



Is FICO Fair?

Dear Dr. Per Cap:

I made some mistakes a while back that appear on my credit report as collection accounts. Since then I've been careful managing credit but my low FICO score makes it hard to borrow. How can I prove to lenders I'm better than my credit score?

Signed,

FICO Failure

Dear FICO

Don't be too hard on yourself. Contrary to how banks and lenders might make you feel there is much more to life than having a great credit score. Please don't give a number on a credit report the power to define who you are.

If it makes you feel better many consumers are in the same boat - stuck with bad credit scores from old missteps even though their recent credit history is clean. I always tell people that a FICO score, which ranges from 300 to 850, is not a perfect measure of one's financial character and people can be unfairly burdened by a low score. For example, delinquent accounts can be factored into a credit score for up to seven years making them really tough to live down, even though a person can make a lot of positive changes during that time.

Some good news is that banks and creditors are beginning to rely less on FICO scores when making lending decisions because they're learning FICO isn't always the best measure of creditworthiness. More are turning to in-house credit scoring models which factor in stuff FICO doesn't consider like bank balances, overdrafts, and a borrower's lending history with their specific bank. They argue their methods are more accurate than FICO.

Moreover regulators are asking banks to rely less on FICO scores so fewer folks turn to payday loans. Even Fannie Mae and Freddie Mac, the federally backed home mortgage companies, are looking into allowing lenders to use credit scores other than FICO, such as VantageScore which was created by the credit bureaus as an alternative to FICO.

Meanwhile the Office of the Comptroller of the Currency, a federal bank regulator, recently determined that its own credit score guidance to banks was negatively impacting minorities and people of color.

So hopefully we're in the beginning stages of a major shift that will enable more consumers to access affordable credit.

In the meantime I recommend shopping around the next time you need credit by asking different lenders what types of credit scoring models they use and if they consider information not factored into a traditional FICO score.

A good place to start is a Native led community development financial institution. I've written about CDFI's in this column before. They're non-profit lenders with a social mission geared toward underserved communities. Many tribal communities have locally managed CDFI's but if your community doesn't have one, there are regional Native CDFI's that might be able to work with you.

For more info check out the Native CDFI Network website at www.nativecdfi.net.

Ask Dr. Per Cap is a program funded by First Nations Development Institute with assistance from the FINRA Investor Education Foundation. For more information, visit www.firstnations.org. To send a question to Dr. Per Cap, email askdrpercap@firstnations.org.