



How Do Employers Use Credit Reports in Hiring Decisions – and How Can the Process Be Improved

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When deciding who to hire, about half of U.S. employers consider credit histories. The Fair Credit Reporting Act lets employers pull credit records for applicants, but since 2007 legislators in 11 states and a handful of cities have passed laws limiting the practice – out of concern that it perpetuates economic disadvantage. The Equal Opportunity Employment Commission has sued firms over using credit checks to keep African Americans from jobs, and members of Congress have introduced bills to impose restrictions on the use of credit history in employment decisions.

Despite the attention this issue has received, much remains unknown about how employers use credit reports – detailed documents with information about credit card accounts, mortgages, student loans, medical debts, court judgements, and much more. How, exactly, does a hiring professional translate such a credit report into a decision about whether to give a person a job? My research has found some answers through interviews with dozens of hiring professionals.

Making Sense of the Financial Pasts of Potential Employees

My findings show that employers use bits of credit history along with the explanations job candidates offer for their credit problems to morally assess whether a potential employee can be trusted. Employers start with a wide variety of ideas about what they should pay attention to in a credit report. Some focus on the number of accounts in collection, while others look at the total dollar amount of delinquent debt. When I asked hiring professionals what about a report might prevent a candidate from getting a job, answers included past-due child support payments, multiple cell-phone bills in arrears and debt collection, and former home addresses that do not line up with a candidate's resume. Without access to any systematic evidence about how credit reports relate to workplace behavior, employers set inconsistent standards for job applicants.

But standards only get employers so far. Credit reports contain financial data points stripped of context, such as a person's attitude toward loan repayment and disruptions from major life events like divorce and job loss. Hiring professionals consistently see such details as crucial for understanding the import of a bad credit report. They can give examples of times when it might be forgivable to default on debts, so it is a real challenge to decide if a problematic credit report for a job applicant indicates one of those understandable instances. To decide, hiring professionals turn to narratives. They infer stories about a person's life from the credit report; and they often call candidates to see if they can account for their financial problems in a morally redeeming way. To an extent, this may be exactly what policymakers want – for employers to consider circumstances rather than eliminating candidates with credit problems out of hand.

Yet my interviews also strongly suggest that hiring professionals are more likely to forgive the financial problems of candidates with lives similar to their own. They often acknowledge having a "soft spot" for people with student loan debts like those of themselves or their children. One female hiring professional called failure to pay off a Best Buy credit card frivolous spending, while a male found it possibly understandable since electronics break and it is unfair to have to pay for a faulty product. Two candidates for an opening made it past a headhunter despite credit problems in a divorce and a mistaken foreclosure proceeding – only to be nixed by a wealthy higher-up who the headhunter said "has no idea how hard it is to maintain a good credit rating." Because people see the world in ways molded by their own experiences, including those informed by gender, class, and race, whether an applicant with bad credit is offered a job partly depends on how well they can present a story that resonates with a particular hiring professional.

Certifying Employees as Safe

Employers pull credit reports not just to decide if a candidate is trustworthy, but also to demonstrate to stakeholders that they have completed a sound hiring practice by reviewing official documents produced by credit bureaus. Hiring professionals describe credit checks as a way to show regulators, investors, business partners, licensing boards, and customers that employers have done due diligence. Should an employee later steal or prove incompetent, a paper trail of background checks can be produced to show a good faith effort to hire responsibly.

What is more, discretion can be limited by the possibility that documents will need to be produced for inspection. One interviewee described a corporate policy of overlooking medical debt – but only if it is coded that way on the credit report. One candidate was ruled out because he charged medical bills to credit cards and then got behind on those. Hiring professionals also frequently described strict rules for job candidates who claim their credit reports contain mistakes – a real problem that affects more than a quarter of Americans with credit histories according to the Federal Trade Commission. Hiring professionals may demand letters from lenders acknowledging the mistake, or insist that the credit report be fixed, a process that can take months – during which jobs are rarely held open.

Because employers review credit history not only because they want to, but also because they feel institutions expect it, policymakers worried about this hiring practice may need to do more than pass laws limiting it. To date, most of these laws continue to allow credit checks if they are required for regulatory or other legal purposes. But this misses the point. Even though there is no good evidence that credit reports predict work behavior, all sorts of organizations, including government agencies, make checking credit records virtually mandatory for hiring.

When I interviewed hiring professionals at firms that do not run credit checks on applicants, they stressed alternatives to protect against rogue employees – such as ethics training and requiring multiple workers sign off on large purchases. Such steps keep responsibility at the organizational level, rather than shifting the brunt of risk management onto applicants and those who hire them. If policymakers truly want to limit credit checks in hiring, they should endorse other steps companies can take to satisfy regulators and others who now require extensively documented background checks. At the very least, policymakers should restrict employers to using only aspects of credit reports known to accurately identify problematic employees. Applicants should not have to meet vague moral criteria to get jobs.

Read more in Barbara Kiviat “The Art of Deciding with Data: Evidence From How Employers Translate Credit Reports into Hiring Decisions” *Socio-Economic Review* (2017).