

WHAT PRICE PRIVACY?

Information about private citizens is now bought and sold with alarming ease.

Americans expect a certain amount of personal privacy. Trouble is, it's getting harder to come by. Data about almost every aspect of our lives are being collected, stored, and sold faster than you can say microchip.

Computer technology that came of age in the 1980s allows government, private industry, and other interested parties access to a surprisingly wide range of information about individual consumers. Anyone with a push-button telephone can readily obtain personal information of the sort that was once kept in well-guarded filing cabinets.

By overlaying the data available through thousands of information systems, it's now possible to create a remarkably detailed picture of anyone. That picture could include your age, income, political party, marital status, the number of children you have, the magazines you read, your

employment history, and your military and school records. A data base might also know what kind of breakfast cereal you eat, the make of car you drive, even the brand of diapers your baby wears.

Most of us routinely provide information about ourselves to a variety of businesses and organizations. Rarely do they ask our permission to use that information or sell it to others. We're not compensated in any way, and we're given no opportunity to make certain the data are accurate.

Yet, if the information in a data base is wrong or misused, you could be denied a mortgage, a credit card, or an insurance policy. A job opportunity could be scuttled, you could be dunned for bills that aren't yours, even arrested or sued for something you didn't do.

There's no conspiracy afoot to deny Americans their rights or start Big Brotherish monitoring of our ac-

tivities. Instead, privacy is being slowly eroded. "The potential threat is large," says Robert Ellis Smith, publisher of the newsletter Privacy Journal. "But it's hard for people to get worked up about it because the erosion is usually quite subtle."

Still, public concern about privacy is at an all-time high. A recent Harris Poll, commissioned by the major credit bureau Equifax Inc., found that 79 percent of those surveyed were concerned about threats to their personal privacy. Only 64 percent had expressed the same fears in a 1978 poll. The 1990 poll also found that close to half those surveyed thought that technology had gotten out of control. Two-thirds said government can't be trusted to look after people's interests.

Laws protecting privacy are clearly in need of an overhaul. Most were written before the advent of today's computers, with their nearly infinite capacity to store data. The principal privacy measure, the Fair Credit Reporting Act, was signed into law by President Nixon back in 1970. Few people could then have envisioned the rapid growth of today's information industry.

How credit bureaus work

Much of the most sensitive information about Americans resides at credit bureaus. The nation's credit bureaus keep files on nearly 90 percent of all American adults—anybody who ever buys something on credit. Credit grantors, such as department stores, credit-card issuers, and banks, report the payment histories of their customers to one or several credit bureaus. The three major U.S. bureaus are Equifax, Trans Union, and TRW Credit Data Services.

In all, 1010 local credit bureaus operate across the U.S., linked to the computer systems of the big three. An additional 200 agencies, called "superbureaus," act as intermediaries, buying information from the big three and reselling it to small businesses.

Each month creditors feed information about your payment history to one or more of the bureaus by computer. The bureaus encourage

MERCHANTS OF DATA

ARE THEY TELLING ON YOU?

Certain personal information can and will be used against you. If you've ever filed a malpractice suit against a doctor, you may be listed on a data base available to other doctors. One vendor of such data claims to have the names of all malpractice filers in its computer. People with a history of litigation can be vulnerable to job discrimination, and individual physicians may

brochure for Docket Search Inc. Because of such services, privacy advocates contend, people who have been victimized by an incompetent doctor may, in effect, be blackballed by the medical community.

Ever file a workers' compensation

claim? Employers' Information Service in Gretna, La., is one of several companies that report to employers about job applicants who have made on-the-job injury claims. David Czernik, executive director of the Louisiana Consumers League, says that many employers "assume if you've ever filed a claim you won't make a good employee." Czernik's organization has counseled workers who have filed compensation claims and are now unable to find employment. "It's outrageous to us that their prior compensation claim follows them around," he says.

A Rhode Island data merchant keeps files on people who have been arrested, but not necessarily convicted, of a crime. The names are culled from local newspaper stories. That information is then sold, mainly to prospective employers.

