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Business Lending News

HEADS UP, SBA & BUSINESS LENDERS: KEY NEGATIVE FACTORS TO BE EXCLUDED FROM CREDIT REPORTS.

What it Means: Axing tax liens and civil judgments from credit reports will lift FICO Scores

As reported in a recent *Wall Street Journal* article, in response to regulatory pressure noting the significant role credit reports play in lending decisions, Equifax, Experian and Trans Union - the three top credit-reporting companies - will no longer include tax-lien and civil judgment information in people's credit reports. Citing a history of credit report errors adversely affecting consumers, the new exclusions are among several changes the credit-reporting firms have enacted over time.

Going forward as of this July* the new exclusions will apply to new data and existing data already on people's reports. Caveat: These credit stains will only be excluded if the data don't include a complete list including the person's name, address, social security number or birth date. As the article notes, most liens and must judgments don't include all three or four - leaving a sizable population in the excluded pool.

How does all this affect your risk? Many people with tax liens and civil judgments in their credit histories will see higher FICO scores - making them seem more creditworthy. Sources quoted in the WSJ article put this number at about 12 million consumers - or 6% of the U.S. population with credit scores. Good news for some folks looking to borrow. And possible boosts to lending activity and economic growth. Yet at what risk to lenders?

And what about your underwriting activity? According to Lexis/Nexis Risk Solutions, people with liens or judgments are twice as likely to default on loan payments. As a lender you know FICO-based underwriting is more predictive for consumer loans than for commercial loans. Yet, you don't want your SBA and business lending decisions to rely solely on judgmental underwriting.

There is some remedy. While the excluded information doesn't show up in credit reports, it's available separately. As consultants, we'd recommend screening every applicant against public records such as recent court judgments and/or running applications through Lexis/Nexis or similar service. Yes, you'll be tapping increased resources, yet you're more likely to be assured of your borrowers' creditworthiness. Worth it? You bet!

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*According to the Consumer Data Industry Association, a trade group representing the credit-reporting firms.

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