



April 2001 SPECIAL REPORT:

Letting Consumers Know the Score

The secrecy surrounding consumer credit scores is a thing of the past. The question is: Will consumers profit by taking constructive steps to improve their credit? And how will lenders react?

By Kit Ladwig

The news in consumer credit scoring these days is who's getting to see the scores rather than what new models are being built - although that's continuing, too. And, as new players pop up on the scene, the spotlight is also focused on who's divulging consumer credit scores and what scores they're providing.

Pressure has been mounting for several years to lift the veil of secrecy surrounding consumer credit scores and to furnish credit seekers with an explanation of the factors in their credit history that have the greatest impact on how lenders view them. That proposal met stiff resistance. The main argument was that the scores were developed for lenders to interpret in the context of a lending decision, not with a view to making them comprehensible to consumers.

But legislative pressure peaked last year when California passed a law requiring that, by July 1 this year, mortgage lenders must provide California applicants with their credit scores. Similar legislation was introduced in Congress last Fall.

Suddenly the tide turned. Now all three major credit bureaus, as well as Fair Isaac, the San Rafael, Calif.-based developer of the system that produces the widely used FICO scores, are hustling to furnish consumers their credit scores along with guidance to understand them.

Newcomers, however, beat them to the punch.

On Oct. 24, 2000 WorthKnowing.com, a then 15-month-old Atlanta-based startup launched its online credit marketplace, offering consumers a free credit report from Trans Union, plus a WorthKnowing credit score along with personalized recommendations for improving their credit profile. The site's revenue comes from advertising and lender commissions. Consumers who obtain their report and scores and are shopping for credit can opt to receive offers from participating card issuers based on their scores. Home mortgage and auto financing options will be available soon.

But the scores the website provides bear no resemblance to the FICO scores used by the majority of lenders. While the classic FICO scores range from 300 to 850, Worthknowing scores range from 0 to 100, and are designed to tell consumers how they rank compared to the credit population as a whole. "It's a true bell curve," says James A. Eckstein, founder and chief executive. "It's a percentile ranking," adds Lisa J. Volmar, vice president of operations. "A score of 50 is average, not failing."

Worthknowing's patent-pending scoring model was developed by industry veteran K.K. Srinivasan and a team of assistants with years of experience developing generic scoring models. "We believe ours is different but better," Eckstein says. "We don't have to match up to FICO scores to show consumers their creditworthiness."

Since mid-January, iPlace Inc. has been selling consumer credit scores at one of its websites, Qspace.com. Partnering with CreditXpert, a Neuristics LLC subsidiary based in Hunt Valley, Md., iPlace provides a personal score, based on an Equifax credit report, that is similar to the better-known FICO score. "Ours is a very complex algorithm, using more than 90 variables, that emulates the FICO score," says iPlace spokesperson Laurie Edwards.

A major industry concern has been whether knowing their scores would help consumers manage their credit or simply confuse them. And whether their availability would force providers to increase their customer service staff.

The potential confusion among consumers could be compounded by the proliferation of scores being offered. In addition to iPlace and WorthKnowing, all three credit bureaus plan to offer consumers access to their scores by California's July 1 deadline, but at press time only Atlanta-based Equifax Inc. had struck an alliance with Fair Isaac to provide FICO scores.

On its CreditExpert.com website, Orange, Calif.-based Experian plans to provide a generic version of its own scoring model used by lenders, with some modification so consumers can understand it, says Laura DeSoto, vice president. Trans Union, Chicago, is also relying on its own analytics in developing scores it plans to make available by mid-year. But, says spokesman Jeffrey Jukas, the credit bureau also has been in discussion with Fair Isaac.

Competitive Edge

Equifax is counting on offering the "real thing" to give its service a competitive edge. "Anyone can create a score. Equifax thinks it's important to have the [FICO] score used by most lenders," says J. Michael Cummins, corporate vice president and general manager, consumer direct business, at Equifax. "There will be a range of products including knock-offs and generics. But we think it will shake out over time."

Consumers can access the joint score delivery service, scheduled to launch in March, at two portals: Equifax.com and a new Fair Isaac website, www.myfico.com. Both sites provide access to a copy of an individual's Equifax credit report, the score based on that report, and guidance

about improving the individual's credit standing reflected in the score. Equifax furnishes the credit report and the score generated by applying Fair Isaac's formula, while Fair Isaac provides the score analysis. "We're working on a handshake to make it seamless for the consumers," says Craig Watts, consumer affairs manager, Fair Isaac.

All agree that educating the consumer is key. By themselves, the scores are meaningless. Lenders have their own schedule of cutoffs to determine what type of credit product or terms an individual qualifies for. Hence the emphasis on educating consumers about what a particular score indicates regarding that individual's creditworthiness, rather than on obtaining a specific number.

Although the credit bureaus already offer credit reports online or via snail mail for roughly \$8, they have yet to set the pricing for the scores and personalized score analysis. To be useful, prices for the scores, credit reports, and explanatory material must be affordable, the providers agree.

At iPlace's Qspace.com site, a credit score costs \$3.95 when purchased with a \$7.95 credit report. WorthKnowing.com is giving away a Trans Union credit report and its own score for free. That's a hard price to beat.

Positive Response

At WorthKnowing, feedback from lenders affiliated with its site has been positive for all risk tiers, Eckstein says. Through WorthKnowing, they can present offers for which the consumers already qualify. "Our fees are less than half the typical cost for account acquisition," he says. And, he notes, lenders can cut down on their rate of decline.

