**SMITH SUMMARY: The new settlement with the three major credit reporting agencies, Equifax, Experian and TransUnion, will apply nationally and be implemented over the next six to 39 months. First, they will have to do more to investigate reported errors by consumers. Second, more time for medical expenses will be provided before late medical expenses are added to a consumer’s record.**

**Credit-Reporting Giants Agree to Overhaul**

Equifax, Experian and TransUnion will change the way they handle errors and list unpaid medical bills as part of the broadest industry overhaul in more than a decade

By ANNAMARIA ANDRIOTIS, WSJ.com, Updated March 9, 2015 8:59 a.m. ET

The three biggest companies that collect and disseminate credit information on more than 200 million Americans will change the way they handle errors and list unpaid medical bills as part of the broadest industry overhaul in more than a decade.

Under an agreement announced Monday with New York state, Equifax Information Services LLC, Experian Information Solutions Inc. and TransUnion LLC will be more proactive in resolving disputes over information contained in credit reports—a process federal watchdogs and consumer advocates have long decried as being stacked against individuals.

**Most changes will be implemented nationally and will kick in over the next six to 39 months.**

A major overhaul is coming to the credit-reporting industry, with the three biggest players becoming more proactive in resolving consumers' disputes.

**The credit-reporting firms will be required to use trained employees to review the documentation consumers submit when they believe there is an error in their files. If a creditor says its information is correct, an employee at the credit-reporting firm must still look into it and resolve the dispute.**

Lenders, credit-card issuers and collection agencies report consumers’ debts, balances, late payments and other credit-related information, such as bankruptcies and foreclosures, to the three companies. The data are added to consumers’ reports and are used to calculate their credit scores.

These scores help lenders determine whether to approve applicants for loans and at what interest rates. Credit reports can also have far-reaching effects in other aspects of consumers’ lives, including whether they can rent an apartment, get home or car insurance, or even find a job.

**The settlement comes after more than a year of talks between the companies and New York State Attorney General Eric Schneiderman . His office began investigating their practices in 2012 after receiving complaints about errors on state residents’ credit reports and the onerous process to fix them,** according to a spokesman for Mr. Schneiderman. The three firms agreed to a countrywide deal to avoid creating two systems for reporting. Such nationwide deals, said the spokesman in an email, are common when individuals are affected across the country rather than in a single state.

What It Means for Consumers

The pact “is a good sign that the reporting agencies are finally willing to step up their game and respond to the needs of hardworking consumers and their families,” Mr. Schneiderman wrote in an email statement.

The three reporting firms referred comment to the Consumer Data Industry Association, a Washington-based trade group that represents them.

“This dialogue with a state attorney general [gave] us the chance to have a dialogue with each other and work on details on how we can proactively pursue changes to our practices,” said Stuart Pratt, president and chief executive officer of the CDIA. He added that the credit-reporting firms weren’t found in violation of any law.

The credit-reporting firms for years mostly functioned as a powerful middleman between consumers and lenders or other companies that report credit information. **When consumers file a dispute, the credit-reporting firms often convert it into a three-digit code that they send to the lender. If the lender tells the credit-reporting firm that the information on the credit report is accurate the firm typically doesn’t change it**, said John Ulzheimer, president of consumer education at CreditSesame.com, a credit-management site.

**A report from the Consumer Financial Protection Bureau, released in 2012, found that the bureaus resolved an average of 15% of consumer disputes internally. The remaining 85% were referred to the lenders or creditors**.

Unpaid medical bills—an increasingly common type of debt—will also be treated differently on credit reports. Some 43 million Americans have past-due medical debt on their credit reports, according to the CFPB. **About 52% of all debt on credit reports is from medical expenses. Collection agencies typically report medical debt to the credit-reporting firms after they receive unpaid bills from hospitals, doctors and other medical professionals. While unpaid bills result from consumers not paying, they can often result when insurance companies delay payments.**

**Under the new agreement, the credit-reporting firms will have to wait 180 days before adding any medical-debt information to consumers’ credit reports. During that grace period, consumers will also have time to clear up discrepancies and catch up with other unpaid bills. When medical debts are paid by an insurance company, regardless of the time frame, they will have to be removed from the credit report soon after. In contrast, most delinquencies and other negative credit events stay on people’s credit reports for up to seven years.**

The credit-reporting industry said it has been taking some steps to promote accuracy on its own. In 2013, the three firms began sending paperwork that consumers could mail in with their disputes to the lenders or other companies to address specific complaints, said Mr. Pratt. He added that Equifax, Experian and TransUnion are already able to accept or deny information from lenders and other companies. But the “formalization of the dialogue” is new, he said.

Credit experts say **the settlement marks the biggest reform for the credit-reporting industry since 2003, when a federal law addressed how credit-reporting firms would treat disputes and required giving consumers access to their three credit reports free once every 12 months. The law, the Fair and Accurate Credit Transactions Act, accelerated the dispute process for the consumer when an error was related to fraud or identity theft.**

The agreement follows several efforts to make consumers more creditworthy. Last August, Fair Isaac Corp., the firm that created the so-called FICO credit score, announced it would stop including in its newest credit-score version any record of paid or settled bills with collection agencies and would give less weight to unpaid medical bills that are with collection agencies.

The settlement also underscores the growing pressure on credit-reporting firms over the past couple of years to provide more consumer protections and better manage the accuracy of credit reports. **The Consumer Financial Protection Bureau began overseeing the credit-reporting industry in 2012 and has been focusing on accuracy issues—including complaints by consumers who say it is difficult to get the errors on the credit reports corrected.**

Studies have found that a large number of consumers are affected by credit-report errors. One in five consumers have an error in at least one of their three major credit reports, according to a 2013 Federal Trade Commission study mandated by Congress. Equifax, Experian and TransUnion received some eight million requests disputing information on credit reports in 2011, according to the CFPB. **Errors can occur when creditors accidentally send wrong information and can also result from identity theft and fraud, such as when a thief opens a credit-card account in someone else’s name.**

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