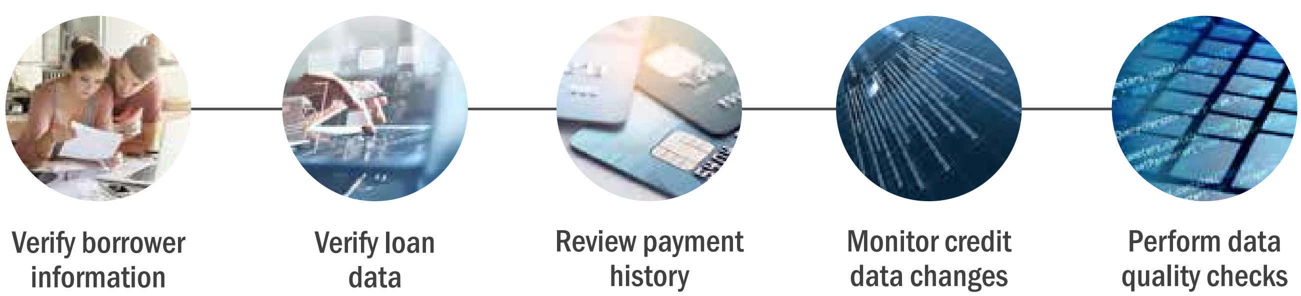
The Metro 2® format is a standardized method for reporting credit information, including credit accounts, payment history, and public records such as bankruptcies and liens. The format specifies the data fields and data elements that lenders must provide in their credit reporting to credit bureaus. It also sets guidelines for how credit data should be reported and includes rules for formatting, data validation, and data transmission. The Metro 2® format is an important standard for credit reporting that helps to ensure accuracy and consistency in credit reports.

Overall, credit bureaus use a combination of algorithms and checks to verify and validate the information they receive from lenders. The methods used are proprietary and specific to each bureau. Although they help to ensure the accuracy of credit reports and provide lenders with reliable data for evaluating creditworthiness, errors can still happen as data moves through the system via the Metro 2® file format.

Recommendation 1: Make sure the Metro 2® input file is as accurate as possible before submitting it to the bureaus.

Lenders can take several steps to ensure that the data they submit to credit bureaus via the Metro 2® input file is as accurate as possible before it is sent. These include:

1. Verify borrower information: Lenders should verify the accuracy of borrower information, such as name, address, social security number, and date of birth before submitting data to credit bureaus. This can include validating the information against internal records or external sources.
2. Validate loan data: Lenders should validate loan data, such as loan type, loan amount, and loan terms, to ensure that it is accurate before submitting it to credit bureaus. This can help to prevent errors and ensure that the data is reported consistently across all borrowers.
3. Review payment history: Lenders should review payment history data to ensure that it is accurate and complete. This can include verifying payment amounts, payment dates, and payment frequency.
4. Monitor credit data changes: Lenders should monitor credit data changes to ensure that the information they submit to credit bureaus remains accurate and up-to-date. This can include reviewing credit reports periodically and updating borrower information as needed.
5. Perform data quality checks: Lenders should perform data quality checks on the Metro 2® input file before submitting it to credit bureaus. This can include verifying that all required data fields are included, that data is formatted correctly, and that data values are within acceptable ranges.

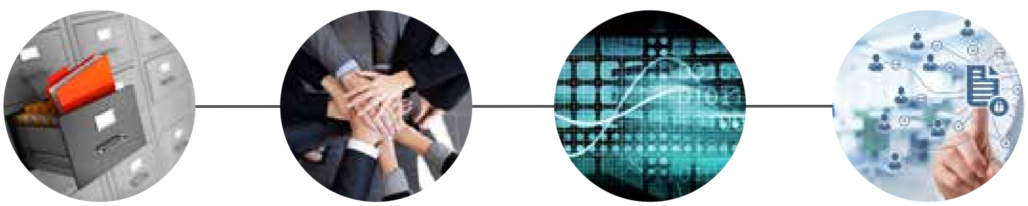


Recommendation 2: Verify that the credit bureaus have accurately transcribed the data from the Metro 2® input file to your consumers' credit reports.