Just how much demand is there from consumers for all this credit information anyway? It's too early to tell for sure. WorthKnowing's Volmar says that site has averaged 1,000 visitors a day since the beginning of January, with a peak of 3,000 visitors, and it has enjoyed 100% growth each month since its launch last October. That's without an extensive advertising campaign. Since iPlace launched its site in January, Edwards reports, tens of thousands have visited the site. "It's a very hot, intriguing product for consumers to access," she says.

Consumer demand can translate into a greater need for customer service. WorthKnowing does offer customer support via e-mail and an 800 number. "But we're not credit counselors," Eckstein points out.

Equifax already has consumer direct services, Cummins says. In addition to a comprehensive education component for the new consumer scoring service, he says, there will be a customer service line. "We're trying to plan, but we have no idea of the magnitude [of demand]," Cummins says. "We think that if we offer effective service online, it will cut down on demand."

Whatever questions remain about this new tack being taken in scoring, it's clear that consumers form a growing customer base for credit-related products. "The industry is changing," Cummins says. "There's been a shift in the way business is being done."

Commercial scoring is changing, too. Look for an update in a future issue.

Who's Who in Consumer Scoring

Company	Location	Website	Services
Acollaid	Phoenix	www.acollaid.com	Provides customer data integration software, database management services.
Advanced Software Applications	Pittsburgh	www.asacorp.com	ScorXPRESS, an automated predictive modeling/scoring for fraud, risk management, bankruptcy, and collections, uses a hybrid of neural networks and statistics.
ARC Systems	Austin, Texas	www.arcsystems.com	Flagship product, LT2k, is an internet-based automated underwriting application.
Austin Logistics Inc.	Austin, Texas	www.austinlogistics.com	Develops decision support systems for risk management including collections and recovery. Lead product is CALLTECH.
Bankcard Consulting Group	Nashville, Tenn.	www.bancardconsulting.com	Risk management consulting and software for bank card issuers.
Creative Business Decisions Inc.	Princeton, N.J.	www.cbdcredit.com	Provides scoring models for assessing risk of new applicants and predicting existing account behavior.

Credit & Management Systems Inc.	Lake Bluff, Ill.	www.cmsccm.com	Provides CCM, a leading software system for credit scoring, analysis, and credit management reporting.
Credit Management Solutions Inc.	Annapolis Junction, Md.	www.cmsinc.com	CreditRevue software provides financial institutions with automated credit processing solutions for consumer and small business lending.
Experian	Orange, Calif.	www.experian.com	Provides custom and generic models to minimize risk, determine customers' revenue potential, and apply effective collections and recovery strategies.
Fair, Isaac & Co. Inc.	San Rafael, Calif.	www.fairisaac.com	Provides scoring solutions through major processors, credit bureaus, and directly to issuers for all collection stages.
Golden Retriever Systems	Chandler, Ariz.	www.grsgroup.com	RiskTrack software delivers risk reports to identify potential fraud.
Guthrie Phillips Group	Vancouver, B.C.	www.gpg.bc.ca	Provides Windows Collections Activity Tracking System.

London Bridge	Norcross, Ga.	www.london-bridge.com	Offers ESP, a flexible software application tool for the development, deployment, and maintenance of multiple enterprise-wide scorecards.
Magnify Inc.	Chicago	www.magnify.com	Pattern software instantaneously deploys predictive modeling solutions within a client's existing data infrastructure.
Magnum Communications Ltd.	Atlanta	www.magnum.net	Provides risk management solutions by automating credit processing needs and scoring data from national consumer and commercial databases.
MicroBilt Corp.	Kennesaw, Ga.	www.microbilt.com	DecisionPoint-BC processes credit applications for credit card products, incorporating scorecard for high-speed processing and credit-granting decisions.
Mortgage Guaranty Insurance Corp.	Milwaukee	www.mgic.com	Affiliate offers lenders software for mortgage scoring and default scoring.

Mynd	Dallas	www.mynd.com	Part of Computer Sciences Corp., provides an open decision-support platform that incorporates rules processing and credit scores.
NAREX Inc.	Golden, Colo.	www.narex.com	Provides a collections and recovery scoring service that predicts how much can be collected and the optimal method of collecting.
Predictive Business Decision Systems Inc.	Tinton Falls, N.J.	www.pbdsinc.com	Specializes in developing custom scoring models to automate decisions for the credit, collections, and bad debt markets.
RiskWise	St. Cloud, Minn.	www.risk-wise.com	Custom models for recovery, collections strategy, and resource allocation.
Scoring Solutions Inc.	Atlanta	www.scoringsolutions.com	Offers applicant, behavioral, revenue, recovery and targeting scorecards.
Sigma Analytics	Atlanta	www.sigmaanalytics.com	Provides model development and strategic consulting, including risk, marketing, collections, and recovery modeling.

Strategic Decision Services (SDS)	Atlanta	www.acxiom.com	Offers DataScore for custom portfolio scoring, plus consulting services.
Systems Consulting Services Inc.	Ellicott City, Md.	www.scsiweb.com	Provides Business Information Analysis (BIAS), a risk analysis system.
Trajecta Inc.	Austin, Texas	www.trajecta.com	Provides software and services to assess risk and predict customer behavior.
Trans Union Corp.	Chicago	www.transunion.com	Provides consumer credit reports, fraud prevention, account monitoring, risk management, collections, prescreening, and predictive modeling tools.
Visionary Systems	Atlanta	www.VisionarySystemsInc.com	Provides custom consumer risk evaluation and decisioning services.
Vysym Corporation	Irvine, Calif.	www.vysym.com	Offers TALIS (Telephone Application/Loan Information Solutions).
XpressChex	Albuquerque, N.M.	www.xpresschex.com	Check transaction/processing software with flexible acceptance parameters.

Sources: Credit Collections Directory, 2001 Edition; the companies.