In California and other states, data vendors maintain records on tenants who have been evicted or gone to court in a dispute with a landlord. That information is sold to other landlords, who use the reports to check out would-be tenants.

REJECTED



the flow of information by requiring companies that request credit reports to supply data on their own customers. Other items end up in the files too: notices of unpaid bills, court judgments, bankruptcies, and property liens.

The files don't contain your "credit rating" per se. Credit grantors each have their own scoring systems. They usually look for a history of on-time payments, how much credit is already available to you, your occupation, whether you own a home, and how long you've lived at the same address.

Credit bureaus don't confine themselves only to credit reporting. For example, an Equifax subsidiary conducts background checks for employers and insurance companies. Such checks can include a search of police and court records, as well as interviews with the subject's neighbors and friends.

Businesses that have already granted you credit may also check up on you from time to time. First Chicago Corp., one of the nation's largest credit-card issuers, recently canceled or reduced the credit lines on nearly 8000 accounts in the Northeast. The bank acted after checking the credit reports of its cardholders to see if they were paying their *other* bills on time.

"With the number of delinquencies rising in the Northeast, the bank had to protect itself," a spokesperson for First Chicago says. Never mind that many of the people whose credit was yanked had been paying their First Chicago accounts on time.

The major credit bureaus also offer "alert" services to businesses. Each bureau will scan thousands of credit reports looking for hints that a consumer may default. The resulting list is then sold to creditors, who may shut off a consumer's credit line based on that report.

172 million errors?

Mistakes are not unusual, although the exact number is in dispute. James Williams of Consolidated Information Service, a credit bureau in the New York City area, analyzed 1500 reports from the three big bureaus and found errors in 43 percent of files. Projecting that error rate to the nation's 400 million individual credit files would mean there are mistakes in roughly 172 million credit reports. The nature of the errors may be minor, such as an outdated address—or major, as in the mixing of credit information on

two people with similar names.

Other credit bureaus dispute Williams's error estimate. Walter R. Kurth, president of Associated Credit Bureaus, says the rate is much lower, although he can't provide figures. He asserts that only one-half of 1 percent of the cases in which incorrect information was challenged by a consumer and then changed would have had an adverse effect on a credit decision.

Each year about three million consumers ask to have their credit reports changed because of wrong or stale information. But no one knows how many errors remain hidden simply because consumers never see their files.

The credit bureaus insist that it's in their interest to keep the information as accurate as possible. But, notes Rep. Charles Schumer (D., N.Y.), a member of the House committee working on a credit reporting reform bill, "Their job is to maximize profits. Good information up to a point does that, but there may be greater costs in making the information so much better."

For consumers, trying to fix a credit report can be an ordeal. A Santa Ana, Calif., woman wrote letters and made telephone calls to the big three bureaus for six months, trying to get another person's bad credit history out of her file. A Chicago man with the same problem couldn't convince a credit bureau there was a mistake, even though the age and addresses of the similarly named man whose information appeared on his report were obviously different from his.

A suburban St. Louis, Mo., couple were victims of a bankruptcy filing mistakenly placed in their file. Banks then shut off loans to their struggling construction business, forcing them to file bankruptcy for real. They sued, but lost. The reason? Credit bureaus are protected by law from financial responsibility for "honest" mistakes. Companies submitting the information that goes into the files aren't legally liable for errors either, except in rare cases where malice can be proven.

Since there's virtually no penalty for mistakes, the bureaus don't jump when consumers report them. In most cases, they won't immediately change a report no matter how conclusive the evidence or egregious the error. Instead, they will ask the company that supplied the information whether the entry is correct, then wait for that company to fix it.

If there's no response, the law requires that the item be removed by the credit bureau. But more than likely the information will automatically show up again the next month when the company transmits its next batch of electronic files. That's why it's advisable to request another copy of your credit report a month or two after you have reported an error to make sure the disputed item doesn't reappear.

You're already approved!

