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To fix problems with credit reporting, we need a better government watchdog, not Biden's idea of new public credit bureau

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The Biden-Sanders Unity Task Force wants to create a "Public Credit Reporting Agency within the Consumer Financial Protection Bureau" to cure the ailments in the credit reporting industry. This poorly thought-out proposal, which sounds more Bernie than Joe, amounts to a blunt and uncalled-for government takeover of a flawed but largely functioning private industry that supports the most developed and competitive consumer credit market in the world.

Let's face it, the credit reporting industry is not without its own share of problems.

Consumers do not trust credit reporting firms with handling their personal data. The epic Equifax **EFX, -0.33%** breach in 2017 exposed the personal information of 147 million people. The public is also frustrated with the high incidents of errors in consumer reporting data. According to a Federal Trade Commission study released in 2012, "one in five consumers had an error on at least one of their three credit reports."

The existing industry practice is perceived to be unfair and discriminatory. A 2015 CFPB study estimated that 45 million Americans either have no or unscorable credit records. The study further found that "Black consumers, Hispanic consumers, and consumers in low-income neighborhoods are more likely to have no credit history or not enough current credit history to produce a credit score."

However, creating a public credit reporting agency would not solve those issues it purports to address. Instead, enhanced government oversight and private-sector innovation are more effective in improving cybersecurity, reducing data errors and bringing about a more inclusive credit system.

The public credit reporting agency would not necessarily be more secure and better at guarding consumers' privacy. The 2015 data breach at the Office of Personnel Management, which exposed sensitive personal information of 22.1 million people, or 7% of the U.S. population, is a sober reminder that there is no safe haven from massive cyberattacks.

A better way to improve cybersecurity would be to subject the credit-reporting industry to rigorous supervision by the FTC, which has a wealth of experience and expertise in cybersecurity and privacy. Alternatively, prudential banking agencies such as the Federal Reserve and the Office of the Comptroller of Currency can do an adequate job. In any case, Congress will need to vest this new authority to one of those agencies.

The public credit reporting agency would likely continue to be plagued by high incidences of data errors. Since the proposal requires private credit-reporting firms to provide data to the public credit reporting agency, we would have the "garbage in, garbage out" problem.

A proper solution to improve data accuracy is for the government to diligently exercise its role as the watchdog. Unfortunately, consumers traditionally bear the responsibility of ensuring the data collected on their behalf and without their explicit consent is accurate. It is discouraging to see, for example, that the FTC recommended in the aforementioned 2012 study that consumers "should check their credit reports regularly" as the primary way to make sure their data is accurate.

The CFPB has broad supervisory and enforcement authority over the credit reporting industry. It oversees both data providers (also known as furnishers, which are mostly lenders) and credit-reporting firms that receive and store credit data. If the CFPB consistently makes improving data accuracy the top priority during its examinations of the industry, the error rate will eventually go down.

The public credit reporting agency is also ill-equipped to solve the fair-credit access problem. The proposal aspires to expand access to credit by ensuring "the algorithms used for credit scoring don't have discriminatory impacts, including accepting non-traditional sources of data like rental history and utility bills to ensure credit."

This well-intentioned recommendation has merits, as it calls to attention a big problem and a great innovation to try and solve it, namely, the incorporation into credit files of new data sources to help "credit invisibles" get access to credit.

However, the private sector is already innovating. For instance, Experian Boost allows consumers to add on-time payments for utility, wireless, and streaming services to their existing credit files. This additional information tends to improve people's credit scores, especially those "credit invisibles." The free service has boosted the average FICO score by 13 points per user, according to the company. **EXPN, +0.10%**

Innovation is proven effective in expanding access to credit, and it is best left in the hands of the private sector. It would be a waste of resources for the government to reinvent the wheel.

In addition to failing to address the issues of the credit reporting industry, the proposal raises serious privacy, efficiency, competition and operation concerns.

First and foremost, the creation of the public credit reporting agency is a blatant intrusion of consumers' privacy rights that the government professes to protect. The federal government would potentially score everyone and maintain a huge database that monitors every aspect of our financial lives: how much we owe, who we borrow from, and how much we pay. We would have a de facto social credit system and the country would be one step closer to an Orwellian state.

The setup and operation of the public credit reporting agency will be a boondoggle for government contractors at the cost of taxpayers. The federal government has no experience or expertise in establishing or running a credit reporting agency. Many, if not most of the functions, would inevitably be contracted out. And the federal government has a poor track record of supervising its contractors and protecting consumers — just look at how the Department of Education managed its student loan servicing contracts.

The requirement to use the public credit reporting agency for all federal lending programs and federal employment would be anti-competitive. In a free and functioning market, businesses should compete on quality of services and prices rather than on government mandate. Competition would be especially important if the government score differed from private scores, as this would bring to light and help address the weaknesses of both forms of credit-scoring.

It is questionable if Congress can force private credit reporting firms to provide data to the public credit reporting agency when they are in fact competing with each other. And will the data be provided free of charge? If not, who decides how much taxpayers should pay for the data? This requirement could also crowd out private-sector investment and innovation, leaving both consumers and the public credit reporting agency hanging.

The public credit reporting agency will likely be subject to the same regulations that protect consumers. As a result, the CFPB would be tasked with an unworkable position to supervise itself for compliance with the law. Also note any monetary damage the public credit reporting agency has to pay in an enforcement or class action settlement would be ultimately born by taxpayers.

The credit reporting industry is an integral part of the most vibrant consumer credit market in the world. The industry clearly has some health issues, but the government option is the wrong medicine. What we need is a real reform that focuses on strong and smart supervision of the industry to protect consumers' privacy and enhance data accuracy. We also need sound public policies that encourage innovation and competition to achieve fair and equitable access to credit.

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