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NATION'S HOUSING

'Piggyback' credit histories continue to mislead lenders

By Kenneth R. Harney
Washington Post Writers Group

November 4, 2007

WASHINGTON -- So-called piggyback credit-score inflation schemes for mortgage applicants haven't been reined in, despite industry pledges to do so. As a result, lenders continue to be misled into treating loan applicants with poor credit as prime-credit candidates -- worsening already critical fraud and delinquency problems in the mortgage market.

Fair Isaac Corp., developer of the FICO score widely used for home loan underwriting, confirmed that its "FICO '08" scoring model is not yet available at any of the three major national credit bureaus. The new model, announced with fanfare in June as an antidote to piggybacking, was to have been activated in September at one of the bureaus, Experian.

But Experian says it has no firm timetable to make the model available. The two other bureaus -- Equifax and TransUnion -- are not scheduled to receive the model until sometime in 2008, according to Craig Watts, a Fair Isaac spokesman.

The piggybacking problem involves Internet-based firms that "rent" high-quality credit-account histories to people with bad credit.

Websites claim to be able to raise consumers' scores by 100 to 200 points -- or more -- within 30 to 90 days. They do this by paying credit-card holders with excellent payment histories to add "authorized users" to their accounts. These users are sometimes charged \$1,000 to \$2,000 for the privilege.

Once the piggybacker is listed as an authorized user -- even with no actual access to the Visa or MasterCard itself -- the positive credit history of the cardholder flows through to the piggybacker's credit files. Loan officers processing mortgage applications typically would be none the wiser. They assume that the FICO scores they receive are legitimate, and they quote applicants the appropriate interest rate. A FICO of 750, for example, would qualify the applicant

for the lowest interest rates from most lenders.

Credit and mortgage industry experts say that the practice of piggybacking is contributing to the high rate of delinquencies and foreclosures now roiling the financial markets.

Lenders have complained to Congress, state banking regulators and the Federal Trade Commission for more than a year about piggybacking, but to date there have been no crackdowns on promoters.

Some regulators privately concede that the piggybacking schemes are exploiting a loophole in the federal Equal Credit Opportunity Act.

That law sanctions authorized user accounts but does not limit the number of accounts permissible on a single credit card and does not ban rentals of authorized user accounts by cardholders. As a result, some piggybacking companies say they rent out high-quality credit-card trade lines to dozens of individuals at a time, producing substantial monthly income -- with no effort -- for participating cardholders.

In June, Fair Isaac announced that its latest model of the FICO score software -- FICO '08 -- would eliminate consideration of authorized user accounts in computing scores and help cripple the abusers. But for that to happen, the three national credit bureaus would need to install the new model, and mortgage lenders must switch to the improved scoring system.

A complicating factor in all this: The three major bureaus have created their own credit score, known as Vantage, which also excludes consideration of authorized user accounts. No major mortgage company has announced adoption of the competing Vantage score -- FICO still has near-total dominance -- but some retailers have adopted it, according to Donald Girard, an Experian spokesman.

Meanwhile, a new player has jumped into the market with a solution it says mortgage lenders can adopt immediately at minimal cost: an electronic "filter" that allows loan officers to look at all credit scores with, and without, consideration of authorized user accounts.

CreditXpert Inc., a Maryland technology firm active in the credit industry, says its new filter enables loan officers to calculate just how sizable an effect applicants' authorized-user accounts are having on their FICO scores.

Comments for Kenneth R. Harney can be sent to kenharney@earthlink.net.

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