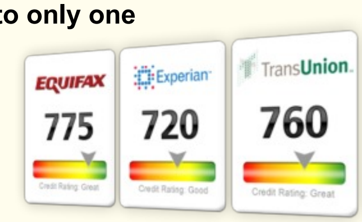
WHAT YOUR FICO SCORE IS AND IS NOT

This month's topic isn't one that I have tackled for a while, but it is nevertheless a very important part of the loan process—one's credit score. Being a mortgage broker, I have seen literally thousands of credit reports. As a result, I have found that few people have an understanding of what the scores mean and a number of misunderstandings about credit reports. First, let's tackle their use and variations, then a few of the misunderstandings and lastly what to do if you find a mistake.

Whether you're buying a home, a car or applying for a credit card–lenders want to know the risk they're taking by lending you money. Consequently, one's credit report plays a major role in Americans' financial, housing and employment opportunities. Your credit report compares the data in your credit report with that of thousands of other customers compiled by the three national credit reporting bureaus: Experian, Equifax, and TransUnion. An individual's credit report is then converted into a numerical value or credit score. Named after the firm that developed this credit scoring model in the 1950s, the Fair Isaac COrporation, the scoring algorithm came to be known as the FICO score.

A common misconception is that there is one single credit score. In actuality, for the purposes of mortgage financing, there are three scores—one from each of the national credit reporting bureaus. Your credit scores are based on the information in your credit report at the time it is requested. Though all three credit report bureaus use essentially the same formula to calculate their scores, your scores will likely vary from bureau to bureau because some creditors report your credit history to only one or two of the three bureaus.



Now that you know what a FICO score is, let's investigate some of the most common misunderstandings.

MYTH #1. Most people believe that one's FICO score is an indication of one's credit worthiness. THIS IS NOT SO. In actual fact a FICO score is an algorithmic formula devised by the FAIR ISAAC COMPANY to predict future payment risk. But isn't that more or less the same thing? No, a FICO score is very event specific. ITS TRUE PURPOSE IS TO PREDICT THE LIKELIHOOD THAT A BORROWER WILL HAVE A 90-DAY LATE PAYMENT WITHIN THE NEXT 24 MONTHS ON ANY CREDIT ACCOUNT. And, it is for this very reason that in trying to raise one's score is not as intuitive as one might surmise.

MYTH #2. Closing your consumer credit accounts will raise your FICO score. AGAIN,THIS IS FALSE. DOING SO, MAY ACTUALLY LOWER IT. The reason for this is because approximately 35% of your credit score is based on your payment history and by closing your consumer credit accounts you are effectively erasing that beneficial payment history. Again, this misunderstanding stems from conflating credit worthiness with the FICO score's primary purpose.

MYTH #3. Some late payments are worse than others. This is yet another common misconception. Some consumers think a mortgage late is worse than a credit card late. Even loan officers and realtors often get this wrong because mortgage lenders view mortgage "lates" as verboten. NO, A LATE PAYMENT IS A LATE PAYMENT. PERIOD. The FICO model doesn't weight a mortgage "late" any differently than it does any other late consumer credit payment. Ed. note: The reason that mortgage "lates" are regarded as worse than consumer lates is because one or more mortgage "lates" in the previous 12 months can render a borrower ineligible for various mortgage lending programs.

MYTH #4. Among other common myths are that your age, gender or career has a bearing on your credit score; THEY DON'T. Yet nearly 60% of those who responded to a recent survey believe that employment history is a factor in bumping up a credit score. Another 39% of 1006 people asked by Visa Inc. thought that age played a role, while more than one fifth of people surveyed believed that the ability to speak English and national origin were factors.

Loan applications which do ask personal background questions about date of birth and gender are invariably linked to credit reports in consumers' minds because they are often used in conjunction by lenders to make a decision. But such things are entirely separate from the information used to build a credit score, which instead relies on transactional information about how a borrower has managed his or her bills and credit lines.

THE THREE BUREAUS AND DIFFERENT SCORING MODELS

As stated above, though all three agencies use the same formula to calculate credit scores, there are still discrepancies among the resulting scores due to different data the three agencies have on the credit reports. Adding consumers' confusion is the fact that there are different scoring models for different industries. Different industries have different scoring models including popular ones such as FICO, PLUS Score and VantageScore.

