

## Analysis

### Fraud Alert Study, August 2006

**Purpose:** Help improve the Fraud Alert infrastructure mandated by the Federal Trade Commission (FTC) and implemented by creditors and the national credit bureaus. Setting a Fraud Alert is the #1 recommendation to people at risk of identity fraud, however in our limited testing we have identified technical and compliance problems. This is the first public test of this critical infrastructure, and the results will be reported to the FTC and other industry experts.

**Why Debix did this research:** The Debix Identity Protection Network is built on the Fraud Alert infrastructure. Early in our testing, we thought creditors were ignoring Fraud Alerts, but it turned out the Fraud Alerts were never set. We decided to take a closer look. Measuring reliability of the Fraud Alert setting mechanism became a priority before launching our products. With the help of our Advisory Board [<https://www.debix.com/about/advisory.htm>] we recruited computer security, financial services and privacy experts to participate in the test. After 54 tests, it became clear that the Fraud Alerts failed to set properly when the personal information was not identical across the three credit bureaus. For example if the year of birth was incorrect at one credit bureau, the Fraud Alert would fail to set at the bureau containing the incorrect information. In these cases, we were able to set the Fraud Alert successfully by using the incorrect year of birth. We then spoke with industry executives with knowledge of the credit bureau networks who confirmed that they have seen these types of problems with data sharing across bureaus. In addition, we pulled other independent research that indicates that 54% of credit files contain errors. It was at this point we determined the most effective way to set Fraud Alerts was with each credit bureau directly, bypassing the propagation system.

Due to the importance of the Fraud Alert system and the severity of the problems, we notified the credit bureaus of the problems 60-days before this announcement in the hope that they would use the information to repair the system. At the same time, we developed a free automated service that sets Fraud Alerts properly as well as consumer tips for those who wish to do it themselves.

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## Fraud Alert Study

### Background Information

54 Consumers participated in our study. Participants were a select group of executives, law enforcement, security or privacy experts.

The study began May 1st, 2006.

For this study, we set the Fraud Alert at TransUnion or Experian and measured the success of propagation to Equifax, TransUnion and Experian.

### Purpose

Help improve the Fraud Alert infrastructure mandated by the Federal Trade Commission (FTC) and implemented by the national credit bureaus. Setting a Fraud Alert is the #1 recommendation to people at risk of identity fraud, however in our limited testing we have identified technical and compliance problems. This is the first public test of this critical infrastructure, and the results have been reported to the FTC and other industry companies.

This study identified and measured the following issues:

- Do Fraud Alerts set properly?
- Propagation - did the fraud alert propagate to the other two credit bureaus after it was set?
- If Fraud Alert did not get set, why not?
- If the Fraud Alert did not propagate, why not?

### Definitions

A *Fraud Alert* is special notice that consumers can place in their credit file at each of the national credit bureaus. A Fraud Alert tells potential creditors to verify an application prior to opening a new account in the applicant's name.

Fraud Alerts provide the only real protection from identity theft available to all Americans today.

A Fraud Alert Propagation Failure was defined as a Fraud Alert being set at one bureau and failing to propagate to one or more credit bureaus.



## Key Trends

- 1 40% of Fraud Alerts are not properly set. The credit bureau's system for setting Fraud Alerts is seriously flawed, leaving consumers unprotected.
- 2 Consumers are usually not told by the credit bureaus when their Fraud Alerts are not set properly. In our study, only two consumers whose Fraud Alerts were not set properly were notified
- 3 When Fraud Alerts fail to properly set, there are no instructions for consumers on how to correctly set the Fraud Alerts.
- 4 In 9% of the cases, consumers' Fraud Alerts were unable to be set without first reviewing the consumer's credit report and doing research on that consumer's profile at the credit bureau.

## Other Observations

Fraud Alerts are effective for only 90 days, but most participants did not realize this, even after carefully reading paperwork from the credit bureaus.

Consumers must verify their Fraud Alerts are set at all three credit bureaus every 90 days. They must go through this verification process again each and every time their Fraud Alerts are set.

