

# 'Security freeze' can thwart identity theft

By JENNIFER SARANOW and RON LIEBER, *The Wall Street Journal*



In an effort to combat the rapidly escalating outbreak of identity-theft crimes, a handful of states including California and Texas have passed legislation that allows consumers to put a "security freeze" on their credit history.

Some 20 other states this year have considered or are considering adopting similar laws, which make it nearly impossible for criminals to use stolen information to open bogus new accounts. The measures are so effective because once frozen, a merchant is unable to review an applicant's credit history. Lacking such information, most companies refuse to open a new account, greatly devaluing stolen personal data.

The wave of proposed legislation comes at a time when the federal government has been criticized for failing to effectively curtail the outbreak of identity-theft crimes. In addition, a number of companies have recently admitted problems with customer-data theft.

Last week, shoe-store chain DSW Shoe Warehouse, a unit of Retail Ventures Inc., said that credit-card data from more than 100 stores was stolen, while Reed Elsevier Group PLC, owner of online-information service LexisNexis, said that security breaches allowed unauthorized users access to its databases, affecting about 32,000 customers. In February, ChoicePoint Inc. said criminals using fake documentation gained access to about 145,000 customer records. Bank of America Corp., meanwhile, said it lost computer backup tapes containing personal information from federal-government charge cards.

Congressional hearings about protecting consumer data are scheduled to take place today, with the chairman of the Federal Trade Commission and the CEOs of ChoicePoint and LexisNexis expected to testify. Though federal law doesn't currently require credit-reporting agencies to give consumers the option of freezing their accounts, at least two senators are seeking to change that.

Identity theft topped consumer-fraud complaints in 2004 for the fifth straight year, according to the FTC, accounting for 39 percent of the 635,173 complaints filed last year. About 9.3 million U.S. adults were victims of identity theft between October 2003 and September 2004, according to a survey released in January by Javelin Strategy & Research.

Currently, federal law does allow consumers to put a fraud "alert" on their files. If an alert pops up when someone applies for credit, the bank or merchant is supposed to try to verify an individual's identity. But the alert doesn't close off this access to credit histories. Instead, it merely warns the cellphone store or the credit-card issuer to take extra care with any new customer using a particular name.

No federal law gives all consumers the right to freeze their credit entirely, which keeps merchants from being able to look at it at all. (Companies with a pre-existing relationship with someone can generally still get access to their frozen credit files.)

Consumer advocates say the freeze laws are one of the most effective measures available. "The best form of prevention is before the damage starts to occur," says Gail Hillebrand, senior attorney for the nonprofit Consumers Union's West Coast office.

This July, laws allowing security freezes will go into effect in Louisiana and Vermont. Similar legislation has been considered this year or is being considered in Colorado, Connecticut, Illinois and Maryland, among others, while bills introduced this year have already died in Utah and Indiana. New legislation being considered in Texas would grant the right to freeze their files to all consumers. Currently, only identity-theft victims can do so in Texas, whereas anyone in California can.

What this means is that more consumers may soon face the same choice as California residents: Is it worth the hassle to have to turn your credit files on and off every time you want to get a mortgage or open a bank account in exchange for an almost ironclad guarantee that your identity won't be stolen and misappropriated? The freeze doesn't shut people out of their credit files altogether; they can still open them up temporarily using a personal identification number.

Credit bureaus and others in the credit-data industry, who are lobbying against the legislation, argue that immobilizing credit files is overkill. "It's akin to recommending that to prevent burglary, let's put bars on our windows only to discover that I can't get out of the bedroom when there's a fire," says Stuart Pratt, president and CEO of the Consumer Data Industry Association, a Washington trade group.

