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Jump in Credit Scores Means Dip in Underwriting Predictability

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Underwriters that rely on popular credit-scoring models like FICO and VantageScore to assess risk may have noticed that some consumer credit scores jumped recently. The nationwide credit reporting agencies, Equifax Inc., Experian PLC, and TransUnion began excluding incomplete records of bankruptcies, tax liens, and civil judgments beginning on July 1, 2017. The changes to public record reporting requirements should eventually improve modeling predictability after the market adjusts. Public records information that poses a risk of attributing the information to the wrong consumer is now left off credit reports. Incomplete records are those that don't include the consumer's name, address, and either a Social Security number or date of birth. The decision covers new and existing bankruptcies, tax liens, and civil judgments. Bankruptcies generally meet the enhanced data standards already. So, this data point is unlikely to waver much. But unlike credit applications, court judgments don't collect and furnish information in the same formats. Many courts require redactions of the ubiquitous identifier, the Social Security number. Most civil judgment records will not initially meet the enhanced standards. About half of tax liens will fail the completeness tests. It's a positive change for consumers. All bankruptcy, tax lien, and judgment information is negative. For report and score users, it's a dip in efficacy. While the move omits unreliable data which increases predictability it over-excludes accurate but incomplete data. Fair Isaac Corporation (FICO) says it's caused a "modest" impact on score predictability. Until public records furnishers become more reliable, predict moderate surprise at finding you have clients with undisclosed tax liens and civil judgments.

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