Chairman Jordan, Vice Chair Ferguson, Ranking Member Crossman, and members of the House Financial Institutions Committee– thank you for the opportunity to provide proponent testimony for House Concurrent Resolution 4, legislation urging Congress to evaluate credit reporting agencies and rating effects.

For the past 30+ years I have provided direct assistance in pre and post loan assistance and/or direct loan assistance to business owners. A combination of anecdotal information and review of national research supports that credit reporting agencies have exhibited being exclusive versus inclusive therefore promoting racial and economic inequality.

- According to an OPPU OppLoans Blog article: *A Brief History of Credit Scores*

By Andrew Tavin - Updated on March 18, 2021

Credit scores were invented in the 1950's. In **1956,** Fair, Isaac and Company was created. Today, knowns as FICO which *debuted in 1989 and has become the industry standard*. It is a number between 300 and 850 determined by the following factors (**by descending level of importance**): payment history, amounts owed, length of credit history, types of credit used, and recent credit inquiries.

Equifax is the oldest of the three credit bureaus, dating all the way back to 1899. **TransUnion** was founded in 1968. **Experian** is the newest of the credit bureaus. It was founded in 1996.

Credit scores have done a lot. But many problems remain.
*A FICO score is probably a more impartial way to handle credit approval than just having some bank representative make a superficial judgment about potential applicants**. But algorithms can actually reinforce racial disparities that already exist.***

And even if an applicant qualifies for a better rate, an unscrupulous lender could still take advantage of them, as happened before the subprime housing crisis, when minority applicants who qualified for prime loans were given subprime loans instead.

*But there are issues beyond racial discrimination, inaccuracies, and data breaches. On a basic level, you need to take out some form of a loan—whether it be in the form of credit card use or otherwise—to build up your credit score. Theoretically, **you could be very financially responsible without ever using credit cards or going into debt … and that would leave you without any credit score to speak of.***

https://www.opploans.com/oppu/articles/a-brief-history-of-credit-scores/

- **According to research by the National Community Reinvestment Coalition (NCRC)**

https://ncrc.org/research/

Our study also found that as the percent of neighborhood residents with no credit scores increases, so does the level of subprime lending. This is blatantly unfair since large numbers of consumers without traditional credit reports and credit scores are responsible and should qualify for loans at prevailing interest rates.

Lastly it does not incorporate the Operating Environment. Two prime recent examples are the Recession of 2008; and COVID-19. Numerous articles and research support the fact (real data) that people of color specifically African Americans and Hispanics have suffered disproportionate levels of economic decline due to loss of property, displacement during gentrification, loss of employment due to businesses closing, due to health decline and/or death, etc.

- Prior to the Pandemic NCRC published an article:

NPR: FICO Is About To Change Credit Scores. Here's Why It Matters
By NCRC / February 7, 2020 / On Our Radar

NPR: January 30, 2020: FICO Is About To Change Credit Scores. Here's Why It Matters
https://ncrc.org/npr-fico-is-about-to-change-credit-scores-heres-why-it-matters/

Your credit score can determine whether you can buy a car, get certain jobs or rent an apartment. It's a big deal. And so is this: Credit scores for many Americans are about to change — even if they don't do anything.

The changes will be extensive. About 40 million Americans are likely to see their credit scores drop by 20 points or more, and an equal number should go up by as much, according to Joanne Gaskin, vice president of scores and analytics at FICO, the company at the heart of the credit scoring system.

For the first time, Gaskin says, FICO is breaking out personal loans as a distinct category to determine whether borrowers use them responsibly.

Every five years or so, FICO updates the way it determines credit scores. This time, the biggest change is in how it treats personal loans, Gaskin says.

Personal loans are growing faster than any other consumer debt category; Americans owe more than $300 billion on them. There are all kinds of personal loan offers in the mail, online and on TV. Many promise to lower your interest rate by consolidating credit card debt into a single loan.

For the first time, Gaskin says, FICO is breaking out personal loans as a distinct category to determine whether borrowers use them responsibly.

Why does that matter?

Let's say you pay off all your credit cards with a personal loan. Under the old system, your credit score might go up. But under the new approach, FICO will look back over a period of time — as far as two years — to see whether you've used the loan to reduce your high-interest credit card debt or whether you're using plastic as much as before, running up new revolving balances and falling deeper into debt.

"What we find is that potentially that consumer's credit file carries more risk than what was apparent," Gaskin says.

If your finances are in good shape and you already have a good credit score, you're likely to see your score improve, she says. But Gaskin says those whose scores will decline are typically people in the lower FICO score range, about 580 and below. (FICO scores range from 300 to 850.)

That's not good news for people who are struggling financially, says Marisabel Torres with the Center for Responsible Lending. "It sounds like we're penalizing people for getting into a bad situation."

Torres says people who already have low scores are most likely to see their scores go even lower — and that will worsen inequities in the credit system. With personal loans, people with good credit can qualify for good terms. But Torres says predatory lenders charge people with lower incomes very high interest rates.

In short as we look at when and how the credit reporting systems were developed and taking into consideration various legislative modifications that have been designed to make the processes more inclusive, the overall structure and the elements in which credit reporting agencies evaluate are systemically (structurally, inherently, comprehensively, ingrained) to exclude versus include therefore promoting racial and economic inequality.