Consumers provide daytime and evening phone numbers to the credit bureaus when setting their Fraud Alerts. When Equifax and TransUnion pass Fraud Alert information on to Experian, Experian deletes the consumer's evening phone number. This makes it more difficult for creditors to clear Fraud Alerts and makes the Fraud Alert less effective for the consumer.

## 40% Of The Time The Consumers Fraud Alert Is Not Propagated.

40% of the time a consumer's Fraud Alert is not propagated to the other two credit bureaus. When a consumer sets a Fraud Alert at one credit bureau, all instructions make it very clear that there is no need to set your Fraud Alert at the other bureaus, because as a courtesy, the credit bureau will pass on your request.

Our study measured the effectiveness of propagation when the Fraud Alert is set at one bureau. For example, when we set the Fraud Alert at TransUnion, and watched to see if it showed up at Equifax and Experian. Propagation was measured the same way when Fraud Alerts were set first at Equifax and Experian.



We confirmed if the Fraud Alert propagated and was set at each credit bureau in the following way:

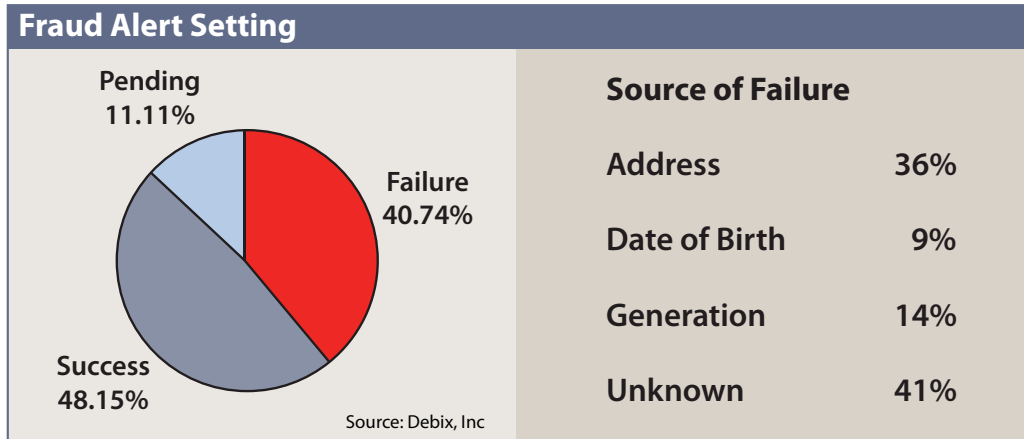
Fraud Alerts at Equifax can be verified by calling the system and attempting to set a Fraud Alert. The system informs the consumer when a Fraud Alert is already set and provides them a reference number.

Determining if the Fraud Alert is not set at Experian and TransUnion is more complicated. We told our participants to watch their physical mail boxes for confirmation that their Fraud Alert had been set. If the participant did not receive a written confirmation within five business days, we instructed them to order a free credit report from the credit bureau, which includes a verification that the information was set.

When the Fraud Alert was not set, we asked the consumer to inspect the credit report data in the first section for inaccuracies.

**Reasons for failure in Fraud Alert propagation included:**

- Date of birth (year of birth) was incorrect
- Address was wrong or had address of employer or previous address where consumer lived.
- Social Security Number had another person’s record tied to it. This was especially common in families where there were multiple generations of family members with the same name.





## Consumers Are Rarely Told That Their Fraud Alert Failed To Set.

In our study, only 2 consumers were notified that their Fraud Alert failed to set.

When a consumer sets a Fraud Alert at the credit bureau, the automated phone system rarely tells a consumer the Fraud Alert can not be set. Instead it simply states, "thank you" and hangs up on the consumer.

In two cases during our study, TransUnion sent a letter to two of our participants informing them that the Fraud Alert failed to be set.

## 9% Of The Time, A Consumer's Fraud Alert Could Not Be Set.

We found some instances where we were simply unable to set the consumer's Fraud Alert, even after investigating their credit report. In one case, the consumer did not have a record at the credit bureaus. In other instances, the consumer typically had the same name as their parent. In the rest of the cases we were not able to identify the reason why the fraud alert could not be set.

