3 Myths and 3 Truths About FICO 9

The FICO scoring model is changing. Here's what that does – and doesn't – mean for your credit score.

Depending on your history, your credit score could increase by 100 points when FICO rolls out its newest scoring model.

By Lacie Glover | Sept. 25, 2014 | 1:24 p.m. EDT + More

Earlier this year, the company that produces the most widely used credit scores in the world, FICO, announced that its newest scoring model will lessen the impact of medical debt on credit scores. The new model, dubbed FICO 9, is set to replace the previous version later this year. By many accounts, including FICO's, the change should better reflect the average consumer's likelihood of repaying debt.

If you've ever had a huge medical bill, and especially one that went to collections, you would probably agree with the changes. After all, medical debts are different from other debt, since most consumers don't come by it willingly. Loan and credit card accounts are taken out purposefully for a variety of reasons. But medical bills are rarely planned and often aren't affordable, since they come with a large lump sum due within a much shorter time than other accounts.

In short, medical bills in collections don't say much about a person's creditworthiness, so FICO is going to stop counting all collections accounts the same. It sounds simple, but credit scoring has *never* been simple, and there are some misconceptions out there. Here are three myths about the new scoring model and, more importantly, the truths behind them.

Myth: Medical debt won't count toward your credit score anymore.

Truth: This is more of an oversimplification than a myth, but it is undeniably inaccurate just the same. "Medical debt used to be weighted the same as other debt, but now will be weighted as slightly less important," says Dana Twight, a certified financial planner and founder of Twight Financial Education. Additionally, "older paid off or settled medical debts will drop off your credit report sooner," she says.

But remember that a credit score and a credit report aren't the same thing. "The score is derived from the report, which is why you need to look at the report at least once a year," Twight says, as you also keep track of the score. By checking your report once a year, you can make sure it's accurate and help prevent identity theft, in addition to tracking collections accounts.

Twight also warns against falling into the trap of thinking it doesn't matter if medical debts go to collections. "If it goes to collection, it matters a lot," she says, noting that it's better to work something out ahead of time and get help with medical bills before they go to collections.

Indeed, a report released this year by the Consumer Financial Protection Bureau showed that even people with health insurance and otherwise good credit are unfairly penalized by medical collections in credit scoring. Worse, this is often due to billing or insurance errors out of the consumer's control, and FICO 9 won't change that.

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Myth: Lenders have to adopt the FICO scoring model.

Truth: "If FICO's updated credit scoring model was widely adopted by lenders, it would be a boon to the millions of Americans whose credit scores are damaged due to medical collection debt," says Cathy Curtis, a certified financial planner in Oakland, California, and a registered financial advisor with the National Association of Personal Financial Advisors.

"Unfortunately, it's widely known that many lenders are not even using FICO's previously updated versions – and they don't have to," she says. "Ultimately, FICO is selling a new and improved product – but its customers can buy it or not." The fact that FICO is an independent company with something to sell its buyers, which are lenders, escapes many.

"It's like a cereal-maker revamping its best-selling granola product to include more nuts," Curtis explains. "If the grocery store buyer doesn't think the newer version will improve their bottom line, they might not buy it." Just like the grocery store buyer, lenders are under no obligation to use the newest FICO model, or any of the previous ones for that matter.

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Myth: The changes will enable many people to get mortgages who couldn't before.

Truth: Unfortunately, that doesn't appear to be the case just yet. "The new FICO 9 score will be used when extending approvals for automobile financing and credit cards," says Tracy Becker, FICO-certified professional and credit expert witness.

Becker, who's also president of the credit repair firm North Shore Advisory, Inc., says that "for mortgages, older versions of the FICO score will continue to be used instead, and collections of any kind – paid or unpaid – will still be factored into the risk level of each consumer."

That's because mortgage lenders use standards set by Fannie Mae and Freddy Mac, Becker says, and those institutions are using scoring models that predate even FICO 8. "Fannie and Freddie are known to be behind on adopting FICO's new models," Curtis says.

"They have no intention of switching to FICO 9 for years to come," Becker says.

In the meantime, the news is better for those looking to get a credit card or a car loan once FICO 9 goes into effect. "Once FICO 9 is active, people with paid collections and medical collections can see higher FICO scores if they are viewing the FICO 9 version through the myfico.com site online or when applying for credit cards or automobile financing," Becker says. "Those that have paid collections will see the greatest changes to their FICO 9 scores."

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