Under current regulations, anyone with a "legitimate business need" is allowed to see your credit report. That loose definition includes businesses that want to sell things to you—not just creditors. A salesperson at a car dealership may call up your report while you're out in the lot

YOUR HEALTH FILES

HOW INSURERS CHECK

If you've ever applied for individual life, health, or disability insurance, your insurer may have checked you out with the Medical Information Bureau in Westwood, Mass.

The MIB keeps records on about 15 million individuals with medical conditions or other factors that could affect their longevity. The medical information is obtained from public records and from doctors, with the written permission of the insurance applicant. Some 750 insurance companies that are members of MIB have access.

Insurers who discover a potential medical problem in an MIB search are prohibited by the MIB's rules from making eligibility decisions based solely on that information. They're required to confirm the report independently.

An agent with Prudential Insurance told us that an unfavorable MIB report usually means the applicant will either be turned down or "rated"—that is, charged a higher premium. MIB President Neil Day says insurers deny coverage or charge a higher rate (after confirming the information) in only about one-third of the cases where an MIB report is requested.

The bureau uses 210 codes to designate medical conditions that could affect a person's life expectancy. The report also indicates non-medical factors that could affect longevity, such as having a poor driving record or engaging in hazardous sports.

How accurate is the MIB data bank? According to Day, about 18,000 people a year ask for their reports, 300 claim a report is inaccurate, and 150 get corrections.

MIB will send you or your doctor a copy of your file on request. Write to P.O. Box 105, Essex Station, Boston, Mass. 02112 for details.

just browsing. Your employer, or a prospective employer, can get your report. In fact, just about anyone who has a personal computer and a modem can link up to one of the credit bureaus, although that per-

son may have to lie a little to do it.

The ease of access to credit-bureau files gained attention in 1989 when a reporter for a business magazine was able, without much trouble, to obtain Vice President Dan

Quayle's credit report. Other journalists later repeated the feat, with reports on other prominent people.

Credit-card issuers routinely take a peek at your credit file without your permission in order to offer "pre-approved" cards. In a process known as prescreening, the bureaus comb their files looking for certain attributes, compile a list of people who fit the pattern, then sell it to the credit-card companies. There's an opt-out feature that allows consumers to request that their files not be reviewed, but few consumers are aware of it. (For details and addresses, see box at left.)

Credit bureaus also prescreen their files on behalf of companies other than credit-card issuers, principally retail businesses that are looking for good sales prospects. The Federal Trade Commission says this practice is illegal, but it continues because the law is murky.

TRW and Equifax now offer services that give consumers themselves routine access to their credit reports. For \$99 a year, TRW Credentials will send you an unlimited number of copies of your report and will notify you whenever someone else requests a copy. The promotional mailings for these services give the impression that somehow the credit bureau will be more careful or will help you in a jam. According to a brochure from Chase Manhattan Bank, joining TRW's program will guard you against "mistakes and misuse."

Such services, in effect, make consumers pay to see personal information that privacy advocates would argue belongs to those consumers in the first place. And they make the consumers pay a premium price to do so. Anyone can request a copy of his or her report for \$20 or less, and it's free if you've been turned down for credit. (The box at left tells where to write.)

Legislating privacy

The credit industry contends that current laws adequately protect consumers' privacy. Congress, however, seems to think otherwise. Currently it is working on an overhaul of the Fair Credit Reporting Act. Proponents of a revamped law argue that the act was written when technology was simpler and credit bureaus were less aggressive.

"The law has not kept pace," says Rep. Matthew J. Rinaldo (D., N.J.), also on the House committee. "Twenty years ago, credit bureaus

YOUR CREDIT REPORT

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If you can understand that headline, you'll probably enjoy perusing your credit report. For most people, however, trying to decipher a credit report can be frustrating. We had staffers request 30 credit reports from the three major bureaus. We found them hard to decipher, incomplete, and sometimes inaccurate.

Each of the three major U.S. credit bureaus—Equifax, Trans Union, and TRW—presents credit information differently. All use strings of numbers and abbreviations that seem more like computer programming language than English. A TRW report, for example, can contain more than 130 different abbreviations.