## There Is No Easy Way For Consumers To Confirm If A Fraud Alert Was Set.

With the poor success rates of Fraud Alerts, consumers have no way to confirm the Fraud Alert is set with TransUnion or Experian. Equifax does provide a way, but a consumer has to go through the entire process of setting a Fraud Alert again to find out at the very end that the Fraud Alert has already been set.

We recommend consumers pull their free annual credit report to verify the Fraud Alert has been set. You can only request this once a year, although the law seems to imply if you set a Fraud Alert, you can get one more often. We are still investigating how this would work.

In the mean time, if you want to set your Fraud Alert every 90 days, you will need to purchase a credit report from TransUnion and Experian every 90 days to confirm the Fraud Alert is still set. With the Fraud Alert, you are entitled to two additional credit reports per year. Unfortunately in our attempt to order and receive these additional credit reports, we were denied. It is not clear in the documentation how to order these additional Fraud Alert generated credit reports.

## Other Observations

**Fraud Alerts last only 90 days, but most participants did not realize that even after carefully reading the paperwork from the credit bureaus.**

In our study, most people did not realize Fraud Alerts only lasts 90 days. Even those who



read the confirmation letters from the credit bureaus missed the notices that Fraud Alerts only lasts 90 days. We believe that consumers should be told when Fraud Alerts expire as well as when they are set properly.

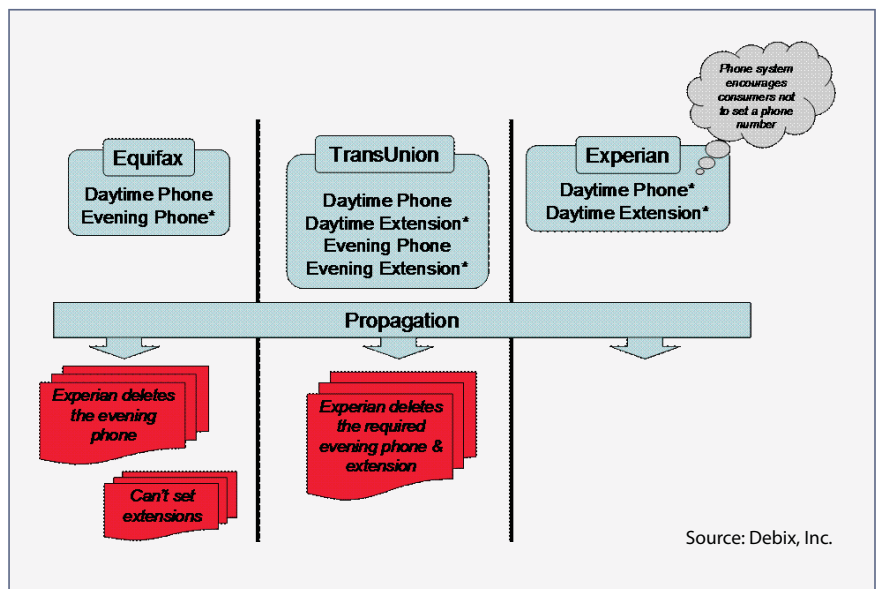
**Consumers must verify that their Fraud Alert is set at all three bureaus every 90 days.**

The study found that creditors are constantly sending data to the credit bureaus and affecting information in the credit file including the “credit header.” A credit header includes your name, address, social security number, date of birth, all instances of your name, such as maiden name. Consumers must verify their Fraud Alert is set properly every 90 days in their credit file, because any creditor who issues credit can modify the credit header.

For example, we were told when a consumer makes a correction in their credit report, they must also determine which creditor reported the inaccurate information. Otherwise the creditor with the inaccurate information will report that information again, and the credit bureau is very likely to change the records back to show the original error. This could mean your fraud alert would not be set.

