

White Paper

# The Use of Credit Reports in Employment Background Screening

*an Overview for Job Applicants*

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## **The Use of Credit Reports in Employment Background Screening—*an Overview for Job Applicants***

If you are looking for a job today there is a good chance a background check will be conducted before or shortly after you are hired. Employers and volunteer organizations, conduct background checks to verify the information provided on an application and to conduct due diligence. These background checks protect the employer and volunteer organization in many ways, primarily by making sure the information they were given on the job application is accurate and that the organization is not hiring someone that is inappropriate for the position. This protects the organization as well as their workers, customers, and sometimes the general public.

Most often this background check will review criminal record history. Other commonly checked areas are to identification information, the education, professional license, and employment history provided by the applicant. If driving is involved, driver's license status and history are often verified. Some employers will also check a person's credit history during the application process.

The subject of using credit reports in the job application process has been in the news lately. Concern has been raised that when credit reports are part of a background check, the information on the credit report may be used unfairly against the job applicant. The following information is intended to assist job applicants in understanding the role that a credit report may play in a background check and to explain the differences between a credit report used in the job application process versus a credit report a lender may see.

### **Not all credit reports are the same**

The first thing to know is that there are different types of credit reports depending on the purpose of the report. A credit report viewed by an employer or volunteer agency is called an Employment Credit Report and does not contain the same information as is found on a credit report available to lenders or even the credit report you get when you exercise your rights to view your own credit report from a credit bureau. The employment version of a credit report does provide information about your credit and payment history, just like other versions of a credit report. However there are many things that are different in this version of a credit report:

- A credit score is not available to employers. It is recognized by credit bureaus, credit scoring companies, and background screening companies that a credit score has no relationship to job performance and is simply not provided to employers. Unlike the copy of the credit report available to you, the employer cannot even pay extra to see a credit score.
- Account numbers are not listed on the Employment Credit Report. The source and type of credit is listed, such as the store name or loan holder. But the specific account numbers are not on the employment version of a credit report.
- Your age is not listed nor is your year of birth.

- The Inquiry is different and is not calculated in a credit score. An Inquiry is the listing of who requested your credit report. This must be listed on every person's credit history and is one of the things used in determining a person's credit score. There are different types of Inquiries and they have different impact on a credit report and a credit score. When an employer or volunteer agency orders an Employment Credit Report, a special type of Inquiry is listed on the person's credit history that is not used in the credit scoring process. In some cases, this Employment Inquiry may not be visible to other organizations who request your credit report—it may only be visible to you and the credit bureau. (This may not be the case for all Employment Credit Reports and depends on how the specific credit bureau treats these Employment Inquiries.)

Secondly, employers are not running credit reports in order to find ways to deny jobs to applicants. Background checks cost employers money and time. Employers run background checks, including credit reports, **AFTER** they have gone through the time, cost and effort to find the right candidates, usually from a large field of applicants. An employer does not invest money in a background report just to find ways not to hire. When an employer orders a background check, it is because they are interested in hiring the applicant and are conducting due diligence to make sure there is no business related reason not to hire that person.

Third, employers have obligations they must follow before not hiring someone as a result of any part of a background check obtained from a Consumer Reporting Agency (a company that provides these types of background checks), including a credit report. Employers, and the background screening firms that provide these reports, do not take these obligations lightly. There are serious penalties if the employer fails to follow through with their obligations. (See the FTC's website at [www.ftc.gov](http://www.ftc.gov) for more information.) More on how this affects you as a job applicant below.

## What should a job applicant do regarding credit reports and job hunting?

First, understand that if you get to the point where an employer is running a background check, that is great news. It means you made it through the preliminary stages of the hiring process so that you are most likely one of the final candidates being considered for the job.

Secondly, if you are concerned that a background check may include a credit report, do not be the last to know what your credit report may say. As a consumer (that is the term used to identify a person whose report is being viewed), you are entitled to a free credit report every 12 months from each of the credit bureaus, and more often in some states and under certain circumstances. Go to <https://www.annualcreditreport.com/cra/index.jsp> for information on how to get your free credit report. If you see some sort of error, it would be a good idea to get that corrected as soon as possible. There is a well established procedure for contacting the credit bureaus to bring an error to their attention and request it be corrected. The

FTC has excellent information about the use of credit reports and credit on their website at <http://www.ftc.gov/bcp/menus/consumer/credit.shtm>.

Third, if you are concerned that your credit history may reflect negatively, have a discussion ahead of time with the hiring manager or Human Resources about your credit reports. As most experienced Human Resources professionals can tell you, information honestly disclosed by an applicant has much less impact than information the employer discovers for themselves.

Also keep in mind that hiring professionals understand that people have to deal with the realities of life. For example if a person was undergoing economic stress due to the recession, and relied on credit cards, or there was a medical issue that caused bills, let Human Resources or the hiring manager know. Also keep in mind that the only reason you are having this discussion is that the firm is seriously considering hiring you, and has gone through the time and effort to make that decision, including reviewing numerous other resumes.

Fourth, applicants need to keep in mind that they have rights. Under the federal Fair Credit Reporting Act (FCRA), a credit report is only obtained after the applicant has given consent and after a legally required disclosure on a standalone document has been given. Before the employer utilizes the credit report in any way not to hire, an applicant is entitled to a copy of their credit report in what is known as a pre-adverse action notice. You are also required to receive a document called a Statement of Rights, which will list your rights and also information on how to correct information on the report.

The bottomline: If an employer feels a credit report is job related, keep in mind that the employer has made you a finalist, and therefore has an interest in hiring you.

- Remember, you were evaluated without the employer having any idea of what was in the credit report.
- Know what is in your credit report and correct errors. If there are negative entries, be prepared to share it before the credit report is run.
- Protect your credit history. Think of it as one piece of your reputation.

### Consumer Resources:

[www.ftc.gov](http://www.ftc.gov)

<http://www.ftc.gov/bcp/menus/consumer/credit.shtm>.

<https://www.annualcreditreport.com/cra/index.jsp>

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