

## Big Changes Coming For Credit Scores

March 15, 2017 - Nearly 12 million consumers will see their credit scores improve within the next few months because of changes in the way certain debts are reviewed by the nation's three major credit reporting agencies (CRAs). Specifically, tax liens and civil court judgments will no longer be included as negative information unless the reported debt includes three items of personal information; their name, address and social security number. Most impacted consumers will see their FICO score improve by around 20 points, but some people will see substantially larger improvements.

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For the record, credit scoring is inherently inaccurate for many reasons. One of the biggest reasons for this is that well over 70% of credit reports contain inaccurate information, and 25% of credit reports contain material errors. That means that most consumer credit scoring models are reliant on inaccurate information in the first place.

With that said, most lenders rely on credit scores when making lending decisions. The announced changes will mean that millions of consumers will increase their chances of getting a loan.

The change removing tax liens from consideration when tabulating credit scores isn't really expected to have much of an effect when lenders are considering repayment risks. The reason for this is believed to be that people who don't pay their taxes often have other financial issues which are holding their credit scores down.

But the removal of civil judgments from consideration in credit scores is another story. Civil judgments become public records. The CRAs monitor public records and have included these judgments in credit reports. The process used is error prone and commonly leads to inaccurate reporting. Just imagine a consumer with a civil judgment living in New York City by the name of John Smith. How many John Smith's do you think live in NYC? If the only item identifying the consumer is his name, how do you know which John Smith the judgment should be associated with?

The new rules require that additional information - SSN and address - be included in any judgment that is used for credit scoring purposes. Additionally, the CRAs will review any civil judgments included in credit scoring every three months for updates. The new process should improve the accuracy of credit reports and reduce the risk that consumers will be erroneously associated with particular civil judgments.

by Jim Malmberg

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