**Consumers provide phone numbers in the Fraud Alert. When the credit bureaus pass the information on, they delete some of the consumers phone numbers. This makes it harder for creditors to clear the Fraud Alert and makes the Fraud Alert less effective for the consumer.**

When you call TransUnion, the system prompts you for a required daytime and evening phone number and also allows the option of entering an extension for those phone numbers. Equifax requires a daytime phone number and an optional evening phone number and does not allow input for any extensions. Experian asks only for a daytime phone number and daytime extension. All three credit bureaus assure you all this information, if successfully set, will be propagated to the other credit bureaus. Experian specifically deletes the consumer’s evening phone number and extension. This undermines the effectiveness of the Fraud Alert.





## Consumer Tips

Due to the significant problems we discovered during our study, we created a Fraud Alert Task Force to come up with recommendations for consumers. While we hope that consumers choose to subscribe to the Debix Identity Protection Network, we recognize some consumers will still want to complete the process themselves.

- 1 Call each of the three national credit bureaus and set your Fraud Alert directly with them, and do it on the same day. Equifax: 800-525-6285, Experian: 888-397-3742, TransUnion: 800-680-7289
- 2 Give your cell phone number to creditors so they can contact you easily. But be aware that by giving them your number, you are making your private cell number available. If you prefer to keep this number private, Debix has a solution.
- 3 Watch your mailbox to make sure you receive three physical notices from each credit bureau.
- 4 If you do not get a letter from each of the three credit bureaus in one week, follow the tips under "What to do if your fraud alert fails to set properly" at <http://www.debix.com/consumer.htm>
- 5 Fraud alerts expire after 90 days, so reset your fraud alert every 90 days for as long as you want protection. Unfortunately, your name, social security number and birthday never expire.

## The Research Behind These Tips

- 1 Call each of the three national credit bureaus and set your Fraud Alert directly with them, and do it on the same day. Equifax: 800-525-6285, Experian: 888-397-3742, TransUnion: 800-680-7289

When you follow the directions as instructed by the FTC for calling one of these numbers, they clearly state, "There is no need to call the other credit bureaus when you set your Fraud Alert". Based on our research, we found that the information doesn't propagate to the other bureaus 40% of the time. Therefore, we came to the conclusion that it would be best to set your Fraud Alert at all three bureaus directly. This greatly improves the success rate (to be measured in a future study).

It is important to have your Fraud Alert set at all three bureaus because creditors often pull a credit report from only one of the three credit bureaus when extending a new line of credit or opening an account. Additionally, based on the expertise of the Debix Fraud Alert Task force, it is strongly suggested that consumers call all three credit bureaus on the same day to prevent the possibility of any one of the credit bureaus propagating incorrect information which could cause the Fraud Alert to fail.

It takes approximately 20 minutes to call all three bureaus and set your Fraud Alert at each bureau.



When setting the Fraud Alert, the consumer is offered many special promotions to purchase credit reports and monitoring services. The phone prompts can be quite confusing. Consumers should not have to pay to set a Fraud Alert and if the consumer is asked for credit card information, they should hang-up immediately and start over.

Here is a written description of the phone prompts at Experian. Note that these prompts change as often as once a week.

### Thank you for calling Experian

If you have received notification about the Dept of Veterans Affairs announcement that your personal id info has been compromised;

Press 1

All others press 2    **13 seconds**

Our system registers the area code you are calling from to assist in processing your request, hours of service and applicable state rights based on the state that you are calling from.

For a free offer of credit management tool

Press 1

All others press 2    **22 seconds**

To obtain a copy of your personal credit report; press1

To purchase a copy of your vantage credit report; press2

If you believe your credit information is being used fraudulently;

press 3                    **13 seconds**

If you are calling about your minor child;

press1

To add an alert to your credit report through our automated system;

press 2                    **10 seconds**

To help protect your credit from fraud you can add an alert to your account, we will also share your info with the other Nation Credit agencies...

To add a fraud alert select one of the following;

If you suspect you are a victim of fraud and want to add an initial security alert to your account;

press 1                    **29 seconds**

You can add an alert through our secure website at [www.experian.com/fraud](http://www.experian.com/fraud)

If you prefer to request an alert by phone, hold through the silence

You will now be transferred to our secure automated system. You will not be able to return to the main menu. To return to the main menu; press 1 now

To continue to our automated system

press 2                    **45 seconds**

Use the touch tone key pad to enter the requested information. You will be asked for id information item by item...

