

July 2005



# The Key To Safeguard Your Credit

A Consumer Survey And Report On Identity Theft And The Security Freeze

**MASSPIRG**

# **The Key to Safeguard Your Credit:**

## **A Consumer Survey and Report on Identity Theft and the Security Freeze**

A report by

**Massachusetts Public Interest Research Group**

July 2005

## **Acknowledgements**

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## **EXECUTIVE SUMMARY**

Identity theft is one of the fastest growing crimes in America. Identity theft is the taking of another's personal information—such as social security number, name or date of birth—for the purpose of assuming the victim's identity to commit fraud. The Federal Trade Commission estimates that identity theft claims nearly 10 million victims annually, costing businesses and consumers \$53 billion.

Locally, an increasing number of Massachusetts consumers are also falling victim to identity theft. During the past five years, the number of Massachusetts consumers who have filed identity theft complaints with the Federal Trade Commission has increased by almost 800 percent.

A June 2005 survey of over 500 Massachusetts shoppers conducted by MASSPIRG found that 14 percent were victims of identity theft and 71 percent were concerned about becoming victims.

Consumers have great cause for concern. Since the beginning of 2005, nearly 50 million consumers have had their personal data compromised by several major security breaches involving national companies like ChoicePoint, MasterCard, Citibank, and Bank of America.

These ongoing security breach scandals demonstrate that individual consumers alone cannot fully protect themselves from this crime. Easy access to consumers' confidential identifying information, including social security numbers, has contributed to the identity theft epidemic. Credit card companies, merchants, credit bureaus, and other businesses do not adequately safeguard consumers' personal financial information, making it relatively easy for thieves to steal this data and use it to take out new credit or to rack up charges on existing accounts.

To guard against this harm, ten states have passed "security freeze" laws that give their residents the right to "lock" their credit files so that new credit accounts could not be opened without their express approval. These laws help prevent identity theft because most businesses will not issue new credit or loans to an individual without first reviewing his or her credit report or credit score. If a consumer's credit file is frozen and an imposter applies for credit in that consumer's name, a prospective creditor would likely deny the imposter's application because the security freeze would prevent the creditor from checking the consumer credit report or score.

The Massachusetts legislature is considering enacting a similar measure. To gauge consumers' support for legislation enabling individuals to place a security freeze on credit reports, MASSPIRG surveyed 500 shoppers during the month of June 2005. The results of the survey demonstrate overwhelming support by the public for a security freeze law. Specifically:

- **93 percent of respondents support the security freeze law.**
- **Of those that supported the security freeze law, 89 percent of respondents would still support the law even if it would take up to 48 hours to lift the freeze and get credit approval.**
- **86 percent of respondents said they would use a security freeze to restrict access to their credit report if they had the option.**

## OVERVIEW

Credit bureaus collect and compile information about consumer creditworthiness from banks and other creditors and from public record sources such as lawsuits, bankruptcy filings, tax liens and legal judgments. The three major credit bureaus—Experian, Equifax, and Trans Union— maintain files on nearly 90 percent of all American adults. Those files are routinely sold to credit grantors, landlords, employers, insurance companies, and many others interested in the credit record of a consumer, often without the consumer's knowledge or permission.

Several studies since the early 1990s have documented sloppy credit bureau practices that lead to mistakes on credit reports—for which consumers pay the price. The most recent study of credit reports by MASSPIRG found that twenty-five percent of surveyed reports contained serious errors that could result in the denial of credit, such as false delinquencies or accounts that did not belong to the consumer.<sup>1</sup>

Some of these errors are the result of identity theft, one of the fastest growing financial crimes. A September 2003 Federal Trade Commission (FTC) survey found that 27.3 million Americans had been victims of identity theft in the previous five years, including 9.9 million people in the previous year alone.<sup>2</sup> According to the survey, identity theft costs businesses and financial institutions nearly \$48 billion a year and consumer victims report spending \$5 billion in out-of-pocket expenses in 2002 alone.

Identity theft is also on the rise in Massachusetts. During the past five years, the number of Massachusetts residents who have filed identity theft complaints with the Federal Trade Commission (FTC) has increased by 800 percent, jumping from 500 complaints in 2000 to 3,921 complaints in 2004.

Individual consumers cannot fully protect themselves against identity theft. Even consumers who do everything they can to safeguard their data can fall victim to identity theft through no fault of their own because of inadequate security standards at companies that maintain information about them. In just the first seven months of 2005, several high profile security breaches by some of the nation's largest companies have resulted in nearly 50 million individual's personal information being compromised.

As these ongoing security breach scandals demonstrate, consumers need more control over their personal information. To that end, several states have been enacting "security freeze" laws that give consumers more control over their credit reports.