Base FICO® scores and industry-specific FICO® Scores range from 250-900. The range of the scoring model used for mortgages ranges from 300-850, while auto dealers FICO scores range from 300 to 900. In all cases, higher is better. Of the three scores, credit providers go with, not the high score or the low score, but with the middle score. Consequently, it is advisable to get reports from all three credit bureaus. They can be obtained free, once a year, at AnnualCreditReport.com.

ABOUT PLUS Score

The PLUS Score, with scores ranging from 330 to 830, is an educational credit scoring model developed by Experian to help consumers understand how lenders view your credit worthiness. It is not used by lenders, but it is indicative of your overall credit risk. Higher scores represent a greater likelihood that you'll pay back your debts so you are viewed as being a lower credit risk to lenders.

ABOUT FICO Score & VantageScore

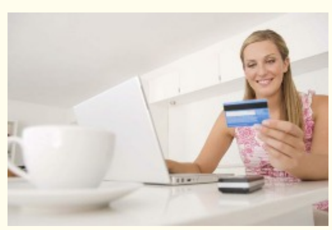
Fair Isaac Company was not involved with the creation of VantageScore's new formula. VantageScore is the name of a credit rating product that was created by the three major credit bureaus (Equifax, Experian, and TransUnion). The product was unveiled by the three bureaus on March 14, 2006. The VantageScore is an attempt to compete with the FICO score produced by Fair Isaac Company.

Your FICO score or VantageScore is calculated from five categories of data: payment history, amount you owe, length of credit history, new credit opened and type of credit you have. The major difference between a FICO score and a VantageScore is in the weight given to these five categories as it relates to the creator's respective credit scoring algorithm. For example, Fair Isaac Company gives a weighting of 35% in determining one's FICO score whereas the same category attributes only 28% to one's VantageScore.

As the information in your credit report changes, your credit score may also change. According to the folks at Fair Isaac, 83% of the population experiences changes to their FICO score by up to 20 points, month to month.

What your credit Score means to lenders

579 or less	**Indication of a very risky borrower**
580-669	**Some lenders will approve borrowers with this score**
670 – 739	**Scores in this average range are considered good**
740 – 799	**Indication of a very dependable borrower**
800+	**Indication of an exceptional borrower**



INACCURACIES

When companies are found to have violated the law and harmed consumers, they typically pay a penalty to regulators and agree to reform their practices. Whether or not they actually follow through on those vows, however, is another matter entirely. The consumer credit reporting industry is a case in point. These companies collect and distribute information about consumers' credit history to lenders, employers and others with an interest in these matters. The reports can make or break a consumer's mortgage application, car lease or, in the case of military personnel, a security clearance.

But inaccuracies often show up in consumers' credit reports, and these errors have real consequences, like increasing borrowing costs or barring people from financing a home or renting an apartment. And once an error is found, getting it fixed can take months of exasperating work.

Because of these problems, credit-reporting bureaus have been sued repeatedly by regulators and consumers and have paid millions in fines and settlements. And yet the inaccuracies continue, consumers and their lawyers say, making them wonder if these companies view the penalties they pay as simply a cost of doing business.

A 73-year old woman in Mississippi said she spent two years trying in vain to correct information on her Experian credit report. A second mortgage that had been discharged when she filed for bankruptcy in 2007 popped up as an unpaid debt of around $40,000 in 2011. Even though she repeatedly supplied proof of the discharge to Experian, they refused to fix the error.

They maintained that there "was nothing they could do because their records were correct."

Only after she called the Mississippi attorney general's office did Experian correct her report.

The three largest credit reporting companies — Equifax, Experian, and TransUnion—issue more than three billion consumer reports a year and maintain files on more than 200 million Americans. Under the Fair Credit Reporting Act, these agencies are supposed to have procedures assuring "maximum possible accuracy" of consumers' information. The law allows consumers to check the reports for errors and requires credit bureaus to investigate consumers' error claims. The agencies are also supposed to deliver to creditors all information relating to those errors so they can be corrected.

That's what the act says, anyway. But in a lawsuit filed against Experian, Jim Hood, the Mississippi attorney general, said the reality was quite different.