We will not be able to process your request without your social security number.

Enter your social security number now followed by the pound key.

The number you entered is xxx-xx-xxxx

If this is correct

press 1                    **46 seconds**

Enter your 5 digit zip code now

Enter the numeric portion of your address now

**15 seconds**

**or 27 seconds with direction**

You may add a US phone number to your alert ...

To add an alert without a phone number

press 1 now

To add a phone number

press 2

The number you entered is xxx-xxx-xxxx

If this is correct

press 1                    **41 seconds**

You may add an extension to your account

To add an extension

press 1

The number you entered is XXXXX

If this is correct

press 1                    **28 seconds**

Remain on the line for confirmation

**Total Time Phone Time All Three Bureaus: Approximately 20 minutes**



- 2 Give your cell phone number to the credit bureau so they can contact you easily. But be aware that by giving them your number, you are making your private cell number available. If you prefer to keep this number private, Debix has a solution.

When you open instant credit online or in a store, you want your Fraud Alert to protect you, but not slow down or stop the process. Therefore, our Task Force deemed that it would be best to place your cell phone number in your Fraud Alert. That way, if you are applying for instant credit in a store and the creditor calls to verify you, they will be able to reach you instantly to clear the Fraud Alert.

The problem with placing your cell phone number in your Fraud Alert is that your number is made public to anyone who pulls your credit report. This may include creditors who wish to call you for reasons other than a Fraud Alert, such as an overdue bill.

- 3 Watch your mailbox to make sure you receive three physical notices from each credit bureau.

This step is important. This is the step that verifies your Fraud Alert is set at all three credit bureaus. Make sure you receive a letter from Experian, Equifax and TransUnion. Make sure each of these letters informs you that the Fraud Alert is set.

- 4 If you do not get a letter from any of the three credit bureaus in one week, follow the tips under "What to do if your Fraud Alert fails to set properly" at <http://www.debix.com/consumer.htm>

If you do not get a letter from each of the three credit bureaus it probably means your Fraud Alert is not set at all three bureaus.

- 5 Fraud alerts expire after 90 days, so reset your fraud alert every 90 days for as long as you want protection. Unfortunately, your name, social security number and birthday never expire.

It is critical that you reset your Fraud Alert every 90 days for at least one year, because fraudsters are organized and extremely sophisticated. They know consumers will be watching closely immediately after their identity has been breached. Sometimes fraud is committed immediately, but more often fraudsters sit on the information for at least a year until consumers let their guard down.

When your social security number and date of birth have been stolen, it is not information that you can easily change. Our Task Force also let us know that while there is a process to change your social security number, the credit bureaus link your old number to your new number. This makes resolving identity theft significantly more complex. If you are concerned about protecting your identity, there is absolutely no downside to setting your Fraud Alert every 90 days for the rest of your life.



## What To Do If Your Fraud Alert Fails To Set Properly.

- 1 Go to [www.annualcreditreport.com](http://www.annualcreditreport.com) and order your free annual credit report from the credit bureau where the Fraud Alert failed.
- 2 Check the "header information" (name, address, date of birth and generation information) on your free credit report for accuracy.
- 3 Call the credit bureau that sent you the report and enter the data from your "header information" into the phone system exactly as it appears on your report.
  - A. For example, one consumer found their year of birth was incorrect on their Equifax credit report. In order to correct it, the consumer had to enter the incorrect date of birth (as it appeared on their Equifax report) into the Equifax Fraud Alert System to properly set the Fraud Alert.
  - B. If you wish to correct errors in your credit report information, you must contact the credit bureau directly by phone or follow the instructions on their website for disputes. It is recommended that you put all disputes in writing, because when you use the online forms for disputes you give up your right to sue and agree to arbitration. Additionally, when mailing the correction, send it "Return Receipt Requested" so that you begin to create a paper trail.
- 4 If you still can't figure out why your Fraud Alert isn't set properly, contact the credit bureau for assistance using the phone number printed on your credit report.