## EXPLANATION OF SECURITY FREEZE

**A security freeze gives consumers the right to control access to their own credit reports preventing identity thieves from taking out new accounts in their names.**

Identity thieves take advantage of the fact that consumers do not have control over who has access to their own credit files and that retailers make instant credit easy to get. As a result, identity thieves that have personal information about a consumer can apply for credit using that consumer's data. The creditor then will pull the real consumer's credit report or credit score to approve credit for the thief, allowing the thief to accumulate debt under the assumed identity, ruining the real consumer's credit record.

To help prevent identity theft, a security freeze law would allow individuals to "freeze" or block access to their credit reports and credit scores derived from them until they affirmatively unlock the files by contacting the credit bureaus and providing a security code, like a PIN number.

Specifically, consumers would have the right to prevent credit bureaus from releasing their credit reports and credit scores for the purpose of issuing new extensions of credit. With the security freeze activated, if an identity thief attempts to take out credit in a consumer's name, the creditor would not have access to the consumer's credit report and consequently would not approve the application. Security freezes, however, would not apply to any person or entity with which consumers have existing accounts, nor to a limited number of other parties who may access the files for purposes not related to issuing credit.

The security freeze law would allow consumers to give credit file access to selected users through the use of a security code or a temporary exemption to the freeze. In addition, credit bureaus would be required to notify consumers if there had been any attempts to review their credit report and by whom. This would assist consumers in detecting illegitimate access as well as attempted or actual fraud.

The security freeze is one of the most effective tools available to stop the harm that can result from identity theft. For that reason, states have been enacting this legislation around the country. Currently, California, Colorado, Connecticut, Illinois, Louisiana, Maine, Nevada, Texas, Vermont, and Washington have passed versions of security freeze legislation. In addition, the New Jersey General Assembly has passed what would be the

### **SIMILAR LEGISLATION:**

*As of July 11, 2005, ten states have passed versions of security freeze legislation:*

- California
- Colorado
- Connecticut
- Illinois
- Louisiana
- Maine
- Nevada
- Texas
- Vermont
- Washington

*Similar law awaiting action by the Governor in:*

- New Jersey

*Strongest security freeze law:*

The New Jersey legislature and Governor have committed to enacting a security freeze bill that would be the strongest law the country.



strongest security freeze law in the country, further making a security freeze easier for all consumers to use. That bill awaits action by the New Jersey Governor, who has publicly supported the bill.

An effective security freeze law should contain the following provisions:

- **The law should apply to all consumers, not just victims of identity theft or security breaches.** The security freeze is a tool to *prevent* identity theft, and therefore all consumers should have the option of being able to prevent their credit report or score from being accessed by a new creditor without the specific authorization of release with a password. Consumers should not have to wait until harm has already been done before they can begin controlling how their personal information is used.
- **The security freeze should be available at low cost.** To maximize all consumers' abilities to use this preventative tool, the law should cap the fees that the credit bureaus may charge consumers for using the freeze. Because several states already have enacted security freeze legislation, the credit bureaus already have established the technology to facilitate its use, and start up costs for implementation should be minimal.

Credit bureaus should not be permitted to use high fees to discourage consumers from using the freeze option. When the California security freeze law went into effect, the credit bureaus were charging fees as high as \$60 to use the freeze until the California legislature subsequently intervened to cap the fees.<sup>3</sup> Most states have made the freeze free for victims of identity theft, and capped the fee for all consumers. Legislators should follow New Jersey's lead and make it free for all consumers to place the freeze. In addition, Massachusetts should not charge consumers to lift the freeze.

- **Consumers should be able to lift the freeze easily whenever they apply for credit.** The security freeze law should allow consumers who choose to restrict access to their credit report to temporarily lift the freeze for new loans and credit that they apply for themselves. When a consumer initially activates the freeze, the credit bureau will issue a unique PIN or password to the consumer that can be used to "thaw" or lift the security freeze for a particular creditor.

Credit bureaus should be required to provide consumers with the ability to quickly release their credit reports. One of the most common objections to security freezes is that they are inconvenient, interfering with consumers' access to instant credit. New Jersey is poised to enact a law that addresses this concern by mandating that the freeze be lifted as quickly as possible, with the goal being within fifteen minutes. The law would require the Division of Consumer Affairs, in consultation with the Department of Banking and Insurance, to issue regulations detailing how the rapid "thawing" of the security freeze would be implemented.

In a world where secure online banking is instantaneous, no technological barrier exists to eventually making the freeze function with similar convenience. A security freeze law should allow consumers to unfreeze access to their credit report via the telephone, the Internet, and other electronic means, and the credit bureaus should be required to facilitate the consumer's request quickly, at a minimum within 24 hours. A model law would follow New Jersey's lead by establishing a statutory goal of thawing a freeze within 15 minutes.