"Experian has, over more than two decades, engaged in an unyielding pattern and practice of violating state and federal law," the complaint said. The company has paid tens of millions of dollars in judgments and settlements to consumers across the country, the complaint added, but it has "refused to take the steps necessary to conform its conduct to the law."

Officials in Mr. Hood's office spent more than a year interviewing former employees and reviewing complaints about Experian from state residents. Investigators found that the company routinely mixed up reports of consumers who have the same name, allowed erroneous information to be included on credit reports and would not correct the errors that consumers had identified. The company also failed to investigate disputed data as required, the complaint said, and accepted creditors' findings about the disputed information even if it was contradicted by canceled checks or other proof.

The results of these practices were dire for many consumers, the suit said. Some were denied credit or forced to pay higher rates for loans they did receive; others lost job opportunities.

A spokeswoman for Experian said the company rejected the allegations in the Mississippi lawsuit. "This lawsuit is clearly designed to be sensational," the spokeswoman said in a statement. "To say we 'knowingly'—as the A.G. claims—put errors on reports is false. Contrary to the allegations, credit reports are used millions of times every day to accurately and quickly assess risk in lending and speed the process of making credit readily available to consumers." She added that Experian believes its database is 98 percent accurate, and that it invests heavily to help improve the number.

That may be, but there is no doubt that erroneous information on credit reports remains an enormous problem. Last year, the Federal Trade Commission found that 5 percent of consumers —or an estimated 10 million people—had an error on one of their credit reports that could have resulted in higher borrowing costs.

The F.T.C., which oversees the industry along with the Consumer Financial Protection Bureau, has been busy bringing cases in this arena. Since 2000, it has filed 18 enforcement actions against reporting bureaus; 13 were district court actions that generated $25.7 million in penalties.

Consumers have also won in the courts, on occasion. Last year, an Oregon consumer was awarded $18.4 million in punitive damages by a jury after she sued Equifax for inserting errors into her credit report. But the fines, settlements and judgments paid by the larger companies are not even close to a rounding error. Experian generated $4.8 billion in revenue for the year ended March 2014, and its after-tax profit of $747 million in the period was more than twice its 2013 figure.

Examine these companies' business models and it's easy to see why they are resistant to change. For starters, consumers are not the primary source of revenue for the reporting bureaus —credit providers are. They pay for the information every time a consumer applies for a loan, lease or mortgage. Because consumers are not their true customers, the bureaus have little incentive to treat them well.

The Mississippi complaint says former Experian employees told investigators they were pressured to meet "production" quotas and given no more than five minutes to handle each consumer call. These employees also described internal competitions for speedy call-handling, bonuses for meeting quotas and probation for those with low production numbers.

Another barrier to better treatment: Consumers are captive to the Big Three credit bureaus, whose reports are ubiquitous. This means consumers cannot hold the rating bureaus accountable by choosing to do business with other companies.

The problems with this business model are identical to those of mortgage loan servicers, an industry that ran roughshod over borrowers for years and where companies have paid billions in regulatory penalties.

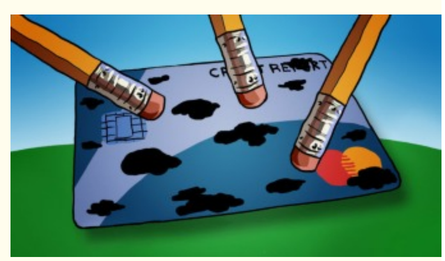
Thirty-three other state attorneys general are investigating the three major credit bureaus. And both the F.T.C. and the consumer protection bureau have rating companies on their radar screens. Rightly so. Companies that are recidivists can be liable for civil penalties of $16,000 a violation per day, according to the F.T.C.

But as long as the companies can shrug off such penalties and keep consumers in their grip, not much about the business is likely to change. As a result, regulators and other overseers will have to raise their game.

In 1999, Judy Ann Thomas of Elyria, Ohio, applied for a loan. But the bank mixed up her record with the file of a Utah woman named Judith Kendall—their Social Security numbers have seven digits in common. Because Ms. Kendall had a poor credit score, Ms. Thomas didn't get the loan. In the years since, as Ms. Thomas testified before Congress in May, she has repeatedly asked credit bureaus to correct her records, only to have her files re-contaminated. In 2010, when she applied for a job, the prospective employer questioned Ms. Thomas's honesty after receiving Ms. Kendall's records in response to a background check.

