Creating an Effective Credit Bureau Disputes Process

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Over 75% of consumer complaints submitted to the CFPB in 2023 were related to Credit Bureau Reporting. Building a well-controlled set of bureau-related processes is imperative.

Executive Summary

Credit bureau reporting is a complex process with detailed requirements that have a wide range of potential failure points. There are serious consequences for anything less than flawless execution of credit bureau reporting (i.e., CFPB consent order and $19MM fine for Hyundai Auto Finance 7/22). The credit bureau disputes process is a primary means for banks to uncover and remediate both individual errors and more systematic issues. The disputes process can be a highly frustrating process for customers if not handled well, which in turn leads to complaints, which in turn leads to regulatory scrutiny. 2OS can help lenders bullet-proof their Credit Bureau Disputes process to take care of their customers and avoid these bad outcomes.

Over the past few years, our expertise at 2nd Order Solutions has expanded to include Credit Bureau Disputes. As credit delinquencies begin to increase back to historical norms, there will be a natural increase in customers disputing their previous delinquencies. In a worsening economy, we also envision a tightening of credit standards. This will make it more likely that customers will increase the number of disputes submitted across the 3 major credit bureaus, plus directly to financial institutions, to attempt to increase their scores. Additional disputes raise the premium on not only having an accurate Credit Bureau Reporting process, but also an effective and efficient Credit Bureau Dispute process to handle incoming AUD's (Automated Universal Data - direct to issuer) and ACDV's (Automated Credit Dispute Verification - indirect from bureaus to issuer) in a way that solves for two different processes with different data feeds.

While there are many factors that make up a consumer's credit bureau score, historical delinquencies are a key factor in potential new credit declines and higher interest rates. Under the Equal Credit Opportunity Act, lenders are required to disclose the reasons an application was rejected, which could lead customers to the dispute process especially if previous delinquencies are specifically stated as a reason for the declined loan application.

When the CFPB was formed, one of the first areas they explored was credit bureau reporting. They argued that credit bureau reports were full of inaccurate information.[1] It is complex and difficult for financial institutions to not only provide accurate data, but also to send it to the bureaus in a manner such that the bureaus will reflect the right data attached to the right consumer. This is one of the most nuanced and complex functions

[1] https://crsreports.congress.gov/product/pdf/IN/IN12315

lenders perform, as evidenced by the guidelines provided by the CDIA (Consumer Data Industry Association).

In this paper we provide a roadmap for where some key challenges and pain points lie. We start with a framework for the root causes of complexity within Credit Bureau Reporting and Disputes, provide a variety of examples, and suggest a set of important first steps to make Disputes more well-managed.

Overview – Key Areas

We have identified specific key categories within Credit Bureau Reporting and Disputes that credit institutions would benefit from enhancing



Operational Processes	Monitoring and Reporting	Customer Communication
○ Fraud and Ownership ○ Account Status and Payment History ○ Non-Specific Customer Account Info ○ Bankruptcy and Estates ○ Dates and Initial Review ○ Credit Limit and High Balances	• Key Timelines • Service Levels • Process Health • Regulatory Compliance • Vendor Oversight • Departmental Hand-Off's	• Email • Letter • SMS • Chat • Website / Mobile • IVR • Phone

Seamless Operational Processes

When a customer initiates a Credit Bureau Dispute either through an AUD or an ACDV, it kicks off a process at financial institutions to respond to the dispute.

Many of these processes are complex and difficult to adhere to. While most complexity scales with the size of the business, some processes have table stakes that are high regardless of the size of the business. Examples of processes below fit this description.

<u>**Fraud and Fraud Ownership.**</u> Legitimate disputes of Fraud are commonplace and growing among customers initiating disputes on their Credit Bureau Report. It is incumbent on companies who identify Fraud later in delinquency not only to rectify the situation for the customer financially, but also to kick off the process to remove the negative bureau reporting proactively. These companies should also have a back-end process to remove historical reporting. Additionally, missed Fraud cases can be outside of the ecosystem of credit bureau reporting and the data fed to the bureaus, but it is how some customers choose to alert banks to the issue. This makes it important to not only

report the data accurately, but also connect upstream processes together to deal with a variety of issues/errors.

Bankruptcy and Estates. There are many obligations lenders have and many different steps that must be taken as part of the BK&E process. 2023 brought an increase of bankruptcies due to factors including the economy and pandemic. Dealing with the death of a loved one can be overwhelming. The aftermath for their financial accounts is generally not top of mind for the families but is something that has to be resolved by lenders in a compassionate and well-managed way. Credit Bureau Reporting must be aligned with these obligations. We have typically seen issues with stay violations and proactive scrubs inaccurately putting a customer in bankruptcy or estate and then having challenges unwinding false positives from a credit bureau reporting perspective.

