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Americans' credit scores sink to new lows

FICO: One in four consumers scores 599 or below, making them poor risk for lenders

by EILEEN AJ CONNELLY

 Associated Press

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NEW YORK — The credit scores of millions more Americans are sinking to new lows.

Figures provided by FICO Inc. show that 25.5 percent of consumers — nearly 43.4 million people — now have a **credit score** of 599 or below, marking them as poor risks for lenders. It's unlikely they will be able to get credit cards, auto loans or mortgages under the tighter lending standards banks now use.

Because consumers relied so heavily on debt to fuel their spending in recent years, their restricted access to credit is one reason for the slow economic recovery.

"I don't get paid for loan applications, I get paid for closings," said Ritch Workman, a Melbourne, Fla., mortgage **broker**. "I have plenty of business, but I'm struggling to stay open."

FICO's latest analysis is based on **consumer credit reports** as of April. Its findings represent an increase of about 2.4 million people in the lowest credit score categories in the past two years. Before the Great Recession, scores on FICO's 300-to-850 scale weren't as volatile, said Andrew Jennings, chief research officer for FICO in Minneapolis. Historically, just 15 percent of the 170 million consumers with active credit accounts, or 25.5 million people, fell below 599, according to data posted on Myfico.com.

More are likely to join their ranks. It can take several months before payment missteps actually drive down a credit score. The Labor Department says about 26 million people are out of work or underemployed, and millions

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more face foreclosure, which alone can chop 150 points off an individual's score. Once the damage is done, it could be years before this group can restore their scores, even if they had strong credit histories in the past.

On the positive side, the number of consumers who have a top score of 800 or above has increased in recent years. At least in part, this reflects that more individuals have cut spending and paid down debt in response to the recession. Their ranks now stand at 17.9 percent, which is notably above the historical average of 13 percent, though down from 18.7 percent in April 2008 before the market meltdown.

There's also been a notable shift in the important range of people with moderate credit, those with scores between 650 and 699. The new data shows that this group comprised 11.9 percent of scores. This is down only marginally from 12 percent in 2008, but reflects a drop of roughly 5.3 million people from its historical average of 15 percent.

This group is significant because it may feel the effects of lenders' tighter credit standards the most, said FICO's Jennings. Consumers on the lowest end of the scale are less likely to try to borrow. However, people with mid-range scores that had been eligible for credit before the meltdown are looking to buy homes or cars but finding it hard to qualify for affordable loans.

Workman has seen this firsthand.

A customer with a score of 679 recently walked away from buying a house because he could not get the best **interest rate** on a \$100,000 mortgage. Had his score been 680, the rate he was offered would have been a half-percent lower. The difference was only about \$31 per month, but over a 30-year mortgage would have added up to more than \$11,000.

"There was nothing derogatory on his credit report," Workman said of the customer. He had, however, recently gotten an auto loan, which likely lowered his score.

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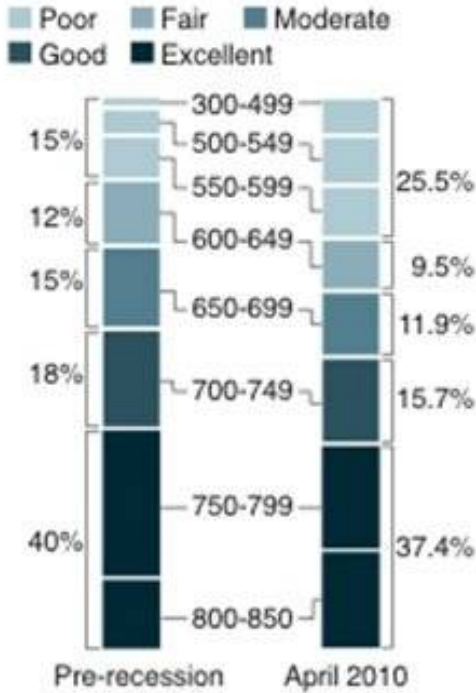




Failing credit

More than 43 million people, now have a credit score of 599 or below, marking them as poor risks for borrowing money.

Credit scores



SOURCES: FICO Inc.; myfico.com AP

W. Castello / AP
 Chart compares U.S. credit score prior to the recession and from April

Studies have shown FICO scores are generally reliable predictions of consumer payment

behavior, but Workman's experience points to one drawback of credit scoring: the automated underwriting programs lenders use can't always differentiate between two people with the same score. Another consumer might have a 679 score because of several late payments, which could indicate he or she is a bigger repayment risk. But a computer program that depends just on score won't consider those details.

On a broader scale, some of the spike in foreclosures came about because homeowners were financially irresponsible, while others lost their jobs and could no longer pay their mortgages. Yet both reasons for foreclosures have the same impact on a borrower's FICO score.

In the past too much credit was handed out based on scores alone, without considering how much debt consumers could pay back, said Edmund Tribue, a senior vice president in

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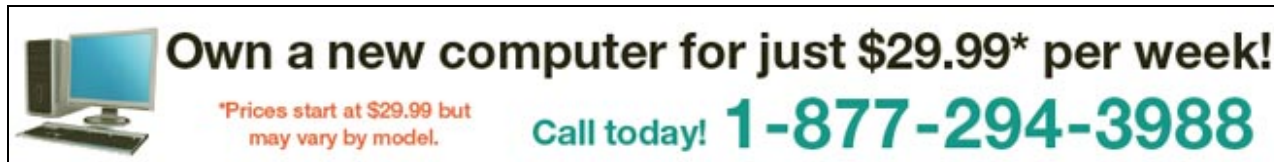
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Workman still thinks credit scores alone play too big a role. "The pendulum has swung too far," he said. "We absolutely swung way too far in the liberal lending, but did we have to swing so far back the other way?"

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