Ms. Thomas's situation is not unique. Earlier this year the Federal Trade Commission completed a multiyear study of credit-report errors and found that nearly 20 percent of consumers had errors in at least one of their credit files, and that 13 percent saw an improvement in their scores when the errors were corrected.

Confused files, like Ms. Thomas's, are also common. A 2012 study by The Columbus Dispatch analyzed 30,000 complaints to the F.T.C. Of those, 1,500 people reported that their files included someone else's information. Nearly a third said the credit agencies did not correct the errors, despite being asked to do so.



Most egregious, almost 200 people said their reports showed them as deceased. At least one consumer, upon complaining to a credit bureau, was told that it had investigated and verified the report of his death.

While federal law requires credit bureaus to conduct a reasonable investigation of consumer complaints, the marketplace can penalize credit bureaus that investigate too aggressively. Credit bureaus are heavily dependent on lenders for both revenue and the information the bureaus package and sell; if a credit bureau presses a lender too hard, the lender could patronize a different bureau and withhold data about its customers.

In contrast, consumers have little power over credit-reporting agencies. Consumers cannot, for example, block credit bureaus from obtaining information about their transactions. Consequently, credit bureaus have every reason to favor lenders' interests when investigating complaints.

For their part, lenders may benefit when credit bureaus report consumer defaults, even incorrectly, because such reports put pressure on consumers who wish to maintain good credit ratings to pay even disputed claims.

To be sure, credit bureaus sell credit-monitoring services to consumers, but those services create odd conflicts for the bureaus. If credit reports were to become completely accurate, consumers wouldn't need credit monitoring, and the bureaus would lose revenue.

This is not to suggest that a bureau or lender would deliberately report errors. But when credit bureaus decide between investing in improving the accuracy of their reports to help consumers, or in profit-making credit-monitoring services, the choice is obvious.

Meanwhile, "reasonable investigations" by the bureaus are almost meaninglessly brief, with almost no communication with the lender. Similarly, the lender may arrive at its determination by comparing the disputed item with the same records that gave rise to the dispute in the first place.

Only now, decades after Congress established the reasonable-investigation requirement are credit bureaus experimenting with sending lenders the actual consumer complaints. In theory, the Consumer Financial Protection Bureau could do more to make the investigations more Aggressive—but unfortunately, the bureau, still in its infancy and embroiled in disputes over whether its director was properly appointed, hasn't done so.

In short, it's up to Congress to act. It could, for one thing, improve accuracy by imposing liability on lenders for failing to conduct investigations when consumers complain to them. As it stands, consumers cannot sue lenders for failing to investigate without first complaining to a credit bureau, something consumers may not know to do. If consumers had greater rights against lenders, no doubt lenders would be more cautious about the accuracy of their records.

Moreover, the C.F.P.B. and the F.T.C should insist that the bureaus be more careful in matching files to consumers, by, for example, requiring that all nine Social Security digits match, instead of just the seven that Judy Ann Thomas and Judith Kendall shared.

Congress could also require greater accuracy from credit bureaus and lenders, and it could give consumers the power to seek injunctions against bureaus to stop them from using inaccurate files.

The market failed Ms. Thomas, and existing laws have not solved the problem.

CORRECTING CREDIT REPORTS

Should you find an error on your credit report; a borrower may fill out a credit dispute form and file them with the credit bureau for investigation. The three repositories are:

· **Equifax**	**1-800-685-1111**	www.equifax.com
· **Experian (TRW)**	**1-888-397-3742**	www.experian.com
· **TransUnion Corp.**	**1-800-916-8800**	www.tuc.com

The bureaus expedite deletions and disputes differently. These policies are subject to change but, for now they are as follows:

Experian will not accept deletions by fax but does accept disputes online.

Equifax will accept both deletions by fax and disputes online.

TransUnion will accept deletions by fax but not disputes online.

- **You can start an immediate investigation by phone or online of any credit items you want to dispute.**
- **Start an internal investigation with your creditor.**
- **Fax any proof of credit item deletions from your creditors as well as payoff letters to the credit bureau. Although they usually take a week to change your report, if you talk nicely to the powers that be, the change can be effected quickly: sometimes in a day.**