The three bureaus' reports show who has issued you credit; the timeliness of your payments; and whether you have been subject to bankruptcies, court judgments, or liens. They do not contain information on your checking or savings accounts, or on investments. A sample line from a credit report appears on the facing page.

We found that it takes from one to three weeks to receive a credit report after you request it. The fee ranges from \$3 up to \$20 each, depending on the bureau and the laws of the state you live in. But when we telephoned, the three bureaus did not volunteer that residents of some states pay less. A staffer who lives in Connecticut, which sets a \$10 cap on such fees, was quoted rates of \$15 to \$20 when he called the three bureaus, even after telling them he was a Connecticut resident. (In California, the cap is \$8; in Maine, \$3; and in Maryland, \$5.)

CU staffers who obtained their reports were unanimous in finding them hard to decipher. Many of the reports contained wrong information or were incomplete in some respect. Mistakes ranged from the minor (outdated addresses or employers) to the serious: One staffer's Equifax report listed 20 accounts that were not his. Some of them were opened before he was born, and one department-store account dated back to the presidency of Woodrow Wilson.

The credit bureaus insist that even when their information is incorrect, consumers are seldom refused credit as a result. However, the staffer with the 20 extra ac-

counts would probably be denied a loan because he appears to have an excessive amount of credit open to him.

Of the big three, Equifax (known in some areas as CBI) produces the most user-friendly report. Its wide format is easier to read. But account names were oddly abbreviated, making it hard to figure out the identity of the credit grantor. Trans Union lists companies that request a review of a consumer's report in an even less decipherable code.

We found that reports from the three bureaus seldom contain identical data. That's because not every credit grantor sends information to all three.

The credit bureaus are reluctant to share information with each other because each wants to market a unique product, claiming it is the most accurate. But we don't see any reason why the big three can't use a standardized form to report to consumers. Or why they can't automatically inform each other about errors (the bureaus do say they are working on that).

The Big Three Following are the addresses to write, or phone numbers to call, to request a copy of your credit report. To opt out of pre-approved credit-card offerings, as described in the main story, simply contact one of the bureaus; it will relay your request to the other two.

■ **Equifax.** Your best route is to check your local phone directory. (Equifax's headquarters address is P.O. Box 4081, Atlanta, Ga. 30302; 404-885-8000.)

■ **Trans Union.** East: P.O. Box 360, Philadelphia, Pa. 19105; 215-569-4582. Midwest: Consumer Relations, 222 S. First St., Suite 201, Louisville, Ky. 40202; 502-584-0121. West: P.O. Box 3110, Fullerton, Calif. 92634; 714-738-3800.

■ **TRW Credit Data.** National Consumer Relations Center, 12606 Greenville Ave., P.O. Box 749029, Dallas, Tex. 75374-9029; 214-235-1200, extension 251.

kept their records on file cards."

Under consideration are proposals that would tighten the regulations on who can obtain credit information. There's also talk of civil penalties for bureaus and companies that supply incorrect information; of requiring that consumers be notified when negative information enters their files; and of reducing or altogether eliminating fees consumers must pay to see their credit reports.

CU thinks the reforms should go even further. The law should allow information in credit reports to be disclosed only if the consumer authorizes the disclosure. Most people realize that if they apply for a credit card or a mortgage the prospective lender will examine their credit report. What they don't realize is that an application for employment, housing, insurance, even a dating service, may trigger a check. Nor do they realize that their files are routinely prescreened on behalf of direct marketers.

Any new law should also allow the credit bureaus a maximum of 30 days to investigate when a consumer asks that something on his or her credit report be checked for accuracy. Bureaus should be required to disclose to consumers exactly how they go about investigating

possible errors reported to them.

A handful of other laws are supposed to protect consumers against invasions of privacy, but they're riddled with imprecise language, exceptions, and loopholes. For example, a 1978 law supposedly protects against unreasonable searches of bank accounts by government agencies—but state and local agencies are exempt, as are the FBI and U.S. attorneys.

Ironically, video-rental records may enjoy the strongest safeguards against abuse. Because of a 1988 law commonly known as the Bork bill (after the Supreme Court nominee whose video-rental tastes were made public in newspaper accounts), a list of the videos you have rented can't be obtained without a court order. No such law protects your medical or insurance records (see box on page 357).