Lenders can take several steps to verify that credit bureaus have accurately transcribed the data from their Metro 2® input file submissions to consumers' credit reports. These include:

1. Conduct regular audits: Lenders can conduct regular audits of their Metro 2® input files and compare the data in their files with the data that is being reported by credit bureaus. This can help identify any discrepancies or errors in the credit reports.
2. Collaborate with credit bureaus: Lenders can work closely with credit bureaus to ensure that any data discrepancies or errors are resolved promptly. This can include providing additional documentation or information to support the accuracy of the data.
3. Use automated data validation tools: Lenders can use automated data validation tools to verify the accuracy of the data in their Metro 2® input files and ensure that credit bureaus are correctly reporting it. These tools can help identify data inconsistencies and errors in real-time, enabling lenders to take corrective action quickly.
4. Review credit reports regularly: Lenders can review consumers' credit reports regularly to ensure that the data is accurate and up to date. This can include reviewing credit reports for all borrowers in their portfolio, even if they have not recently applied for credit.

Following these steps can help ensure that credit bureaus are accurately transcribing the data from Metro 2 input file submissions to consumers' credit reports. This can help prevent errors, improve data quality, and ensure that consumers have access to accurate credit information.



Conduct regular audits | Collaborate with credit bureaus | Use automated validation tools | Review credit reports regularly

Empower Customer Service Representatives to Proactively Assess and Respond to Consumer Disputes

Lenders can empower their customer service representatives to proactively assess and respond to consumer disputes regarding information that the lender has furnished to the credit bureaus by following these steps:

1. Train customer service representatives on the dispute resolution process and provide them with the necessary tools and resources to respond to consumer disputes effectively. This can include providing scripts, training materials, and access to the lender's internal systems to view and update customer account information.
2. Lenders should establish clear dispute resolution procedures and communicate them to their customer service representatives. This can include defining roles and responsibilities, identifying key stakeholders, and establishing timelines for responding to disputes.
3. Empower customer service representatives to initiate disputes on behalf of consumers when they identify inaccuracies or errors in credit reports. This can include providing access to credit reporting tools and templates to facilitate the dispute resolution process.
4. Lenders should provide ongoing feedback and support to their customer service representatives to help them improve their dispute resolution skills and knowledge. This can include providing coaching, training, and resources to help them better understand consumer credit reporting issues and how to address them effectively.
5. Monitor dispute resolution outcomes and adjust their dispute resolution procedures as needed to improve effectiveness. This can include tracking dispute resolution outcomes, analyzing trends, and adjusting policies and procedures based on feedback from customers and customer service representatives.

By equipping their customer service representatives to proactively assess and respond to consumer disputes regarding information that the lender has furnished to the credit bureaus, lenders can help to improve customer satisfaction, prevent errors, and maintain the accuracy of credit reports. Here are two important use cases.

Use Case 1: A consumer calls or sends a letter to dispute information a lender furnished to the credit bureau.

When a consumer calls or sends a letter to dispute information that a lender has furnished to the credit bureau, customer service representatives can proactively assess and respond to the dispute by following these steps:

1. Listen to the consumer's concern: Customer service representatives should listen carefully to the consumer's concern and ask clarifying questions to fully understand the issue.
2. Verify the accuracy of the information: Customer service representatives should verify the accuracy of the information that the consumer is disputing by reviewing the lender's records and comparing them to the information that was furnished to the credit bureau.
3. Initiate a dispute with the credit bureau: If the information is found to be inaccurate, customer service representatives should initiate a dispute with the credit bureau on behalf of the consumer. This can be done by submitting a dispute letter, fax, or online form to the credit bureau.
4. Communicate with the consumer: Customer service representatives should communicate regularly with the consumer throughout the dispute resolution process, providing updates on the status of the dispute and answering any questions that the consumer may have.
5. Escalate the dispute if necessary: If the dispute cannot be resolved at the customer service level, customer service representatives should escalate the dispute to a higher level of management for resolution.

