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FEDERAL TRADE COMMISSION
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CBS
CREDIT BUREAU SERVICES

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

RE: Public Comment: FACT Act Scores Study, Matter No. P044804.

Dear Ladies and Gentlemen of the FTC and Federal Reserve Board,

Our family owned business had been an independent local credit bureau since 1905. Our company covered 32 counties and controlled close to 500,000 consumer credit files. In 1990, we began automating our credit files with a national company. It took us over 3 years to input our files. In 2001, our relationship changed; while still in the credit reporting business, we are now considered a "reseller."

Deterioration of the Credit File

Over the years, as a bureau, we fought many battles to maintain the integrity and quality of our credit reports; from credit grantors who only wanted to take credit information and not report it to national companies, who drove down the price of credit reports - to the point where no one could maintain a complete and accurate file. These trends destroyed the independent credit bureaus, where once there were 2,600[1] agencies assisting and educating both consumers and businesses, now there are only 200[2]. These 2,600 agencies lived and worked in the area where the consumer resided and were able to resolve problems instantly. Today, it takes consumers months and sometimes years, to get problems resolved.

We also saw new FCRA laws implemented which have been counter productive to the goal of accurate credit information, such as the selling of prescreened lists. While this has been a boon to the direct marketing industry, credit card industry and the national CRAs, it has destroyed the quality of our country's credit files. Banks, in a battle to save their customers from being poached by others, or credit grantors in a fight to keep their customers from becoming enslaved to another lender, stopped submitting or submit incomplete credit trade information. And despite FTC warnings about reporting incomplete or partial trades, this practice continues yet today. Credit grantors are not going to jeopardize their most valuable asset, their customers, regardless of any FTC warning.

These situations have resulted in over 70% of our nations' credit reports contain errors [3].

Trends in Point Scoring

But today you are considering another aspect of the credit reporting industry: point scoring. Like credit reporting, this too has been around for many years.

Businesses have always sought to make the lending process easier, quicker and more accurate. However, it wasn't until automation, and the methodology for creating the "score" was hidden within a black box, that point scoring became "acceptable".

Prior to automation businesses tried numerous methods to determine risk, one such method was "red-lining." In "red-lining" creditors determined your interest rate based on where you lived. Today red-lining is illegal. And much like your objectives with this study, I believe that there are numerous factors within the point scoring that are disenfranchising millions of consumers and adversely affecting thousands of credit grantors.

Prior to automation, hundreds of point scoring models done on paper were evaluated and rejected by thousands of credit grantors. Never has, and never will, a point score predict whether a loan is good or bad or what risk is associated with the loan.

Individuals who had long been in the credit industry realize that scoring models are unable to properly attribute weight to the three "C"'s of credit - character, capacity and capital[4]. Credit reports continue to lack information on capital. Assets have always been used as a factor in lending, yet today by utilizing point scores, we completely ignore that area. Character is also absent. Paying ones bills is mostly a matter of character, and not financial capacity. I'm often amazed at professional people, who simply choose not to pay their bills. While those on fixed income, on a budget, manage to pay what is agreed. This lack of information and the inherent flaws within the "point scoring" system has not gone unnoticed.

The inability of a "software application" to properly weight the 3 C's of credit, combined with inaccurate or incomplete credit information, has resulted in a worthless and abusive point scoring system.

Polarizing Effect of Point Scoring

This one area of credit reporting has polarized our country. Daily we hear and see abuses that are occurring. Even reviewing the FTC public comments received on this matter shows the strong emotion that has been created by this unjust system.

Websites like www.creditscoring.com journals an individual's battle with the problems surrounding point scores, to another site called www.artofcredit.com encourages consumers to work the point scoring system by bumping (aka bumpage) hard inquires off and thereby increasing your point scores.