Getting to know you

Much of the ever-growing pile of information about consumers is collected for the sellers of goods and services. Direct marketers, in particular, have become intensely interested in ways to reach those people, and only those people, who will be receptive to their pitch.

The direct-mail chief at one of the

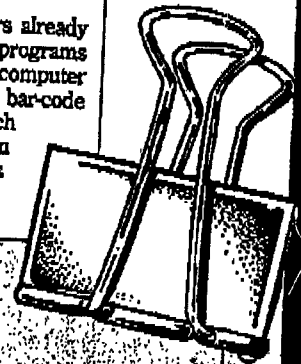
nation's largest catalog houses says that by using more-sophisticated mailing lists, his company has been able to cut its annual mailings by 25 percent and increase the response rate too. "For us," he says, "that spells the difference between making a solid profit or closing our doors."

By mail and by other means, consumers volunteer a surprisingly large amount of information about themselves. Many stores ask for a telephone number and address when you buy something, so you can be added to their mailing list. Questionnaires are popping up on everything from warranty cards to cereal boxes.

Quaker Oats recently offered buyers of its *Cap'n Crunch* cereal "high value" coupons and a wristwatch for filling out a questionnaire. Among other things, Quaker Oats wanted to know consumers' opinions on firearm ownership, school prayer, and mandatory drug testing.

Thousands of consumers already participate in supermarket programs that track purchases on a computer connected to the store's bar-code scanners. Through such programs, marketers can learn whether a family buys diapers, what kind of de-

What Price Privacy?



HOW THEY RATE YOU

READING BETWEEN THE LINES

Below is a simplified entry from a credit report, illustrating some of the factors credit-card issuers and others examine in deciding whether to offer you credit. A report may contain many such entries, forming a mosaic of your credit

habits. Note that there is no column labeled "credit rating." Each credit grantor that reviews your report will score you according to its own rating criteria, including its past experience with customers whose records resemble yours.

The I indicates an individual account. A joint account would be designated by a J.

According to the credit bureau's records, you made your most recent payment or charge on this account in November 1990. That shows how active the account is.

CREDIT HISTORY									
Company Name	Account Number	Whose Acct.	Date Opened	Months Reviewed	Date of Last Activity	High Credit	Terms	All Items as of Date Reported:	Date Reported
XYZ Credit Card	346701426584204	I	08/89	23	11/90	1475		Balance Past Due Status	11/90

High credit refers to one of two things: the most you've ever charged on this account, or the maximum credit line available to you. A large amount of available credit, even untapped, can be a negative factor.

An R here means that the account is revolving, as opposed to installment (signified by an I). The I means you pay bills promptly, making you a good risk in the eyes of credit grantors and the likely recipient of countless "pre-approved" card offers.

What Price Privacy?

Uncle Sam wants (data on) you Federal agencies maintain more than 2000 data bases with personal information on U.S. citizens, according to a 1990 General Accounting Office report.

odorant Dad prefers, and how many six-packs Mom consumes in a week. Families that take part get cents-off coupons, and marketers get the stuff of which their dreams are made.

What do they do with that information? Mostly it's used to form a detailed demographic picture of consumers who buy a particular product. Marketers can infer a lot from even a little information. If you regularly buy diapers, for example, chances are you have a baby. That's information the makers of baby products will pay for.

Some people actually pay to have the details of their purchases put onto a data base. Equifax, the Atlanta-based credit bureau, has introduced a service called Buyer's Market. Consumers pay a fee of \$10 a year and then fill out a lengthy questionnaire about their purchasing habits. The company says consumers can choose what kind of direct-mail offers they want to receive and what kind they don't want. The information is kept "completely confidential"—except, of course, that it will be sold to marketers.