The credit-data industry, of course, has a financial stake in the issue. When lenders, banks or other businesses look at a credit report, credit-reporting agencies like Equifax Inc., GUS PLC's Experian and TransUnion LLC collect fees. If many files were frozen, agencies wouldn't be able to sell as many reports. Joanne McNabb, chief of the office of privacy protection at California's department of consumer affairs, says as of last fall, only about 2,000 consumers had taken advantage of the freeze since the law went into effect in 2002. "People don't know about it," Ms. McNabb says. At the 30 to 40 consumer presentations the department does each year where security freezes are mentioned, she says none of the audience members has generally heard about it.

## The Hassles of a Freeze

Consumers with frequent credit needs could find a freeze to be too much of a hassle. To put one in effect generally requires sending certified letters to credit agencies, and, in some states, sending copies of police reports on the identity theft. There also may be small fees, up to \$10 to freeze a report and up to \$8 to temporarily unfreeze it. Thawing the files requires several steps too. Someone with locked credit files might need to unfreeze them with all three credit-reporting agencies if he or she doesn't know which company a business uses to check credit histories. It would also be impossible to take advantage of deals where a customer gets 10 percent off that day's purchase when getting instant approval for that store's credit card. Preapproved 0 percent balance transfer offers would likely slow to a trickle. And applying for a mortgage, which already requires a mountain of paperwork, would get only more complicated. The credit agency group's Mr. Pratt says the fraud alert and the free annual credit reports that federal law now requires agencies to give out are enough to help consumers deal with identity theft. Plus, he says his organization is already receiving complaints from consumers who implemented fraud alerts and have become frustrated with how they slow down the process of getting credit. A full-on freeze, he says, would only gum up the works even more.

## Credit Check

-- Lawmakers are considering a host of consumer protections to prevent identity theft:

-- States including California and Texas allow consumers to freeze their credit files entirely, preventing thieves from impersonating them.

-- Federal law allows consumers to place fraud alerts on their files.

-- Congressional hearings are scheduled for today on a recent spate of data leaks.

## Foiling the Thieves

There are a range of ways to stave off identity theft. Here are some of the most popular ones:

### TOOL: Fraud Alert

WHAT IT IS: A warning to companies looking at your credit to be wary of thieves who may be impersonating you.

WHO OFFERS IT: The three big credit-tracking agencies; Equifax ([www.equifax.com](http://www.equifax.com)), Experian ([www.experian.com](http://www.experian.com)) and TransUnion ([www.transunion.com](http://www.transunion.com)).

COST: Free

COMMENT: Federal law requires agencies, upon request, to place an alert on accounts for at least 90 days. Extended alerts can last up to seven years.

### TOOL: Credit Freeze

WHAT IT IS: Locks up your credit files at credit-reporting agencies so identity thieves can't open accounts in your name.

WHO OFFERS IT: Currently only available in California and Texas; coming in July to Vermont and Louisiana. Other states are considering it.

COST: From free to \$10 to freeze your credit report at each agency, and from free to \$8 to unfreeze it.

COMMENT: You'll probably need to unfreeze your report at all three agencies when you want to apply for credit.

### TOOL: Identity Theft Insurance

WHAT IT IS: Covers expenses beyond reclaiming your identity (think lost wages and legal fees).

WHO OFFERS IT: Everyone from employers and insurers to banks, credit-card companies and credit-score firms.

COST: From free to more than \$40 a year; insurers usually cover up to \$25,000 of expenses.

COMMENT: Some insurers require policyholders to carry a homeowner's or renter's policy, or impose other conditions.

### TOOL: Credit Monitoring

WHAT IT IS: You get an alert when something changes in your credit file.

WHO OFFERS IT: The big three, plus Fair Isaac, which compiles data into credit scores.

COST: From \$4.95 to \$12.95 a month.

COMMENT: A good early warning of unusual activity, but it's going to cost you.

### TOOL: Paper Shredder

WHAT IT IS: A device available at most office-supply stores that slices your papers into small pieces.

WHO OFFERS IT: A company called Fellowes, among many others; even Target's Michael Graves line has one.

COST: From \$20 or so to over \$500 for fast, high-capacity crosscutting models.

COMMENT: An easy, low-cost way to ward off dumpster divers seeking your old credit-card bills.