

Things to Consider When Deciding Whether to Place a Security Freeze

You've been reading and hearing about the "security freeze" to stop new account identity theft. Should you get a security freeze? Here is some information from Consumers Union about this personal choice.

What the Security Freeze Prevents

A security freeze is an effective tool in preventing the most costly and difficult-to-detect form of identity theft — false new accounts opened in your name. New account fraud occurs when a thief uses the victim's personal information to open up one or more new accounts for credit or services in the victim's name. The bills, of course, go elsewhere, so that consumers learn of the new account when they find out about ruined credit scores or when they are contacted by debt collectors.

Why the Security Freeze Works

Before opening a new account, most reputable creditors evaluate the creditworthiness of the applicant by checking the consumer credit report or credit score. A security freeze stops potential creditors from seeing the consumer's credit report and credit score unless the consumer decides to unlock the credit reporting file with a PIN. The freeze stops the new account in the name of a thief because the creditor who is considering the thief's application can't check the real consumer's credit report or credit score.

A security freeze does not stop misuse by a thief of your existing bank account or credit accounts, which is called existing account fraud. You still have to check the monthly statements on your existing accounts for any erroneous charges or debits.

Things to Consider Before Placing a Security Freeze

Consumers Union has worked to enact security freeze laws because we believe that each consumer should have the right to choose to freeze access to his or her consumer credit reporting files. Whether the security freeze is the right choice for you depends on your individual circumstances.

Here are some things to consider when deciding whether the security freeze is right for you.

How worried are you about identity theft?

If you've already been a victim of identity theft, or if you are very worried about identity theft, you'll probably want to put a security freeze on your consumer credit reporting file at each of the big three consumer reporting agencies.

- **ID theft victims:** If you have already been a victim of new account identity theft, you should strongly consider placing a security freeze. Your misused personal information can be sold and traded among criminals, so that after you solve an ID theft problem, it can happen again months or years later. In most states and under the voluntary programs announced by the consumer credit reporting agencies, identity theft victims don't have to pay a fee for the security freeze.

- **Security breach notices:** Has your Social Security number been part of a security breach? If a company or government agency has had a security breach which included your Social Security number, you may be at higher risk of ID theft. In less than three years, companies and government agencies announced security breaches affecting more than 200 million records containing sensitive personal information about individuals. The security freeze will stop a thief who has your Social Security number from using it to open new accounts in your name.
- **Stolen mail:** If your mail has been stolen, this may be an indication that you've been targeted for ID theft. Get a locked mailbox and consider a security freeze.

Are you paying for credit monitoring? A security freeze generally costs less than credit monitoring and gives you better protection against the new account form of ID theft. If you are already paying for credit monitoring, consider getting a security freeze instead.

Are you at special risk for ID theft? Certain groups of people are at higher risk of ID theft or may spend more time resolving ID-theft related problems.

- People between ages 18-24 have the highest rates of ID theft. However, younger consumers may be in the credit-seeking stage of their financial lives, making it harder to decide whether to place a security freeze.
- People over age 65 are less likely to experience ID theft but spend more time resolving problems when a theft occurs.

What's in your wallet? Consumers Union and other consumer advocates discourage people from carrying sensitive information, like PIN numbers and social security cards, in wallets and purses. If you carry a card that contains your Social Security number, like a Medicare card, you will be more vulnerable to ID theft if your wallet or purse is stolen.

What is your personal view of the trade off between protection and convenience? The security freeze means you won't have to spend the average 40 hours that ID theft victims who have new accounts opened in their names have to spend cleaning up that problem. However, with a security freeze, you do have to take an extra step when you want to use your own credit record.

How do you plan to use your own credit record? If you freeze your credit files, you'll need to temporarily lift the freeze in order to access new credit or open up new accounts. This might or might not include utility accounts, depending on what state you live in and the details of your state's security freeze law. You may also have to pay fees. While some states protect their residents with lower fees, in many states it will cost \$10 per consumer credit reporting agency each time you lift the freeze.

- If you don't expect to open up many new accounts in the coming years, the freeze may be a cost effective means of preventing new account fraud. You can put it in place and forget about it.
- If you plan to seek new credit soon, such as refinancing your home mortgage, taking out an auto loan, or applying for a credit card, consider the period of time over which you'll make those applications. You could place the freeze on your credit files and then lift it for a period of time when you are seeking credit, or you

could wait until after an upcoming refinance or other loan to consider placing your security freeze.

- Service providers such as cell phone companies may check your credit when you set up a new account. If you plan on switching providers, you may need to lift the freeze to open a new service account.
- If you like to use instant credit, the freeze may not be for you at this time. Beginning in September 2008, some states will require the consumers reporting agencies to lift the freeze within 15 minutes of a consumer's request. Now, requests to lift the freeze must generally be honored by the consumer reporting agencies within three business days. This means you can't use instant credit unless you've lifted the freeze before going to the store.
 - Note: Consumers Union strongly encourages consumers to carefully consider any store card's terms, such the annual percentage interest rate and all fees, including late fees. The one-time discount most stores offer often won't make up for high cost of the credit or for the risk that using the card will increase the amount of debt you are carrying.

How much peace of mind do you want? Placing a security freeze can give you peace of mind that your consumer credit report and credit score won't be hurt by a crook even if someone steals your personal information.

Conclusion: Whether to place a security freeze is a highly personal choice for each consumer. The security freeze is particularly appropriate for those who are especially concerned about identity theft, those who don't want to take the chance of having to spend hours and days cleaning up a credit mess created by an identity thief, and those who aren't planning to frequently open more new accounts.

If you decide to use a security freeze, be sure to place the freeze at each of the three major consumer reporting agencies. Learn more about how to place a security freeze and any special protections in your state at: <http://www.consumersunion.org/finance/creditfreezeinfo.htm>. For other frequently asked questions about the security freeze, see: http://www.consumersunion.org/pub/core_financial_services/005081.html.

For more information about how to avoid becoming a victim of identity theft, and about what to do if it happens to you, see these materials prepared by the nonprofit Privacy Rights Clearinghouse: *Coping with Identity Theft: Reducing the Risk of Fraud*, <http://www.privacyrights.org/fs/fs17-it.htm>, and *Identity Theft: What to Do if It Happens to You*, at www.privacyrights.org/fs/fs17a.htm.

This is general information for consumers and the media. Consumers Union cannot give you advice about your individual circumstances. Consumers Union does not give legal advice.

Prepared by:
Consumers Union Financial Services Team
Consumers Union of U.S., Inc.
West Coast Office
1535 Mission Street
San Francisco, CA 94103
(415) 431-6747