



Were you aware that employers could pull credit during the hiring process? More and more employers are actually starting to practice this. Learn the facts about employers and credit and the rights of the applicant.

Did you know that employers can pull credit reports when screening applicants?

If not, you are not alone. Fifty-two percent of adults nationwide believe that it is illegal for employers to pull credit reports. Although credit scores are usually associated with getting loans and credit cards, they are also used by many employers as a screening tool when evaluating potential employees for a job. Employers say that a credit check can help them evaluate whether an employee will be responsible, accountable and honest on the job. But to what extent does credit history predict job performance? Moreover, employers may not take the time to assess what is behind a poor credit history.

Some civil rights lawyers have argued that credit checking for employment compounds an already unfair economic situation in which low-income families and some minorities have had less access to the credit system. The Equal Employment Opportunity Commission (EEOC) has taken the position that excluding people with poor credit may have a disparate impact on some minority groups and have concluded that checking the credit of job applicants is discriminatory in some situations. According to the EEOC, an employer must justify the pre-screening policy and demonstrate that the use of credit records is job-related and consistent with "business necessity." Meanwhile, employer checks remain legal, and the EEOC deals with complaints on a case-by-case basis.

Why do employers pull credit reports?

To assess accountability and responsibility

Employers draw conclusions about an applicant's ability to accept responsibility on the job based on the applicant's management of their personal finances. They look for stability in the applicant's employment history in an attempt to judge their likelihood of staying on the job. They may connect an applicant's ability to manage their finances and meet their fiscal responsibilities as a measure of how they will perform their job responsibilities.

To check for fraud or other dishonest financial behavior

Employers use a report to predict if an employee will commit fraud or theft. This is especially common for financial, accounting, or other positions that require access to sensitive information.

To verify application information

Employers may use credit reports to verify employment history or social security number.

What employers pull credit reports?

While the practice is still not widespread, an increasing number of employers are using credit reports as an evaluation tool during the application process. A 2006 study found that 35% of companies surveyed use credit checks in pre-employment screening, up from 19% in 1996. According to the 2003 National Retail Security Survey, conducted by the University of Florida, 41% of retailers used pre-screening credit checks, with another 10% of retailers are planning to start.

Generally, credit checks for employment pre-screening are most common in positions where employees are dealing with sensitive information and money including:

- Financial services
- Defense
- Government
- Chemical and pharmaceutical companies

What are the applicants' rights when employers pull credit?

Job applicants must provide consent before an employer can pull their credit report.

- If you do not want a prospective employer to obtain a copy of your credit report, you should be careful when signing documents during an application process. Many applications have a section that gives consent to the prospective employer to obtain any information they want about you in making their decision. The general consent language may not specify a credit check.
- Critics point out that job applicants don't have a lot of choice in this matter since an applicant's refusal to have their report pulled would generally mean they are removed from the applicant pool.

Job applicants have the right to a free credit report if an employer decision is based on information in the report.

If an employer denies an applicant employment (or fires or denies promotion to an existing employee) because of information on their credit report, they are required to provide written explanation to the candidate or employee of what information led to the decision and resources on how to contact the credit reporting agency that provided the information. The applicant may use this information to request a free copy of their credit report, separate from their free annual report.

Job applicants have the right for marital status, children and other information, protected by the Equal Opportunity Act, to be excluded.

What do employers see when they pull a credit report?

Special Employer Credit Report

The credit bureaus have designed special employer credit reports. These reports provide most information on a traditional credit report, but exclude information that employers are prohibited from asking under the Equal Opportunity Act. Employer credit reports EXCLUDE:

- All information covered by the Equal Opportunity Act (date of birth, etc).
- Account numbers associated with different credit cards, bank accounts and lines of credit.

Employment history

Employers may review the employment history section of a credit report to verify application information and also assess employment stability.

Credit score

Employers have the legal right to purchase credit scores. However, since the credit score is calculated to predict future credit risk and not to score previous financial history, few employers do.

FAQ: Do employer inquiries impact a credit score?

No. When an employer pulls a credit report, credit bureaus code the request as a "soft inquiry." Therefore employer checks do not appear on the reports that creditors pull and they do not impact the applicant's credit score.

What is the "employment history" on a credit report?

- The employment history section of a credit report is only updated when a consumer completes an application for a new line of credit or loan. Therefore, it is usually out of date. Creditors generally do not update employment information after the application process.
- Employers do not update information on the credit report.

- Since employment information is not maintained and updated by the credit bureaus, the employment history section is not part of most credit score calculations.
- An individual can contact the credit bureaus and provide information to update their employment history. The person may want to update their credit report to include information about continuous employment or past employment that they list on a job application.

While a stable employment history is important to some lenders, such as mortgage lenders, most do not rely on the employment section of the credit report to verify employment stability. If a lender is looking for information on job security or income, they will need to work with the borrower to verify this information elsewhere.