TO: Federal Trade Commission
FROM: James A Reed Jr.
SUBJECT: FACTA Scores Study
DATE: June 17,2004

I am writing you in regards to your request for public opinion on credit scoring. Also please note the examples and names of creditors used below are examples only. While these events have happened I changed the creditors names.

I feel credit scoring can be a useful tool if used the right way. Presently there are many flaws and misuses of the simple number known as your credit score. The first problem is that no one really understands how your credit score is determined. All consumers can do is take the word of the people who came up with the complex formula. Consumers should be able to do their own score at home and come reasonably close to their true score.

I think the biggest problem with the current scoring system is that it is used as deny/approve criteria. Creditors are not looking at the whole picture of someone's credit report, only the score associated with it. This score isn't necessarily a true representation of the person, as you will see below.

My next observation with the current scoring system is that it doesn't accurately score each person because of faults in reporting information. I do believe if the information on a credit report is 100% accurate the current scoring system does a fair job at scoring the individual. However it is very rare that a credit report is 100% accurate. Creditors have their own way of reporting to the credit bureaus. Minor differences in the reporting method can have drastic changes to ones credit score. Example is I have 2 credit cards listed on my credit report, one from MBNA and one from Capital One. My MBNA account has a 5000-dollar credit limit with a 1000-dollar balance and my capital one account has a 10000-dollar credit limit and a 1000-dollar balance. Capital one doesn't report my credit limit to the credit bureaus; they use the high balance as the credit limit. So on my credit report it looks like I am maxed out using 100% of my credit limit on my capital one card. Which is proven to be a very negative factor in the credit score model. This however is not a true picture of the situation since my utilization should only be 10% not 100%. My MBNA card however reports correctly my credit limit and current balance, thus showing my true 20% utilization on my MBNA card.

My next complaint about the current system is that it can take way too long to gain a good credit score after a one time hard time in your life or a simple mistake made by anyone. The current system it takes 7 – 10 years for negative information to come off a credit report. Depending on how bad the information is you can't gain any new credit or mortgage until the negative is off your report. So in the 7 years you wait and have no new credit being reported it takes another 3 or 4 years of credit history to attain a good credit score. Think about this, it can take approximately 14 to 15 years to recover from one bad time in your life. To me, that is an awfully long time to pay for making a mistake. I know you can get a credit card right out of bankruptcy but usually they have high fees associated with opening and maintaining the card. These types of cards don't make sense for people right out of bankruptcy, the last thing they need is to pay more fees, but since there credit score is low because of the bankruptcy they can't qualify for "no annual fee low fixed APR".

I think there should be a way to recover more quickly from a one time mistake or hard time in your life. There is no way what when I was young and ignorant to credit while in college should haunt me for the next 10 years of my life. While I was young and stupid in college is no indication of how responsible a person becomes when they move on to the real world. Currently the credit score can't take that into effect when determining a credit score.

The biggest complaint I have about the current credit score system is that its currently being used where is doesn't belong. I also believe that companies are using the credit score only for negative purposes and reasons to charge higher rates. I have read and talked to many people who had their interest rates increased because a company did a review on the account and got a new credit score, however I have not heard of a single person who said they got their interest lowered because they have better credit when then when they applied for the account.

Credit scores are also being used in the insurance industry. While they say they did studies that link lower scores to claims, I don't believe there can be a logical connection there. I believe this is only an excuse to charge higher rates to people who had credit problems in the past. Talk to any statistics professor and they will tell you not to believe any correlation that doesn't have a logical meaning behind it. The use of credit scores in the insurance industry is just wrong and needs to be changed.

Another reason why the credit score system needs revamped is the plain and simple fact it can't be right. If this score is an accurate measure how can a single person have 3 completely different scores? I understand that information differs between each credit report but that right there tells you there is a flaw in the system. In order for your credit scores to be a true representation of your current situation there needs to be accurate reporting to all major national credit bureaus. If the data is accurate it should be identical everywhere. I personally have a 90-point gap between my 3 scores from each of the credit bureaus.

