Will the new FICO scores make a difference?

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By Tracy Becker
Special to MPA

The new FICO 09 score will become available in the fall of 2014. But just because the new model is sold online by the myfico site as well as being available to mortgage lenders, doesn't mean it will be used by the mortgage industry. For lenders, switching to a different FICO score is a complicated risk.

Lenders who decide to try the new FICO version will go through a testing process before they decide whether to adopt them. Barry Paperno, who worked at FICO for many years, explains:

"(Lenders) begin to test it on their portfolios through a process called 'validation' to help determine when, and if, they choose to go with the new score," he says. "Briefly, validation consists of looking at past credit decisions and customer credit performance using both the FICO version used in the initial decision and a 'what if' scenario using FICO 9. If, from this analysis, it looks like FICO 9 would have done a better job of weeding out more poor performers than the score they used, the lender may decide the possible reduction in future losses will be worth the resources required to switch to FICO 9. If, on the other hand, the validation shows FICO 9 not appearing to provide any increased risk prediction value, then they're likely to stick with

what they're currently using. Many of the large banks use their own custom proprietary scoring models in which FICO scores are just one of many components, making changes to these complex scoring systems, as would be required by a change to FICO 9, is no small logistical feat."

Lenders will be wary about having to change their whole system since the process takes time and can be quite expensive. Like most businesses, lenders have lots of priorities and the new score might not be one of them. FICO's last version, FICO 8, was released in 2008 and has only recently been adopted by a minimal amount of lenders. To date, Fannie Mae and Freddie Mac have not adopted the 2008 version.

In addition, lenders can also consider factors outside the FICO score when approving or declining a loan. The FICO 09 score has gotten a lot of press because it will place less weight on medical debt. However, a lender reviewing a credit report would still be free to question collection accounts or decline applications from consumers whose credit reports contained one or more of them.

Those planning on applying for a mortgage should note that if they are ordering FICO scores from the myfico site in the fall they may have very different scores in comparison to what the lender pulls. Bankers have to be mindful that they may need to explain this to disappointed and frustrated mortgage applicants.

Tracy Becker is the president of North Shore Advisory, Inc.

COMMENTS

on 9/4/2014 9:35:49 AM

These new scoring models will not do much from a lending standpoint in the short run due mostly in part to the fact it would require lenders and GSE to rewrite the back end code for AUS plus there is no data/resources supporting the that this model leads to better repayment ability outside of blindly trusting the agencies statements. Until are is hard data on the effectiveness of this model there is no way I can see the GSE investing the needed capital to rewrite AUS.

Dave on 9/4/2014 9:52:39 AM

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Scoring models should have been changed years ago! Considering a payment in full on a 3-year old collection as "current activity", resulting in a lower score, is ridiculous. Most small collections for old medical, cell phones, cable TV, etc. are no indication of whether someone will pay their car, credit cards, personal mortgages and/or mortgages payments on time. Scoring models should focus on installment and revolving debt repayment histories and not older collections!

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