



Federal Financial Institutions Examination Council

# Advisory Letter

*For Immediate Release*

January 18, 2000

**TO:** Chief Executive Officers**SUBJECT:** Consumer Credit Reporting Practices

The Agencies are aware that over the last year some financial institutions have stopped reporting certain items of customer credit information to consumer reporting agencies (credit bureaus)<sup>1</sup>. Specifically, certain large credit card issuers are no longer reporting customer credit lines or high credit balances or both. In addition, some lenders, as a general practice, have not reported any loan information on subprime borrowers, including payment records. The Agencies have been advised that the lack of reporting is occurring primarily because of intense competition among lenders for customers.

The Agencies note that both financial institutions and their customers generally have been well served by the long-established, voluntary self-reporting mechanism in place within the industry. Credit bureau information provides a useful and efficient means for financial institutions to collect data used to assess the financial condition, debt service capacity, and creditworthiness of retail borrowers. Institutions rely heavily on such data in their manual (i.e., non-automated) underwriting processes and in their credit scoring models, regardless of whether those models are proprietary, pooled-data, or credit bureau models. Manual underwriting is enhanced and the predictive capabilities of credit scoring models are more powerful when customers' credit data are complete. Thus, where financial institutions rely on such data in their underwriting and account management processes, their ability to make prudent credit decisions is enhanced by greater completeness of credit bureau files. Moreover, institutions that do not modify their credit risk management processes to compensate for omitted data in credit bureau reports could inadvertently expose themselves to increased credit risk.

Accordingly, financial institutions that rely on credit bureau information as a tool in their underwriting and account management functions, whether manual or automated, should have processes in place to effectively identify and compensate for missing data in credit bureau reports and models. Actions financial institutions should take, if appropriate, to address this issue include the following:

- Assess the effect of incomplete credit bureau information on credit decision processes, including the impact on the predictive ability of credit scoring and other account acquisition and management models. Financial institutions using credit bureau scores and other generic or pooled-data scoring models should obtain information about the impact of the omitted data on the models' predictive capabilities directly from the vendors for such models.
- Develop and implement strategies, such as independent verification of missing

data, to mitigate the effect of incomplete credit information. For example, changing cut-off scores, neutralizing or substituting model characteristics, and revalidating or redeveloping models may be appropriate.

The Agencies expect financial institutions to strive to resolve issues related to consumer credit reporting in a manner that supports both the safety and soundness of institutions' credit risk management and consumer access to credit.

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- Janet I. Langston, Program Officer, National Credit Union Administration, (703) 518-6387.

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<sup>1</sup> Entities that, for monetary fees, dues, or on a cooperative non-profit basis, regularly engage in whole or in part in the practice of assembling or evaluating consumer credit information or other information on consumers for the purpose of furnishing consumer reports to third parties.

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