

# As a Hiring Filter, Credit Checks Draw Questions

By ANDREW MARTIN  
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In defending employers' use of credit checks as part of the hiring process, Eric Rosenberg of the TransUnion credit bureau paints a sobering picture.

Retailers lose more than \$30 billion a year because of employee theft, he says. Workplace violence costs employers \$55 million a year in lost wages. A third of employees provide bogus information on their résumés.

Screening the backgrounds of employees "is critical to protect the safety of Connecticut residents in their homes and offices, in their cars and in all other places they travel," Mr. Rosenberg testified to Connecticut legislators in February 2009, explaining why TransUnion markets its credit reports to employers.

Trouble is, researchers say there is no evidence showing that people with weak credit are more likely to be bad employees or to steal from their bosses, a fact that Mr. Rosenberg himself later admitted.

“At this point we don’t have any research to show any statistical correlation between what’s in somebody’s credit report and their job performance or their likelihood to commit fraud,” he said in separate testimony to Oregon legislators in January.

With millions of Americans nursing damaged credit reports after a bruising recession, some lawmakers are seeking to limit the use of credit reports as a factor in hiring.

Legislators in more than a dozen states have introduced bills to curb the use of credit checks during the hiring process, and three states have passed such laws.

At the federal level, Representative Steve Cohen, Democrat of Tennessee, is pursuing his own legislation that would prohibit employers nationwide from using credit checks to discriminate in hiring.

Supporters of such laws say they are necessary because an increasing number of employers are doing credit checks even though there is no proof that bad credit is a marker of risky employees.

Furthermore, they say the practice unfairly tars the huge pool of people whose credit was damaged by layoffs, medical bills or other factors beyond their control. They also say it disproportionately screens out minorities.

“Bernie Madoff had a pretty good credit score,” said Matthew

Lesser, a Connecticut state representative who introduced a bill early last year that would have limited employers' use of credit reports.

“And yet there is this consistent message that if you have a bad credit score, there is something wrong with you.”

Jerry K. Palmer, a psychology professor at Eastern Kentucky University, said his studies, though relatively small, found no correlation between the quality of an employee's credit report and that worker's job performance or likelihood to quit.

He said he was not aware of any studies that showed a correlation between poor credit and employee fraud or violence. But he noted that more research was needed to show what credit reports could predict.

Even so, the industry that sells credit checks has remained firm, mounting a counterattack against legislation with some success. Bills introduced in California, Maryland and Connecticut, for example, have been stalled amid opposition from credit bureaus and other businesses.

In arguing against the legislation in Connecticut, Mr. Rosenberg, director of state government relations for TransUnion, testified, “This restriction could jeopardize the health and safety of many Connecticut residents who have come to rely on safe and secure environments, and risks the financial status of businesses across the state.”

Mr. Rosenberg did not return messages seeking comment. A spokesman for TransUnion, Steven Katz, reiterated the company's stance that credit reports were a valuable tool for employers.

Several other large credit bureaus also suggest in their marketing materials that credit checks are an important security measure for companies. "Every time you hire a new employee, you put a lot on the line," an Experian brochure reads. "The wrong decision could jeopardize your firm's assets, reputation or security."

Kristine Snyder, a spokeswoman for Experian, said the ability to assess risk was important for business owners, particularly those running small companies, given the level of employee fraud. She said the Association of Certified Fraud Examiners found that important indicators of potential fraud were employees living above their means and those experiencing financial difficulties.

"Employers should have information available to them that protects their businesses from catastrophic losses so that workers can continue to stay employed and remain productive," she said.

Stuart Pratt, chief executive of the Consumer Data Industry Association, a trade group, said he worried that legislation to limit the use of credit reports would limit employers' ability to evaluate potential job candidates. He said such information was particularly useful in evaluating employees who have access to

sensitive information or who deal with money.

“It’s our view that a credit report is a piece of a much larger employment puzzle,” he said. “It’s a piece of a puzzle, not the absolute yes or no toggle switch.”

In a survey released earlier this year by the Society for Human Resource Management, 13 percent of employers said they used credit checks on all job applications, while 47 percent said they used credit checks for certain applicants.

Among the employers surveyed, 54 percent said the primary reason they used credit checks was to prevent theft and embezzlement. Ninety-one percent said they used credit checks for applicants applying for positions with fiduciary or financial responsibility.

(Most of the proposed bills allow for credit checks to be used for positions that involve the handling of money or sensitive information.)

Employers can generally use credit checks — but not credit scores — during the employment process as long as they obtain written permission from the potential employee. But they are prohibited from denying someone a job based on selection criteria that are not directly related to the job, said Adam Klein, an employment discrimination lawyer in New York.

“Whenever employers say it’s just another tool we use, and it doesn’t necessarily discount somebody, that’s a bunch of bull,”

said Lauryn Beer, who lives in Washington and says her credit has suffered from years of underemployment.

“It’s used as a weeding-out process.”

Ms. Beer, a writer and human rights activist, said she believed she had lost several potential jobs because of her credit.

“The normal specious argument is, it goes to reliability,” she said. “I’d like to know where the proof is?”