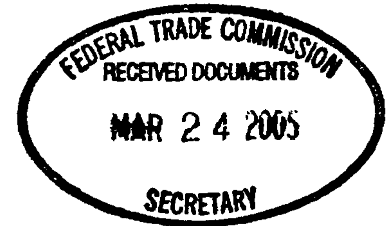
March 18, 2005

Federal Trade Commission
Office of the Secretary
Room H-159 (Annex Z)
600 Pennsylvania Ave. NW
Washington, DC 20580



To whom it may concern

Re: FACT Act Scores Study

I appreciate the opportunity and respectfully submit my public comment upon the Federal Trade Commission's (FTC) request related to the effects of credit scores on the availability and affordability of financial products.

From all the questions presented by the FTC in the public comment request, I will provide my response for those questions that directly relate to the close monitoring of our credit reports and FICO scores over the last 15 months:

Question: How many credit-scoring models are in use today?
Response: Based on my observation, there are many credit-scoring models in use today. The three major credit reporting agencies, Equifax, Experian and Trans Union offer their own credit scores; however, the leading credit scores widely used by financial institutions are those provided by Fair Isaac Inc. which are also known as FICO Scores. Fair Isaac. Inc. sells these scores through its web site "MyFICO.com".

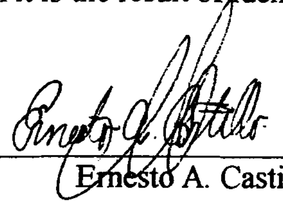
Question: How are credit scores used?
Response: FICO score are widely used and are basically the standard scores used by most mainstream financial institutions although they are not the only tools used by lenders to grant credit. Other important factors in my opinion are income, time on the job, and debt to income ratios (i.e. front and back ratios).

Question: How are records of inquiries used by credit scoring systems?
Response: In our own experience, a single inquiry usually has little effect on the FICO score. We did notice that one credit inquiry over a year period usually results in a 5 to 7-point reduction in the credit score. However, we have a concern related to the way the FICO scores model counts inquiries: Fair Isaac Inc. has stated that credit inquiries for mortgages and car loans made over a two-week period count as a single inquiry. With tens of thousands of financial institutions in the United States, I have no certainty whatsoever that the FICO score software can accurately detect the difference between a credit inquiry for a credit card and that for a mortgage or car loan. What would happen for example in a person applies at the same financial institution for a credit card and a car loan using the same credit application, or what number of inquiries is posted in a consumer's credit report if he or she applies online to a particular institution and that

institution re-routes the credit application to several banks. Since Fair Isaac has not disclosed its methodology for the software used to calculate the FICO scores, and given the diversity of financial institutions and financial products in the country, consumers likely will never know with certainty how their credit inquiries are being counted by the FICO credit scoring model and the extent to which the inquiries are affecting their credit scores.

Question: How does the use of credit scores affect consumers with inaccurate information on their credit reports?
Response: Based on the close monitoring of our credit reports from all the major credit reporting agencies and the corresponding FICO scores, we can tell that inaccurate negative credit information on the credit reports significantly reduces the FICO scores, especially if the inaccuracy is being reported as recent. Specifically, my FICO credit score decreased 72 points just because a credit account that had been reported as current was erroneously reported by one creditor as 30 days late, and my wife's credit score was reduced by 51 points because one credit card account that had a late payment over two years ago was erroneously reported as late one month ago. In its web site, Fair Isaac has indicated that the FICO scores are affected by the recency of negative credit information. Since the FICO scores are calculated only on information in the credit reports, the scores are only as good as the accuracy and completeness of the credit data on which they are based. Over the last two years, we have observed that several creditors like Capital One, American Express, Citibank SD NA, Bank of America, Sears, Discover Card, MBNA, Fleet/Advanta, First USA, Chase, and Target Corporation do not usually report the dates closed credit accounts were closed, whether the accounts were closed by the consumers or the credit grantors. This fact directly affects the calculation of the credit scores since the credit-scoring model likely can not accurately determine the recency of the negative information. A similar situation occurs when creditors do not report accurate dates when the reporting is related to the first time delinquent accounts became delinquent. In this particular instance, the creditors are violating Section 623(a)(5) of the Fair Credit Reporting Act (FCRA). In this regard, I am glad to know that the FTC recently took action against the NCO Group Inc. for failing to comply with the aforementioned section of the FCRA. Another issue that we noticed in the last 15 months is the fact that some creditors tend to report old negative information as current negative information; however, these type of error was noted in the Experian and Trans Union credit reports, not the Equifax credit reports. We really do not know if the problem may be related to the way data is being reported to Experian and Trans Union as compared to the way such data is reported to Equifax. But regardless of the way data is reported, the fact of the matter is that inaccurate negative data significantly reduces the FICO scores. I think that the FTC should impose stricter penalties on those data furnishers (i.e. credit card companies) that fail not only to report accurate but also COMPLETE data. I reviewed interest rate information provided by MyFICO.com on 02/22/05 for mortgages by FICO score. Based on this review and the actual reduction in my FICO score due to a single inaccuracy as explained above, for example a person with a FICO score of 720 would see his score reduced to 648 and would pay for a $ 150,000.00 mortgage $ 1043.00 at 7.45% rather than $ 864.00 at 5.63% for a 30-year mortgage. The difference due to a single credit reporting error means that the consumer will pay $ 64,440.00 in additional interest

over the life of the mortgage because a creditor mistakenly or negligently failed to report complete and accurate credit data. If we consider the fact that the majority of credit reports contain errors and 25% of those errors (according to a study by the FTC) are significant enough to prevent consumers from obtaining credit, it is not difficult to determine the negative effect that inaccurate/incomplete credit reporting has on the U.S. economy when it is based on credit scores as a major factor in credit granting. In my opinion, inaccurate/incomplete credit reporting greatly affects the usefulness of credit scores to lenders and the benefits or disadvantages to consumers, and the negative influence of such credit reporting is only enhanced when it is the result of identity theft.



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