

CREDIT SCORING and CONSUMER LENDING APPLICATIONS

The majority of lenders use credit scoring to evaluate the viability and desirability of an application for a loan, credit card, overdraft or mortgage. Credit scoring looks at the number of open accounts or lack of them (bank accounts, credit cards, loans etc.). Other considerations for scoring are entry on the electoral roll, post code, age, occupation, dependants, income, expenditure and other considerations.

Credit scoring has been in use for some time, firstly in America and I believe it was Barclaycard who first introduced it to the UK in the late 1960's early 70's! Initially, scoring was racist, sexist and discriminated against people in rented accommodation. Thankfully, this is no longer the case!

As a management tool credit scoring has a place in the decision making process as to whether or not to lend, however having discussed its merits with Independent Financial Advisors and Mortgage Consultants, it seems it is proving to be overused, over relied upon and excludes applied consideration. This makes it more or less a blunt instrument which removes intelligence from the underwriting process, leaving the decision to a computer. A very cost effective way for lenders to conduct their business!

Consumer scorecards will generally score out of 1000 and lenders will tweak the score level for approval. For instance, one day a lender may have an average pass mark of 650, but if funds are overstretched this may be raised to 725. If however lending targets are not being met, the lender might reduce the pass mark to 600. This way they allow either more or less to be approved.

This leads to unfair declines, with people being told they have failed the credit score and advised to refer to their credit file as to the reasons why, only to discover that there is little or nothing wrong with their credit file.

With this method it is possible to be approved for credit one day and declined the next or one lender will decline and another accept on the same day! I am of course told, every lender will deny this, but most brokers will bore you with horror stories from their own files.

Clearly there is a problem for applicants who don't tick all the boxes and though nobody would advocate lending to people who constantly default, pay late and have county court judgments registered against them, some people problems stem from personal issues such as redundancy, illness or divorce. Not so long ago such cases could have been discussed with an underwriter and if the

reasons added up, a lending application would have been appealed and likely to have succeeded. It's sad in a way that the personal touch has gone!

The good news is that we are unlikely to see a return to the sub-prime market, but there are many acceptable applicants who are quite simply victims of the current economic restrictions and who need a route to obtaining credit. Lenders are offering the best deals to what credit scoring appear to be the right candidates, but some people will be excluded and at some point someone will have to provide a solution.

Will the coalition Government be able to do something? How are they going to reduce the Debt the UK is currently burdened with? What will we find different?

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