BusinessWeek Limits on Credit Checks

It's hard enough to find a job in this economy, and now some people are facing another hurdle: Potential employers are holding their credit histories against them.

Sixty percent of employers recently surveyed by the Society for Human Resources Management said they run credit checks on at least some job applicants, compared with 42 percent in a somewhat similar survey in 2006.

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Employers say such checks give them valuable information about an applicant's honesty and sense of responsibility. But lawmakers in at least 16 states from South Carolina to Oregon have proposed outlawing most credit checks, saying the practice traps people in debt because their past financial problems prevent them from finding work.

Wisconsin state Rep. Kim Hixson drafted a bill in his state shortly after hearing from Terry Becker, an auto mechanic who struggled to find work. Becker said it all started with medical bills that piled up when his now 10-year-old son began having seizures as a toddler. In the first year alone, Becker ran up $25,000 in medical debt. Over a four and half months period, he was turned down for at least eight positions for which he had authorized the employer to conduct a credit check, Becker said. He said one potential employer told him, "If your credit is bad, then you'll steal from me."

"I was in deep depression. I had lost a business, I was behind on my bills and I was unable to get a job," he said.

Hixson calls what happened to Becker discrimination based on credit history and said his bill would ban it. "If somebody is trying to get a job as a truck driver or a trainer in a gym, what does your credit history have to do with your ability to do that job?" Hixson asked. He said he knows of no research that shows a person with a bad credit history is going to perform poorly.

Under federal law, prospective employers must get written permission from applicants to run a credit check on them. But consumer advocates say most job applicants do not feel they are in a position to say no.

Even though more companies are using credit checks, only 13 percent perform them on all potential hires, according to the Society for Human Resources Management's most recent survey. Mike Aitken, the group's director of government affairs, said a blanket ban could remove a tool employers can use to help them make good hiring decisions.

Aitken pointed to a 2008 survey by the Association of Certified Fraud Examiners that found the two most common red flags for employees who commit workplace fraud are living beyond their means and having difficulty meeting financial obligations. The same survey estimated American companies lost $994 billion to workplace fraud in 2008.

Aitken said someone who cannot pay his or her bills on time may not be more likely to steal, but might not have the maturity or sense of responsibility to handle a job like processing payroll checks.

Becker, the Milton, Wisconsin, resident with bad credit, has found work dismantling cars at an auto recycling company that did not ask to run a credit check. He worries, though, about friends in the auto industry who are looking for work and coming up empty-handed because of credit problems.

"It just seems like once you fall behind, you're behind," he said. "It's really hard to get back on the right financial track."

SOURCE: Excerpted from Kathleen Miller, "States May Ban Credit Checks on Job Applicants," *BusinessWeek*, March 1, 2010, www.businessweek.com.

Questions

1. How well do you think credit checks meet the effectiveness criteria of (a) reliability; (b) validity; (c) ability to generalize results; (d) high utility; and (e) legality?
2. For what kinds of jobs might a credit check be a useful selection method? For what kinds of jobs would it be unhelpful, inappropriate, or unethical?
3. Imagine that you are an HR manager at a company operating in a state where credit checks of job applicants have been banned. What other selection methods could you use to pick honest and responsible employees?