Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 360 (Senator Muse, *et al.*)
Finance

Credit Regulation - Inquiries About Consumer Reports - Credit Score Calculation

This bill prohibits a consumer reporting agency from considering any inquiries made about a consumer's consumer report (sometimes referred to as a credit report) in the calculation of a consumer's credit score.

Fiscal Summary

State Effect: The bill would not directly affect State finances or operations. If the Attorney General's Office receives fewer than 50 complaints per year stemming from the bill, the additional workload could be handled with existing resources.

Local Effect: None.

Small Business Effect: Potential minimal.

Analysis

Current Law: A consumer reporting agency's use of credit inquiries in its credit scoring model is not specifically regulated by the State. The federal Fair Credit Reporting Act currently allows the Federal Trade Commission to regulate the collection, use, and sale of consumer credit information. The Act contains numerous notification requirements that assist consumers in monitoring their credit reports and allows consumers to challenge reporting or scoring errors. The federal Equal Credit Opportunity Act bars the use of certain characteristics such as race, gender, religion, and marital status in credit scoring systems, but federal law does not prohibit the use of credit inquiries, which can provide evidence of past consumer borrowing behaviors.

Background: Credit scores are calculated from the information gathered from a consumer's financial accounts, such as credit cards and loans, public records, such as bankruptcies and liens, and inquiries made by lenders or lien holders in order to view the consumer's credit. A large number of this type of credit inquiry can have a negative impact on a consumer's overall credit score, which can result in higher interest rates or a lower line of credit for the consumer. Generally, however, consumer reporting agencies and others that generate credit scores count multiple inquiries of a similar type as a single inquiry for credit scoring purposes. This allows consumers to shop for financing with more than one lender without affecting their score. For example, a consumer reporting agency may count any inquiry regarding a car loan within a 14-day period as one inquiry or any inquiry regarding a home mortgage within a 30-day period as one inquiry, regardless of the actual number of inquiries in either case. Although credit inquiries made by consumers in order to view their own credit reports do not adversely affect credit scores, inquiries made by courts or the Internal Revenue Service will often discourage lenders from offering a consumer the best interest rate or highest loan amount.

Additional Information

Prior Introductions: An identical bill, SB 1020 of 2007, received a hearing in the Senate Finance Committee but no further action was taken.

Cross File: None.

Information Source(s): Department of Labor, Licensing, and Regulation; Office of the Attorney General (Consumer Protection Division); Department of Legislative Services

Fiscal Note History: First Reader - February 14, 2008
mll/ljm

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