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## **Credit Scorers Find New Ways To Judge You**

**Alternative Measures Use  
Rent and Utility Payments  
To Assess Risk of the Debtless**

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Don't be surprised if a lender wants to know if you pay your rent on time or bounce checks before it will let you borrow money.

For many years, loan approvals were determined largely by borrowers' credit scores, which are based on proprietary formulas that include such things as debt levels and loan-payment histories.

Now, lenders increasingly are looking at other factors, such as rent and utility payments, to determine whether potential borrowers will make good on their loans. The financial-services industry began this push so it could lend more to the estimated 50 million Americans -- including many immigrants, young adults and seniors -- with little or no credit history. But as the economy slows and default rates soar for home mortgages, more lenders are using these same tools to evaluate the credit-worthiness of the broader population.

Today, credit bureau Experian Group Ltd. plans to announce an alternative credit score to help lenders get a better picture of how people with little or no credit might handle a loan. Competitor TransUnion LLC rolled out a similar product this past summer, while Fair Isaac Corp., developer of the widely used FICO score, broadened its Expansion scoring system in November to include more information about monthly rent and utility payments, among other data.

Before the subprime-mortgage crisis, most lenders used the Expansion score to get more business, says Tom Quinn, vice president of global scoring solutions at Fair Isaac. "Now, we are seeing more lenders interested in using this as an additional tool to mitigate the risk in their portfolios -- for people in the 'gray zone' or just to do a safety check," he says. Banking giant Wachovia Corp., for example, is using an alternative credit-scoring system from Atlanta-based L2C Inc. to assess the credit risk of its credit-card customers.

## Another Reason to Pay Your Bills on Time

More lenders, wary of taking undue credit risks, are looking at new ways to gauge whether to lend consumers money, such as how they pay their rent and utility bills. Here's how credit bureaus and others are using nontraditional payment data:

Score	What it does
<b>Equifax's MarketMax</b>	In addition to using data from Equifax's own credit files, as well as data it has collected on rent and utility payments, for example, the score pulls information from LexisNexis to verify identities and flag any negative information, such as tax liens, bankruptcies and criminal records. Score range: 501 to 900.
<b>Experian's Emerging Credit Score</b>	Relies on payment data, such as telephone and utility records and catalog or Internet purchases, provided by eBureau LLC, in addition to data from its own credit files. Score range: 100 to 999.
<b>FICO Expansion Score</b>	Looks at information on how consumers pay their rent, cable and utility bills, among other things, by pulling information from several databases and public records. The score has the same range as the traditional FICO score: 300 to 850.
<b>First American CREDCO's Anthem Score</b>	The score, which is used by mortgage lenders, is based on alternative payment sources, such as rental, insurance and utility payments.
<b>PRBC's Bill Payment Score</b>	At PRBC, consumers can create their own credit file by reporting monthly payments to the company, which verifies the data for a fee and creates a credit file and score for lenders. Users can also use a bill-payment service to have their bills automatically reported to PRBC for free.
<b>TransUnion's Link2Credit</b>	In addition to using data from TransUnion's own credit files, the score relies on data provided by L2C Inc., such as consumers' payment histories on their rent, cable and utility bills. Score range: generally between 300 and 850.

Source: the companies

All this means that consumers should pay closer attention to whether they pay bills on time or write bad checks. More lenders will study such factors when they price loans or reset credit lines on existing customers, particularly those with lower credit scores, says Arjan Schütte, associate director at the Center for Financial Services Innovation, a nonprofit Chicago affiliate of ShoreBank Corp. that provides advisory services to the financial-services industry.

Yet the new scores could be good news for those who pay their bills promptly but don't have established credit histories. In the past, banks often ignored this group because they had no way of evaluating the risk. The Center for Financial Services Innovation estimates this group could generate between \$6 billion and \$45 billion in new loans each year.

"The knee-jerk reaction is that the credit-underserved consumer group is overwhelmingly subprime," says Mr. Schütte. But those consumers present a similar range of risk as those with traditional credit scores, he says.

## Harvesting Tax Liens

The alternative scores developed by the credit bureaus and other financial-services firms rely on a combination of their own data, as well as third-party databases. TransUnion and Experian have teamed up, respectively, with L2C and eBureau LLC, which specialize in collecting and analyzing alternative payment data. **Equifax** Inc.'s MarketMax score, meanwhile, pulls information from electronic database LexisNexis to verify consumers' identities and sift through public records for tax liens, bankruptcies or criminal records, in addition to using other data.

When Rich McEldowney of Bozeman, Mont., and his wife, Phoebe, applied for a mortgage in February 2007, their mortgage broker told them that his wife didn't have a credit score anymore. Among the reasons: They had paid off their auto loan several years ago, and she didn't have any credit cards. In fact, except for a credit card that Mr. McEldowney uses for his job as an ecologist, he and his wife don't use credit cards, preferring instead to use their debit cards and pay for things with cash or checks.

"It seems like the more debt you have, the easier it is to get credit," says Mr. McEldowney. "We don't have credit cards, and we try to be responsible with our debt."

## Engineering a Credit Score

On their broker's suggestion, they turned to Pay Rent, Build Credit Inc., also known as PRBC, a credit bureau in Annapolis, Md., that specializes in collecting rental and bill-payment data. It studied Ms. McEldowney's history of paying other household bills -- such as rent, telephone, and auto insurance and her daughter's day-care bills.

She ultimately received a decent credit score. As a result, the McEldowneys were able to qualify for a 6.5% rate on a \$350,000 mortgage -- roughly half a percentage point lower than the rate that Mr. McEldowney says he would have been able to get on his own.

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