Another Equifax invention, Lotus MarketPlace, was scuttled earlier this year prior to its scheduled intro-

CU's privacy policy

Survey data that Consumers Union collects from readers is kept in strictest confidence. CU does not sell its subscription list but will occasionally trade it with selected organizations and publications, to help reduce our mailing costs. Readers are offered an opportunity not to have their names exchanged; write to us at P.O. Box 53029, Boulder, Colo. 80322-3029, to be removed from the list.

duction. The reason? Intense pressure from privacy-conscious consumers. Devised with computer-software giant Lotus Development Corp., MarketPlace consisted of a set of CDs offering a smorgasbord of information on 80 million U.S. households. Included on the discs were data about buying preferences, income, gender, marital status—even "psychographic categories," such as "cautious young couple" or "inner-city single."

Lotus and Equifax insisted that safeguards built into the program would have prevented users from picking a particular name off the disc. That was true enough. But a

demonstration disc we obtained showed that one could easily find out a lot about a particular small group of people. Among the possibilities to be keyed in: elderly, rich widows living on Chicago's North Shore. Or even those on a particular street or in a certain building. By keying in on a specific area and asking questions, the list could be pared to fewer than 10 households with certain attributes. Lotus and Equifax officials now say that the public "misunderstood" the intent of the product, and they chose to withdraw it rather than become embroiled in a long battle over privacy issues.

Protecting your privacy

So what's a consumer to do? You could always pay with cash and refuse to sign anything. But that's obviously impractical or impossible for most of us. There are some simple steps you can take:

- Read the disclosure statements before you sign a credit form. At least you'll know how much privacy you're about to give up.

- Keep your Social Security number to yourself. Never write it on a check or a credit-card receipt.

- Guard your drivers' license number. In many states it's the same as your Social Security number.

- Check your Social Security records periodically to make certain no one else is using your number. (Call 800-234-5772 to request a form.)

- If you don't want to receive advertising in the mail, write to the Direct Marketing Association (address in the box at left) to get your name off mailers' lists.

- Likewise, write to any one of the major credit bureaus to opt out of pre-approved credit-card offerings.

- If a merchant insists on a phone number or address on a credit slip, you can refuse. There's no law that requires this information, and the major credit-card companies actually discourage or even prohibit merchants from asking. In California, Maryland, New York, and Virginia, the practice is illegal.

- Check your credit reports periodically for inaccurate information. It's especially important to do so before applying for a big loan.

A detailed discussion of privacy issues appears in "Privacy in America" by David F. Linowes, published by the University of Illinois Press and available through Consumer Reports Books (see back cover).

PHONE SOLICITORS

FOR WHOM THE BELL TOLLS

You've just sat down to dinner when the phone rings. It's the third call this week from somebody who wants to sell you aluminum siding. Or somebody raising funds for a charitable organization. The call might even be from Consumers Union, which asks its subscribers for contributions.

What can you do if you don't want such telephone calls? Aside from hanging up, not much. Telephone sales are loosely governed by the states. Six states—Arkansas, California, Florida, Minnesota, Montana, and Virginia—require phone solicitors to identify themselves, the name of their organization, and the product they are selling. Many states require a cooling-off period of several days during which a consumer may cancel a purchase made over the phone.

California residents can, for an extra charge, get a notation in the telephone book stating that they don't want such calls. In Florida, for a \$10 charge, consumers can be included on a no-calling list that telephone sales groups must obtain from the state. (Interested Floridians should call 800-

342-2176.) For information about the laws in your state, call the state public utilities commission.

Whatever state you live in, you can also write to the Direct Marketing Association (11 W. 42nd St., P.O. Box 3861, New York, N.Y. 10163-3861) and ask that your name be removed from its member marketers' lists. But be aware that the shady operators are usually not association members.

Annoying as legitimate phone solicitors can be, fraudulent callers cause far greater harm. The National Consumers League estimates that consumers lose over \$15-billion a year to telephone sales scams. To help protect yourself:

- Never buy anything from a caller who insists you give your credit-card number over the telephone.

- Don't let yourself be pressured to buy. Ignore sales offers that are good only if you decide right away. Chances are, they weren't "good" in the first place.

- Ask that the caller send you literature on the product; if it interests you, before making any commitment to buy.