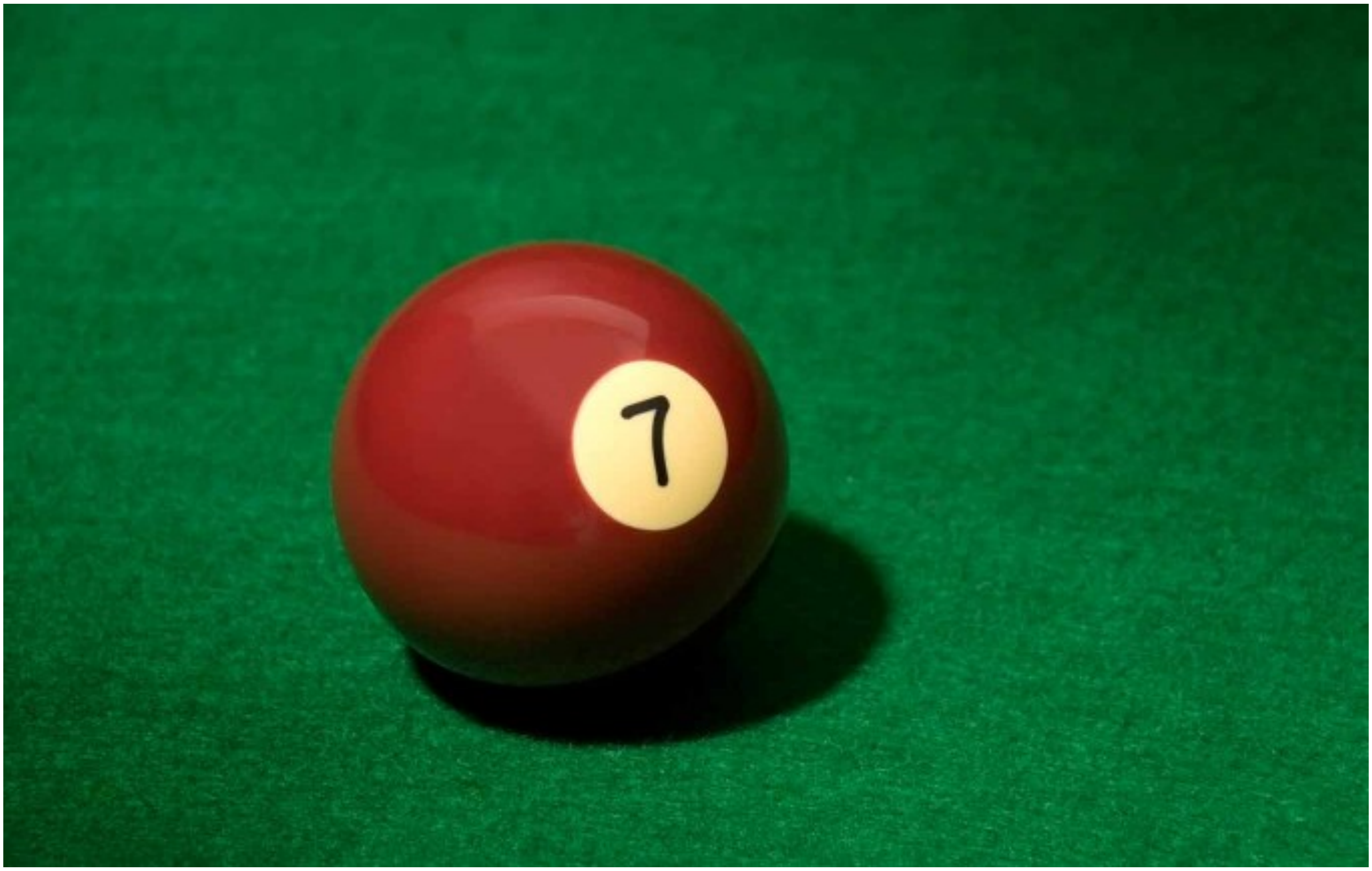
Credit Score

Why Does Negative Info Stay on Credit Reports for 7 Years?

