



**EmployeeScreenIQ**<sup>®</sup>  
Smarter Screening. Intelligent Hiring.<sup>®</sup>



Credit reports and the hiring process:

## **The value (and risk) to HR professionals**

Imagine one of your employees absconds with some cash. That's unfortunate—but not nearly as unfortunate as when your CEO discovers the employee had a troubling history of financial irresponsibility. Then the question is not why they took the money, but why you hired them for a position of financial responsibility.

The solution is, of course, to run a credit check before you hire. Knowledgeable HR departments have long been doing credit checks for relevant jobs. SHRM reports that nearly 50% of employers use them for some positions.

But now HR departments are coming under scrutiny in how they use credit reports. Many people have been hit hard by the recession and ended up with a poor credit record. People who have had financial difficulties and are trying to gain employment to repay their debt are particularly worried that HR departments are using credit reports to unfairly deny them work. Legislators are listening to these concerns and some states are passing or proposing legislation around the use of credit histories. Indeed, Washington, Hawaii and Oregon all have statutory requirements related to employer use of credit history, and Illinois and other states have bills pending. There is also a bill in the U.S. House of Representatives that proposes amending the federal Fair Credit Reporting Act to add a job relatedness requirement for employer use of credit. Clearly, it is time for HR professionals to make sure their use of credit reports is fair, legal and effective.

## When is a Credit Report Relevant to the Job?

The first thing HR needs is a process to determine if a credit report is relevant to the job. This exercise is often easier said than done. It is easy to think of credit checks as some kind of overarching measure of character, but in most jobs there is not a strong case for using credit reports.

According to Stephanie E. Lewis, an attorney at Jackson Lewis LLP, there are two broad areas where credit reports clearly have relevance.

One is for financial positions in the organization: jobs like a CFO, controller, bank teller or anyone else handling cash. The second category is for positions of trust where an employee is handling a client's money or possessions: jobs like an attorney, officials in a nursing residence, or anyone who has access to someone's home.

"It's a correct and logical conclusion," says Lewis, "that dangling an opportunity to steal in front of someone who is living beyond their means is an unnecessary risk."

In the case of someone stealing directly from your organization, the problem is serious, but not as serious as when an employee violates a client's trust. If one of your employees steals from a client the organization can face serious damage to their reputation as well as lawsuits from the

"...dangling an opportunity to steal in front of someone who is living beyond their means is an unnecessary risk."

client. The client will have a good case that your organization did not take steps to protect them if the organization did not review a credit report before hiring the employee.

In addition to the jobs that are directly involved in finance or sensitive client situations, there may be other jobs in your organization where it would be risky not to review the credit record when making hiring decisions. For example, some IT jobs have access to confidential client information, which might create a risk of identity theft. How can HR decide which jobs are most sensitive? Your own internal audit team can be a very helpful resource. Internal audit can often identify jobs where a credit report is relevant, sometimes ones that wouldn't have been obvious to HR.

It's not enough to determine which jobs require a review of the credit report as an element of the hiring process; you have to be able to articulate the reason. It's wise to document the rationale as to why some jobs are deemed to pose a risk such that a credit history is relevant. This rationale needn't be complex, but HR needs to be able to explain their decisions and that information should be on paper, not just in someone's head.

## A Process for Identifying Red Flags

Once the relevant jobs are identified, HR needs a process to interpret the credit information. Credit reports can be hard to understand. They contain a lot of data and making sense of that data can be a challenge. While lenders can get a credit score—a single number showing credit worthiness—these are not included in the credit reports provided by screening companies for employers. Since HR professionals do not have the luxury of pointing to one number, they need to have the skills to make an informed judgment based on the data in the report.

It helps if HR understands that the point of the credit report is to raise red flags, not to automatically exclude a candidate.

Some HR departments use credit information without fully understanding it and it's easy to see why. Many questions arise when you use a credit report. If someone has unpaid debt, is it because of divorce, an uninsured illness, or perhaps an unlucky turn in the housing market? It helps if HR understands that the point of the credit report is to raise red flags, not to automatically exclude a candidate. The analysis of the credit report should be to see if there are any red flags that need further investigation or explanation by the candidate.

## Taking Action on Red Flags

If there are red flags, then the best practice is to give the candidate a chance to explain. There are often good reasons for someone's financial difficulty and if that is the case, employers do not want that strong candidate unfairly eliminated from consideration. It's even possible some

of the information in a credit report may be wrong, which speaking to the candidate will bring to light.

According to Pamela Devata, a Labor and Employment Partner at Seyfarth Shaw, “the legal requirement under the FCRA is that employers must provide applicants or employees with a copy of the credit report and a copy of their rights under the law before taking adverse action. Going further and asking the applicant to explain the circumstances around his or her poor credit can be very informative.”

Even if a red flag remains then it should simply be one factor in the overall decision as to whether the candidate is the best choice. As always, recruiting decisions are best made after weighing a range of evidence.

...recruiting decisions are best made after weighing a range of evidence.

“The key is to have a process in place that evaluates each applicant or employee on an individual basis while maintaining consistent application of your standards,” says Devata.

## Getting it Done

Making better use of credit reports is extremely important given the legal landscape, but may take some critical thinking on the part of HR professionals. The goal is to have a clearly thought out process in place. The process should identify what jobs require credit reports, how to interpret the report to find red flags, and how to act on those red flags. Between your background screening provider, internal audit, and contacts with other HR professionals you should have the necessary resources to do this.

The public and legislatures are telling HR there is a concern about inappropriate use of credit reports. Make sure you can show your organization that they are used effectively and fairly by developing the necessary procedures.

**EmployeeScreenIQ** is a Cleveland, Ohio-based employment screening company offering a variety of employment screening services to mid- and large-cap organizations throughout the world, including those in North and South America, Europe and East Asia. For more information visit [www.employeescreen.com](http://www.employeescreen.com).