Credit Repair Dispute Surge: Surge Of Lawsuits Hit Banks From Social Media Sharing

A recent American Banker article is shedding some light on a growing trend that's causing ripples across the financial industry: a dramatic increase in **credit report lawsuits**.

This surge, driven by consumers who are looking for a quick fix to their bad credit and is often prompted by social media influencers and shady credit repair companies that promote services like “Credit Sweeps” and even using the FTC’s identity theft reporting system to fraudulent remove bad debt from their credit histories.

From Minor Concern to Major Legal Battlefield

The landscape of credit reporting disputes has transformed rapidly over the past few years. What was once a minor concern for financial institutions has ballooned into a major legal battlefield.

Ryan DiClemente, an attorney at Husch Blackwell, told American Banker, ***"What used to be a small piece of the pie — maybe 10-20% — is now north of 50% for national litigation."***

The Rise of "Credit Washing"

At the heart of this trend is a practice colloquially known as "credit washing." Consumers, often guided by credit repair firms and social media influencers, are flooding credit bureaus and financial institutions with disputes, hoping to have negative but potentially accurate information removed from their credit reports.

Credit washing accounts for as much as 98% of Identity Theft claims at some banks and lenders and results in huge backlogs of claims that must be investigated.

Staggering Numbers and Widening Targets

The numbers are stark. According to data from WebRecon LLC, 2,744 lawsuits were filed under the Fair Credit Reporting Act (FCRA) between January and May of 2024, marking a 23% increase from the same period in the previous year.

While the three major credit bureaus — Equifax, Experian, and TransUnion — bear the brunt of these legal challenges, banks and other financial institutions are increasingly finding themselves in the crosshairs.

The CFPB's Unintended Role

The Consumer Financial Protection Bureau (CFPB) has inadvertently contributed to this trend. Its public criticism of credit bureaus and data furnishers for inadequate dispute investigations has emboldened consumers to take action. The CFPB's consumer complaint database, which has become a popular tool for those seeking debt relief, has even been questioned in Congress for potentially facilitating the discharge of legitimate debts.

Social Media: A Breeding Ground for Questionable Advice

Social media platforms have become breeding grounds for questionable credit repair advice. TikTok, Instagram, and YouTube are awash with videos promising debt relief through specific dispute tactics, some of which skirt legal and ethical boundaries.

"What's driving this is the sheer number of hits for credit repair companies on YouTube, Instagram and social media," Manny Newburger, a legal expert, explained to American Banker.

The Pro Se Litigant Phenomenon

The situation is further complicated by the rise of pro se litigants — individuals representing themselves in court — often guided by dubious online advice. Some are even willing to make false declarations of identity theft in their desperation to improve their credit situations.

This flood of disputes and lawsuits is straining the credit reporting system. Under the FCRA, credit bureaus and data furnishers have just 30 days to respond to a complaint, a challenging timeline given the volume and complexity of the data involved.

As the litigation landscape evolves, so too does the financial impact. Settlements for FCRA lawsuits have skyrocketed from $8,000-$12,000 a few years ago to $45,000-$50,000 today, according to industry experts.

A Critical Juncture for the Credit Industry

The credit industry now faces a critical juncture. To stem the tide of litigation, experts suggest significant investments in dispute procedures and accuracy checks. However, as consumer desperation, social media influence, and the complexities of credit reporting continue to intersect, finding a comprehensive solution remains a daunting challenge for the financial sector. the financial sector.