October 6, 2014 by Gerri Detweiler



Under the Fair Credit Reporting Act, most negative information can be reported on credit reports for seven years. Why seven? Why not five, or 10 or some other amount of time?

I began to ponder that question after Congresswoman Maxine Waters proposed that negative information be deleted from credit reports after four years. She pointed out that other countries limit reporting to shorter periods of time. In Sweden, it's three years and in Germany it is four, for example.

For someone who has experienced credit problems, seven years can seem like an eternity. During that time, you may feel like a prisoner of your credit rating; turned down for credit or charged more when you are approved, or even denied a job due to that information. (Under federal law, you can find out what's in your credit report for free once a year, and you can get your free credit score updated monthly from Credit.com.)

Unraveling the Mystery

Hunting down the origins of the seven-year reporting period turned out to be more difficult than I expected. After all, the

Fair Credit Reporting Act was enacted in 1970, some 44 years ago.

Querying many of the consumer credit experts I have worked with over the years, I heard a variety of answers ranging from, "I have no idea" (the most common answer), to a more colorful response about legislators pulling it from somewhere other than thin air.

Several people suggested a biblical connection. For example, Rod Griffin, director of public education for Experian, speculated that the seven-year period came from a passage in Deuteronomy that mandated forgiveness of debts every seven years.

David Robertson, publisher of The Nilson Report, who has been following the credit industry for decades, suggested it started at the state level. It "became something that went from one state to another state," he said.

That's not a bad theory, and state laws may have in fact influenced the federal legislation, even if indirectly. Consumer bankruptcy attorney Eugene Melchionne, who worked for a credit bureau before it was computerized, wrote in an email that when he first heard of the FCRA, he figured the reporting period had to do with the state statute of limitations. In Connecticut, where he practices, it is "six years from the date of last payment or the execution of the contract whichever is later (for written contracts)," he wrote. "I just assumed that the seven years allowed for sufficient time to allow the SOL to pass." But that theory went out the window when he learned that the statute of limitations may be longer or shorter in other states.

Finally, a congressional staffer was able to fill me in on the legislative history:

> *When Congress originally considered the Fair Credit Reporting Act in the 1960s, it appears as though the permissible time periods for removing adverse information originated as a compromise between the differing House and Senate positions. The House considered limiting the time period to three, seven or 14 years. The Senate, however, proposed a more general standard of a "reasonable period of time."*
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> *According to the Congressional Reporting Service, some consumer advocates argued that the "reasonable" standard was too ambiguous and pointed out that the seven year time period was already being commonly used by industry at the time.*

Of course that still leaves something of a question as to why seven years is considered the appropriate period of time for negative information to be reported. After all, a lot has changed since then.

"When the FCRA was passed in 1970, credit scores were not in use, loan products were limited and lending was a yes or no decision," says Norm Magnuson, vice president of public affairs for the Consumer Data Industry Association (CDIA). "Today it's a more nuanced approach to underwriting; risk-based pricing is the norm. What that has done is brought more consumers into the credit market."

The Magic Number?

Not surprisingly, Magnuson cautions against shortening the reporting period. "The seven years as a predictive timeframe has withstood the test of time when it comes to balancing fairness against safety and soundness concerns. Once we start deleting information that balance is no longer there. What will the loss experience of lenders be? Will consumers overextend their credit portfolios putting them in a more untenable financial situation (and with ability to pay provisions that brings up a whole different set of concerns)? Deleting predictive data is a fundamental mistake. If this were to happen and we found that there were harms to consumers and to the economy we couldn't go back and fix the problem. It would be too late," he warns.

And as for the reporting periods in other countries, he says that "82% of the global credit bureaus have an obsolescence period longer than four years."

Ultimately it appears that the seven-year reporting period came about as a result of a Congressional compromise. And changing it will take, well, an act of Congress.

More on Credit Reports and Credit Scores:

- How Do I Dispute an Error on My Credit Report?
- What's a Bad Credit Score?
- How Credit Impacts Your Day-to-Day Life

Image: Francois Lariviere