

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

