

Conspiracy Theory

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When speaking about credit and credit scoring we still are a bit puzzled on why scores are what they are today, how they originated, why only one company controls it, how the other parties involved are not being held accountable, and what direction our lives are headed until laws are passed and enforced to protect us consumers from becoming "Bad Credit Score" buyers.

We all know "Bad Credit Score" buyers either pay higher interest rates or are turned down for loans completely. Many people with good credit but bad credit scores are accepting rates given to them because they know how hard it is to get financed today.

I have a theory, some would call it a "conspiracy theory" about what's been happening in the credit industry the past 53 years and I have decided to share it with you.

First, I would like to define "conspiracy theory" from the Merriam-Webster Dictionary:

con•spir•a•cy

1. an evil, unlawful, treacherous, or surreptitious plan formulated in secret by two or more persons
2. a combination of persons for a secret, unlawful, or evil purpose: He joined the conspiracy to overthrow the government.
3. Law . an agreement by two or more persons to commit a crime, fraud, or other wrongful act
4. any concurrence in action; combination in bringing about a given result.

the•o•ry

1. the analysis of a set of facts in their relation to one another
2. an ideal or hypothetical set of facts, principles, or circumstance
3. a hypothesis assumed for the sake of argument or investigation

Over the years we have been faced with many "conspiracy theories", a few that come to mind is the JFK Assassination, the fake moon landing, UFO landings in Roswell, New Mexico and even the tragic 9/11 events.

My "conspiracy theory" takes you back ironically to the year I was born, 1958. A couple other major events also happened in 1958, it was the first time we heard the slogan, "Don't leave home without it" when American Express issued their first credit card, and since then American Express has become a major credit card issuer around the world. Also in 1958, Bank of America issued the BankAmericard which later became Visa. Credit cards were being promoted for the business person traveling and a time saving mechanism instead of establishing credit.

Credit Card issuing became big business in the 60's and by the mid 70's Congress had to step in and start regulating the credit card companies by get this, banning the companies from mailing credit cards to people who had not requested them. At this point the credit card companies were charging annual fees and interest rates on unpaid balances. American Express in 1958 charged a \$6.00 annual fee which was \$1.00 higher than Diners Club who issued their credit card in 1950. By 1984 American Express introduced the Platinum card with a \$250.00 annual fee, which is currently \$450.00. In 1987, American Express began issuing the Optima Card, allowing credit card holders to make monthly payments on balances rather than paying the account in full every month, this allowed American express to charge interest on balances like Visa and MasterCard were already doing.

Credit Cards were named Revolving credit. This credit allows you to spend up to the credit limit the credit card issuer established for you. The credit limit is automatically reset once the balance comes down, you are required to make a minimum payment but not forced to pay the balance in full every month. You will be charged interest on the unpaid balance 2% to what First Premier Bank is charging, 79%, that's right 79%.

So, in a nutshell, since 1958, credit card companies started pushing their products on us and today they are making billions and billions of dollars on annual fees and interest rates.

Now let's touch on the next part of my "conspiracy theory", credit scoring. In 1956, Bill Fair, an engineer, and Earl Isaac, a mathematician, founded Fair, Isaac, and Company, later known as FICO. Two years later, in 1958, credit scoring was invented by Fair Isaac Corporation to provide a quick data driven program to determine the credit worthiness of an individual or corporation. This was made possible with the development of computer programming and communication technology. During the 60's FICO marketed their scoring system to individual lenders, banks, and then to department store and credit card companies. By 1972, FICO developed the first automated credit processing system for Wells Fargo Bank. FICO developed the first numerical credit scoring system in 1979, called FICO which is commonly used today. FICO began developing different scoring modules over the next 20 years and in 1987 they went public, at the same time they introduced the first general-purpose score, named Beacon. Equifax began marketing and still sells the beacon score today. By the 1990's the FICO scoring system was endorsed by government agencies, Fannie May and Freddie Mac.

In 2001 Fair Isaac allowed Equifax to become the first credit reporting agency to allow consumers to access their own reports

directly with Experian and Transunion joining the mega business by 2003. Now with all the attention to credit reports and credit scoring, billions are spent every year buying credit reports and scores that don't necessarily give you the correct information.

Before I can tie this "conspiracy theory" up I have to share with you about credit scoring. I have a saying, "Positive credit or lack of positive credit has as much or more impact on a credit score than negative credit". With that in mind, the one type credit account that will impact your credit score the most is the one most dangerous to have, revolving credit. It cost consumers more money to have revolving credit in many ways, for example, most credit card companies charge annual fees, annual percentage rates are astounding, as much as 79%, most credit card companies report incorrect high credit, balances, and payment history. Did you know your credit scores are affected if you close an unused credit card or if you don't have any activity on it for more than 6 months? If you mistakenly miss a payment and go 30 days late you could lose 70 points from your score and it will take at least a year to recover those points? There are many theories on how much you balance should be verse your high credit and your overall balances from combined credit cards. Theories on how many credit

cards you should have and which ones will give you the higher scores.

We have established credit scoring was developed by only one company in the past 53 Years, Fair, Isaac, and Company with no other company challenging the validity of their model. We have also seen how revolving credit has more impact on credit scoring than any other type credit, positive or negative. We have all witnessed the amount of money it costs us for using or not using revolving credit. It doesn't take an engineer or mathematician, or even a rocket scientist to see the connection between credit scoring and the credit card companies. The questions I have are why would credit scoring be tied so heavily to revolving credit? How much money is being divided between the organizations involved in our scoring models? How much control and involvement does our government have in all of this? Was credit scoring put into play knowing credit card companies would prosper so much because we didn't know the impact it would have on our lives? How much have we contributed because we were not informed on how to manage or credit?

This article is my "conspiracy theory" but like most theories, it will be left up to our own interpretation... To Be Continued...