

# DCC Dollars & Sense

Volume II, Issue I

September 1, 2004

## A New Credit Score

### *Special points of interest:*

- New Method of Credit Scoring
- New Method for Check Clearing

The traditional FICO Score is the most commonly used credit-scoring model by lenders today. Traditional FICO Scores consider payment his-

tory, types of accounts in use, total outstanding debt, new credit and the length of time accounts have been opened. For young people, recent immigrants or recent divorcees with little or no credit history it makes it difficult to obtain credit. This type of scoring a catch-22 for them; they need to establish a credit history on which they can be rated, but cannot obtain any credit. This leaves roughly 25% of the population under-served when it comes to receiving extensions of credit.

On July 27<sup>th</sup>, of this year Fair Isaac

and Co. the creator of the widely used FICO Score announced a new scoring model titled the "The FICO Expansion Score". With this new scoring model in place, lenders will be able to expand their business to include conventionally under-served consumers.

The criteria for the FICO Expansion Score extends beyond the traditional factors. Non-traditional sources of data such as purchase payment plans, cash advance loans and deposit accounts are the data sources now being considered to create this new score. Consumers with little or no credit history will have the ability to be rated on their payment performance on these generally easier to obtain types of credit. This will allow a greater chance of receiving credit with higher levels of scrutiny placed on credit

## Check Clearing for the 21st Century

Check Clearing for the 21st Century is a new congressional act which applies to the way in which banks are allowed to process a consumer's checks. Effective on October 28th, 2004 this new law allows banks to process paper checks electronically. The impact on the general pub-

lic is vast and has groups such as Consumer Reports concerned for the well being of consumers.

The largest impact on consumers is going to be the elimination of the "float". The float is a term used to describe the time frame between when a consumer

## A New Credit Score Cont.

history.

In a press release from Fair Isaac and Co. CEO Tom Grudnowski stated “This extension of the FICO score gives lenders and other businesses another powerful tool for building and growing their presence in high-demand and emerging markets, while expanding service options for consumers who have missed out on opportunities simply because they lack a traditional credit history”. This means for lenders is that they will be able to expand their services to the growing under-served population without increasing the risk of financial loss. For consumers this means the opportunity to prove themselves

financially capable to receive the credit they’re seeking.

The score itself is a three digit number ranging from 150 to 900. Along with the score, lenders will receive up to five statements detailing the criteria for the score. This information will then be passed on to the consumer to allow individuals beginning their credit history to learn and correct the negative information. This will help to improve the individuals widely accepted FICO Score, once they have established a sufficient credit file to create the standard score.

## Check Clearing for the 21st Century Cont.

writes a check and when the funds are actually disbursed from their account.

The following are some of the changes consumers will see:

1) Consumers will no longer receive a copy of their paper check. A substitute check will be issued only after requested by the consumer.

2) The decrease in the processing time of a check may result in an increase of bounced check fees.

3) When requested a substitute check will be the only recourse a consumer will have if a check is paid twice or paid for the wrong amount. Different banks may have different charges for requesting substitute checks. If the fee is too large, consumers should consider opening another bank account.

4) If an amount is disputed for double or overpayment, the correction must occur

within 10 business days of being reported. However, under the Check 21 regulations if the amount in dispute is greater than \$2500, only the first \$2500 of the disputed amount needs be corrected in that 10 day time period.

However, the electronic processing of checks will not shorten the hold time on the availability of deposited funds. Funds can be disbursed in less time, but the regular hold time for deposits will remain the same. This will keep the average monthly balance in your account down, allowing the possibility of additional fees.

With the elimination of the float, it is even more imperative than ever that consumers ensure funds are available prior to check writing. Do not count on a deposited check to clear in time for the funds to be available for a written check to be cashed.