Accurate Monitoring and Reporting

Aligning intent and execution can be challenging in most business operations, but more so in the complex world of Credit Bureau Reporting and Disputes. Ensuring accurate monitoring and reporting on the key metrics that measure the success of the process can be the difference between being in compliance or out of compliance.

Disputes must be resolved within 30 days to ensure regulatory compliance and it is important for companies to have a valid intake and hand-off process with visibility into the outcomes as disputes can come in from many places:

- Emails
- 3rd Party Google Forms
- Servicing Call
- Collections Call
- Mail / Letter
- E-Oscar (from Credit Bureaus)

Within those channels, it is important to track key metrics such as: error rate, response rate, overturn rate, and one touch resolution by dispute category; turnaround time for each team involved in the process; open and click through rates for customer communications via email; and agent metrics broken out by type of dispute and dispute code.

While there are a lot of customers who file disputes regarding what they believe are legitimate inaccuracies, the overwhelming majority of dispute volumes are simply attempts to get accurate information about delinquencies removed. This is driven by credit bureau rules that require deletion of negative info if disputes are not processed within strict timelines. This puts tremendous stress on the disputes process as it has the effect of making the legitimate errors needles in a massive haystack.

Effective Customer Communications

Due to the nature of the regulations, financial institutions are obligated to respond to customer disputes in a timely and effective fashion. Some of these obligations include:

- Initial acknowledgement of dispute
- Request for additional information
- Dispute resolution
- Escalation for multiple or escalated disputes

Opportunities exist to highlight more empathy, ask for information that would be helpful to resolve the dispute, educate the customer on the timelines to complete and respond to the dispute, and ensure the customer is aware of relevant disclosures.

Conclusion

There are hundreds of thousands of credit card disputes that happen every year, which can be overwhelming to process both at big companies and small companies alike. Credit Bureau Disputes make up a significant form of compliance risk, contain very costly, complex, and manual processes that are increasing due to the operational burden of rising delinquencies, and place a heavy weight on smaller and specialty lenders that have limited resources and expertise.

We would recommend the following changes.

Conduct a thorough review of process and infrastructure: There are several key regulations that govern the Credit Bureau Disputes process in terms of responding and decisioning disputes in a timely manner. Some of these timelines can be challenging to manage especially in scenarios where there are different entry points to the disputes process and hand-offs between departments.

Ensure all Credit Bureau Reporting and Disputes roll up to one executive: At times, we see blurry reporting lines between the intent and execution of this process and consolidating them under one team will be helpful in meeting compliance guidance. Ensuring clear end to end ownership of the dispute process is essential to mitigating risk.

Invest in digital: There are many touch points that can occur with the customer as issuers acknowledge receipt of the dispute and respond to the dispute based upon the reasoning. Beacons in the Credit Bureau Dispute space are utilizing online methods (web, mobile, app) which are accentuated with varying email creatives to optimize the customer experience and reduce follow up's.

Invest heavily in monitoring: There are many risks inherent within these processes which makes it even more important that there is visibility to all KPI's. There should be clear guardrails for each metric that impacts compliance adherence and time given to respond to any delays e.g., understanding the tails of accounts reaching the provisional credit and/or the 30-day response time.

Incorrect information on a credit report, improper use of credit reports, and investigation into a complaint have been the 3 most common issues reported to the CFPB in the last year. As issuers strengthen monitoring and investigation processes they will be able to reduce complaints along with potential increased litigation findings.

Please feel free to contact us to see some examples or additional details of anything we have discussed during this white paper. 2OS leaders have directly managed all of these complex functions. We know both the tactical measures taken by large banks to stay out of harm's way as well as the spirit of what is needed so that our clients can scale solutions to match the maturity and resources of where they are today. We welcome the opportunity to support our clients as they build out their Credit Bureau Reporting & Disputes infrastructure.

Acknowledgements

This report was prepared by Justin Metacarpa and David Wasik.

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About 2OS

2nd Order Solutions (2OS) is a boutique credit risk advisory firm that specializes in solving the world's most challenging credit problems. 2OS was founded 12 years ago and consults to a wide range of banks, card issuers, fintechs, and specialty finance companies in the US and abroad.

2OS has deep experience with lending businesses across Card, Auto, Small Business, and Personal Loans, at all points in the credit lifecycle. 2OS partners have vast expertise in all aspects of Collections, both as operating executives and as consultants.