Use Case 2: A lender discovers that due to a systemic error in their legacy systems, they may have incorrectly reported information on several hundred or even thousands of consumers.

When a lender discovers that due to a systemic error in their legacy systems they may have incorrectly reported information on several hundred or even thousands of consumers, customer service representatives can proactively assess and respond to the issue by following these steps:

1. Identify the scope of the problem: Customer service representatives should work with the lender's IT department and data analysts to identify the scope of the problem, including how many consumers are affected and what types of information have been incorrectly reported.
2. Develop a remediation plan: Customer service representatives should work with the lender's management team to develop a remediation plan that outlines the steps that will be taken to correct the issue, including updating the credit bureau records and communicating with affected consumers.
3. Communicate with affected consumers: Customer service representatives should communicate with affected consumers to inform them of the issue and what steps are being taken to correct it. This can be done through phone calls, letters, or email communications.
4. Update credit bureau records: Customer service representatives should work with the credit bureaus to update the records of affected consumers and ensure that the correct information is being reported.
5. Monitor the situation: Customer service representatives should monitor the situation closely to ensure that the issue has been fully resolved and that there are no further impacts on consumers. This can include conducting regular audits of the lender's systems and records to identify any additional issues that need to be addressed.

Overall, by empowering their customer service representatives to proactively assess and respond to consumer disputes for these two important use cases, lenders can help to improve customer satisfaction, maintain the accuracy of credit reports, and mitigate reputational and regulatory risks.

Conclusion

Maintaining accurate consumer credit reports is essential for lenders, credit bureaus, and consumers. Inaccurate information can lead to incorrect loan approval decisions and negatively impact both lenders and consumers. Therefore, it is critical for lenders to establish and implement reasonable policies and procedures to ensure data accuracy and integrity when reporting information to credit bureaus. The credit bureaus also have a responsibility to follow reasonable procedures to ensure the maximum possible accuracy of the information reported in credit reports. By understanding common credit report errors, lenders can take proactive steps to avoid them and ensure the accuracy of their data. Prioritizing data accuracy and integrity protects lenders and their customers from the negative consequences of inaccurate credit reporting.

The credit reporting system relies heavily on the accuracy of the information provided by data furnishers and the thoroughness of the credit bureaus' data matching process. The Metro 2® format provides a standardized method for reporting credit information and helps to ensure consistency and accuracy in credit reports. However, errors can still occur as data moves through the system. Lenders can take steps to ensure the accuracy of the data they provide to credit bureaus and verify that the information is being accurately transcribed to consumers' credit reports. By doing so, lenders can help to prevent errors, improve data quality, and ensure that borrowers' credit reports are accurate and up-to-date, benefiting both lenders and consumers alike.

---

1 'CFPB Orders Honda's Auto Financing Arm to Pay $12.8 Million for COVID-19 and Other Credit Reporting Failures", January 17, 2025 https://www.consumerfinance.gov-/about-us/newsroom/cfpb-orders-hondas-auto-financing-arm-to-pay-128-million-for-covid-19-and-other-credit-reporting-failures/

About Digital Matrix Systems

Digital Matrix Systems (DMS) has been providing financial technology to clients for over 40 years. We help lenders leverage the power of data to make critical business decisions. With an emphasis on risk management, our solutions support the entire data management lifecycle, from access and storage to analytics.

DMS delivers secure access to the credit bureaus as well as 20+ alternative data sources. We help our clients improve efficiency, increase profitability, and lower risk through the effective management of data. With a unique blend of advanced analytics, scoring models and comprehensive consulting, DMS delivers strategic and cost-effective solutions tailored to each client.

For more information, visit www.dms.net.