Another major flaw in the current credit scoring system is the fact that the score weighs more heavily on negative information. Now I am not talking about the score model itself, but the data it puts into the scoring model. Other than credit card companies and finance companies, most others don't post positive information to your credit reports. The problem is as soon as you miss a payment or fall behind they are the first people to post negative information to your credit report. I had a cell phone for 3 years, never missed a payment or was late. I terminated service with that company due to moving and getting a cell phone issued to me at my new job. I checked my credit report for the first time and my old cell phone company claims I owed them $87 dollars. I called them up and they said my last bill was never paid. I guess somewhere along the lines they lost my payment or some other error happened. What wasn't on my credit report was the 3 years I paid the cell phone bill on time every month. None of my other utility bill, rent, pager bills, insurance are listed on my credit report, but I am sure if I ever didn't pay they would pop up in a month. What makes this situation worse is the fact that they pull your credit report harming your scores to receive these services, but won't report positive information. I think there should be some laws to force creditors to post positive information as well as negative.

Continuing on from my last example about the cell phone bill that I owed $87. As soon as I heard about the money I owed I paid whom the cell phone company said I needed to pay (A collection agency). The collection agency told me that in 30 days my credit report would update. I waited 45 days and paid for my 3-bureau credit report and to my surprise my credit score went down 20 – 30 points. I immediately called the credit bureau and they told me that it looks like my collection account is more recent due to the fact I paid on the account. The person on the phone agreed with me that I would have been better off not paying the account. This is something that has to change, consumers getting penalized for doing the right thing.

The last, but not least, problem I am going to talk about is how inquires hurt you for shopping around for rates and then snowballs into other accounts. The current model claims they let you rate shop, but to me this has proven to be false. While I believe the model clearly tries to let you rate shop, the mechanics of how it works is seriously flawed. When a bank pulls your credit report for a mortgage it is supposed to code the inquiry as a mortgage pull, or if you are shopping for a car rate as an auto loan. While this system does work for people who only pull autos or mortgages it doesn't work for banks or others who pull for a multitude of reasons (credit union's, banks, finance companies). They routinely miss-code their inquiries as something else. I also notice the reports potential creditor pull don't have inquiry reasons listed on the report, just that the person obtained your credit report. The current model subtracts points off your score for each person that pulled the report. This causes scores to drop for searching around for rates or terms especially if you don't do it in the current models timelines. I am sorry but 2 weeks to shop for such a large decision as a mortgage is ridiculous, they should be given at least 3 months or more. I am going to pick on capital one again as an example. I have had the account 2 years, always paid on time and never late. However I was recently shopping for a mortgage and my credit score went down 30 points from all the inquiries. Capital One now pulls an account review on me and see my credit score dropped; they think I am a higher risk so they increase my interest rate from 10% to 16.99% and tell me if I don't like it I need to close my account to stay at the 10%. So any normal person would close the account to save a lot of money in interest. So now my Capital One account is closed, MBNA does an account review and my score is even lower from closing the Capital One account, my utilization has shot through the roof and my open account history has shortened. This on top of all the inquires from shopping for a mortgage has dropped my score 70 points. Now MBNA see this new low score and immediately put my interest rate from 14% to 23%. So I follow suit and close that account to keep the 14% interest. What am I left with? No credit cards to rebuild my credit, a damaged credit score and high interest mortgage all because I was a consumer who didn't want to pay high interest rates on my credit cards and wanted to buy a home for my family. My next argument against inquiries uses its own fundamental reason they are listed now. The reason inquires are listed are to show lenders that people might be trying to open up too much credit too quickly and getting themselves in over their head. I agree with this concept but I think how it needs reported needs to be changed. If you apply for credit and get approved, that creditor should have a trade line appear on your reports within 3 months of opening new credit. If you get disapproved for the credit, you are not a risk of opening up too much new credit too fast. Any creditor that is thinking about giving you credit will see how much recent credit you opened by looking at your report and seeing the recent trade lines. They don't need inquires hurting your score to determine that. This concept goes again that creditors don't look at the whole picture when offering credit.

I think the following changes need to be made to credit reporting system.

- Ensure all information is identical with all major national credit bureaus
- Make it cheap and economical for anyone to provide positive information
- Make it mandatory to report information after pulling a credit report to provide service
- Don't include inquires in the scoring model
- Delete any PAID collection accounts and only keep the original creditor trade line
- Universal reporting standards so all companies report exactly the same
- Make score model available to anyone to evaluate and make companies pay royalties to creator.
- Give opportunity once per lifetime to wipe all information (positive and negative) from the credit bureaus about oneself, excluding bankruptcies
- No medical accounts should ever appear on a credit report once being paid
- Only companies wanting to extend credit should be allowed to use credit scores
- Inquiries only visible to others for a 3 month period
- Completely eliminate inquires from the scoring model
- Mandate creditors only change terms based on transactions with their own company, disallow changing based on changes to credit report
- Collection agency pulls should NOT be viewable to others

Sincerely,
James A Reed Jr.