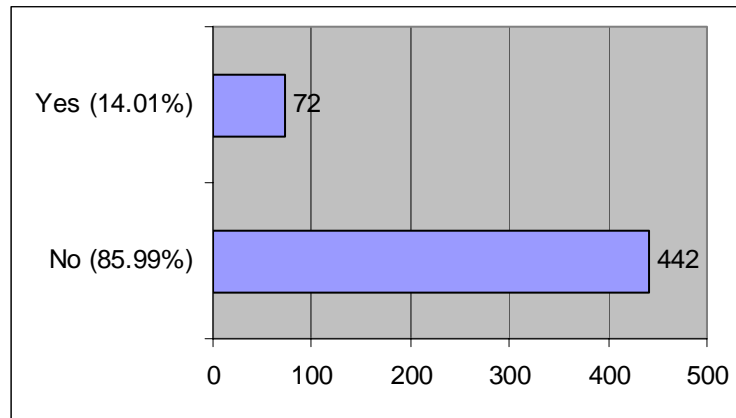
## MASSPIRG CONSUMER SURVEY RESULTS

More and more states are adopting security freeze laws allowing their residents to protect themselves from identity theft. In the beginning of 2005, only four states had enacted security freeze laws. As of July 2005, an additional six states enacted security freeze laws, and at least nineteen other states were considering similar legislation. Despite the growing interest in the security freeze as an effective identity theft prevention tool, representatives from the three major credit bureaus have claimed that there is little citizen support for the security freeze. Other opponents of the legislation argue that few consumers would utilize the security freeze if it were available because consumers using the freeze option would have to plan ahead and lift the freeze before applying for credit.

To gauge consumers' support for the security freeze option, MASSPIRG conducted a survey of 500 Massachusetts shoppers in June of 2005. The survey results reveal that not only were the majority of those surveyed concerned with the identity theft problem, but an overwhelming percentage of respondents support the passage of the security freeze law, even if it meant that consumers would have to wait up to 48 hours to get new loans or credit approved.

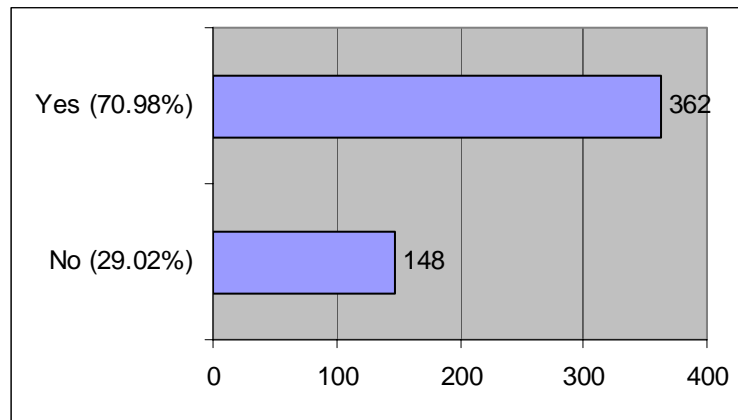
Specifically, the MASSPIRG survey found:

- **14 percent of those surveyed said they had been a victim of identity theft**



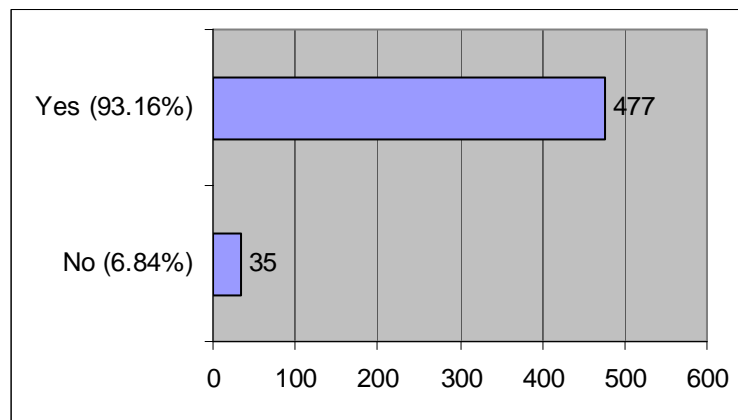
\* Total: 514 respondents

- **71 percent are concerned about becoming a victim of identity theft.**



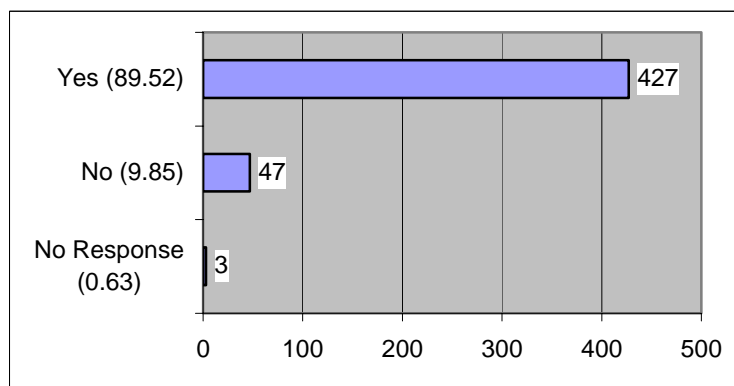
\* Total: 510 respondents

- **93 percent support the security freeze law**



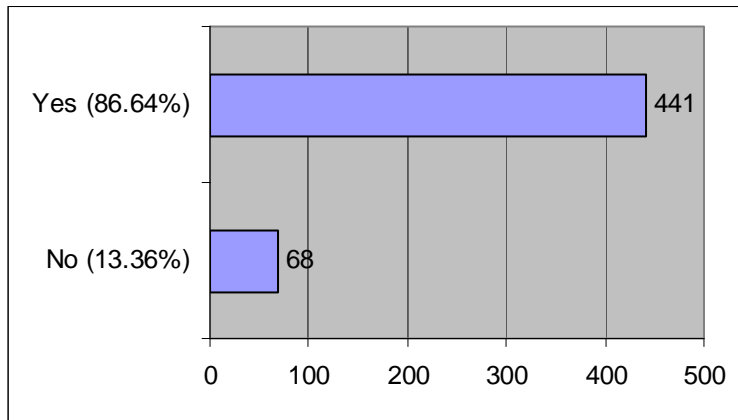
\* Total: 512 respondents

- **Of the 477 consumers who support the law, 89 percent said they would still support it even if there were a 2-day delay in getting credit approval.**



\* Total: 477 respondents who supported the security freeze law

- **Of those surveyed, 441 consumers or 86 percent, said that they would choose to restrict access to their credit report if they had the option today.**



\* Total: 509 respondents

## **METHODOLOGY**

This report is based on a review and analysis of surveys and reports regarding identity theft and the security freeze. In June 2005, MASSPIRG surveyed 500 shoppers at several retail locations across Boston, including Copley Square, Downtown Crossing, Fanueil Hall, and the Prudential Center. Respondents were asked to fill out a six-question consumer survey. The complete list of survey questions is attached in Appendix A.

**APPENDIX A**

**Consumer Survey**

Identity theft occurs when someone gets your personal information—such as your Social Security Number, date of birth or account numbers—and either takes out new credit in your name, or makes fraudulent charges on your existing accounts.

1. To your knowledge, have you ever been a victim of identity theft?

Yes                      No

2. Are you concerned about becoming a victim of identity theft?

Yes                      No

Before deciding to issue a credit card or loan, banks and credit card companies review consumers' credit reports without their permission. Identity thieves take advantage of this to open credit in another person's name. A line of credit can be approved to the identity thief and the consumer would never know about it until he or she got the bill.

3. Knowing this, are you more concerned about becoming a victim of identity theft?

Yes                      No

To address this issue, lawmakers are considering a “security freeze” law giving consumers the right to “lock” their credit files, so that if consumers do not give their approval, then their credit reports cannot be shared with anyone, including banks, credit card companies, or retailers.

4. Do you support the “security freeze” law?

Yes                      No

5. If you support the “security freeze” law, do you still support it if it would take up to 48 hours to lift the freeze and get your credit approved?

Yes                      No

6. If you had the right today to restrict access to your credit report—like consumers in several other states do—would you place a “lock” on your credit report?

Yes                      No

This survey is conducted by MASSPIRG Education Fund, a research and public interest advocacy organization.

**For Surveyor Purpose Only:**  
Male                      Female  
Date: \_\_\_\_\_  
Location: \_\_\_\_\_  
Your Initials: \_\_\_\_\_

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<sup>1</sup> State PIRGs, *Mistakes Do Happen*, June 2004, available at:  
<http://uspirg.org/reports/MistakesDoHappen2004.pdf>

<sup>2</sup> Federal Trade Commission, *Identity Theft Survey Report*, Sept. 2003, available at:  
<http://www.ftc.gov/os/2003/09/synovaterereport.pdf>.

<sup>3</sup> The legislative committee analysis of the bill to amend the California security freeze law to cap the fees that could be imposed on consumers stated in relevant part: "Currently, the charge for a freeze at the three largest reporting agencies varies greatly. Experian is charging approximately \$60 a year, while Equifax charges \$12 to place the freeze, plus additional fees of \$8 to \$25 to release information." See, [http://www.leginfo.ca.gov/pub/03-04/bill/sen/sb\\_0601-0650/sb\\_602\\_cfa\\_20030630\\_121530\\_asm\\_comm.html](http://www.leginfo.ca.gov/pub/03-04/bill/sen/sb_0601-0650/sb_602_cfa_20030630_121530_asm_comm.html).