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OPINION | COMMENTARY

My Tour of FICO Scores, Fido Loans, Whatever

Puzzled that my just-out-of-college son's credit rating is better than mine, I did some investigating.

By **ANDY KESSLER**

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Imagine my surprise when I learned that my son, freshly out of college and applying for a car loan, enjoys a higher credit rating than I do, despite my 35 years of never missing a credit card or mortgage payment. One car dealer explained that my son had a pristine status simply because he'd never borrowed.

Whether out of embarrassment, confusion or curiosity, I decided to look into the rating, known as the FICO score, which is pulled for nearly all consumer lending—90% of credit checks, 10 billion times a year. Yet the more I dug, the more I uncovered vague if not manipulative practices. Remember how three credit-rating firms stamped bogus AAAs on subprime mortgages, leading to the financial crisis in 2008? The similarities are eerie.

FICO is software from the Fair Isaac Corp. , which bills itself as a "predictive analytics and decision management company." Started in 1956, Fair Issac began licensing its code in 1989 to the three national credit-rating firms, Experian, TransUnion and Equifax, to produce scores ranging from 300-850. The formula is secret, the Kentucky Fried Chicken recipe of lending.

We know a little about what goes into a credit score: unequal parts payment history, amount owed, length of history, types of credit. FICO doesn't care whether you pay your rent, utilities and cellphone bill, or

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save for a down payment on a house. A sample model floating around suggests that points are added for a long payment history, which makes sense, but deducted for having too many credit checks performed or, oddly, paying your credit card bill in full each month rather than underpaying and carrying a balance.

Plenty of tips to improve your FICO score are available, including reporting your credit card as stolen so that when you get a new one, you'll have two credit cards with long payment histories. I doubt that works.

Want to know your FICO score? Good luck. Thousands of websites offer free credit scores, but they're inaccurate estimates affectionately known as FAKO scores. Most have disclaimers. Many, such as Truecredit.com, are owned by the same credit agencies that calculate your score for banks or mortgage lenders. The websites often require signing up for an alert service at $29 or $39 a month. By the way, perusing these sites will flood your browser with ads from credit agencies.

The only place to find your true score is myFICO.com, owned by Fair Isaac. It comes with the following note in tiny font: "Your subscription will automatically renew at $29.95 unless you cancel." Et tu, FICO?

Enter the Consumer Financial Protection Bureau, pushed into existence by Sen. Elizabeth Warren (D., Mass.). In May 2014 the CFPB complained that medical debt, a short credit history and interactions with collection agencies unfairly craters your score. Presto: That November FICO rolled out a tweaked formula that rinsed these biases.

The company suggested credit scores could rise by 100 points.

But now lenders know that the scores can be manipulated at the whim of government agencies, so they will discount scores by 100 points, regardless of whether you had medical debt or dealt with collection agencies. The result for everyone else is higher costs for loans or denial of credit, and lenders now seek alternative credit scoring systems.

That's at least one positive development: The creation of smart software with algorithms that try to predict how likely a borrower is to repay a loan. SoFi, a San Francisco firm, consolidates student loans using an algorithm that considers where you went to school and who you work for, along with your income and expenses. The company has since added mortgages and personal loans.

Former Google staffers founded the online lender Upstart, which cuts deals based on grade-point average, SAT score, college attended and even major. "You are more than your credit score," the website reads. "On Upstart your education and experience help you get the rate you deserve." I wonder if gender-studies majors from Brown will ever be able to borrow again.

Facebook recently snagged a patent for a method of calculating your credit risk based on how your Facebook friends measure up. (Which reminds me, I have some shady high school friends to scrub from my account.)

Also intriguing are the online peer-to-peer groups Lending Club and Prosper, which sell loans to members and get out of dealing with banks. Prosper sent me a flyer preapproving me for $35,000, but I didn't want to risk the shame of falling further behind my son. So I applied for a Prosper loan for medical expenses on behalf of my dog. I'd nearly wrapped up the Fido loan application when the company requested her Social Security number to verify . . . her FICO score. There is no escape.

More than half of Americans have bad credit scores, according to a recent report from the Corporation for Enterprise Development. Perhaps we could address that by showing people reliable scores. The next step would be unveiling the algorithm so consumers can improve rather than game their scores.

Another issue is allowing more than three credit agencies access to the underlying database so they can make informed algorithms rather than guessing on college majors and deadbeat Facebook friends. But most important, if the score is to mean anything, is keeping Ms. Warren and her comrades from deciding how a car salesman hands out loans.

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