



September 12, 2005

Mr. Thomas Grudnowski  
Chief Executive Officer  
Fair Isaac  
901 Marquette Ave., Suite 3200  
Minneapolis, MN 55402

**Re: Request to develop a "Disaster Information Shield" on FICO credit score cards to protect persons affected by Hurricane Katrina and future disasters**

Dear Mr. Grundnowski,

Consumers Union, the nonprofit publisher of *Consumer Reports*, the Consumer Federal of America, the National Consumer Law Center, U.S. PIRG, ACORN, Consumer Action, and the undersigned state and local consumer and community organizations from many parts of the U.S., ask you to act now to prevent the use of FICO-developed credit scoring models and insurance scoring models from making erroneous predictions that could have a devastating effect on the financial future of families who have lost loved ones, homes, jobs, or mail access as a result of Hurricane Katrina.

We ask Fair Isaac to do this by developing and applying to all its credit and insurance score cards a "Disaster Information Shield" that would exclude certain negative information from the data considered to develop the score. We are asking for this action by Fair Isaac because FICO credit scores have extraordinary influence over the financial lives of consumers due to their dominance in the credit marketplace. Without a Disaster Information Shield, FICO scoring models could pose an affirmative barrier to the efforts of disaster victims to regain, and maintain, financial stability, access reasonably priced credit, and even regain employment. A Disaster Information Shield would both improve the accuracy of FICO scoring models and improve the financial opportunities available to people affected by this, and future, major disasters.

The Disaster Information Shield would exclude from consideration in all FICO score cards all negative payment information, generated for one year after the disaster, about any borrower whose address was in the Katrina disaster area at the time of the declaration of the disaster. The shield should apply automatically, so that consumers don't have to know about its existence to benefit from it. It should also include a feature to permit lenders to also apply the shield for consumers who resided outside the disaster area but show that they suffered an interruption in income due to the disaster. For example, this would cover a person whose employer was closed, and is not continuing wage payments, due to the disaster. In order to work, the Disaster Information Shield augmentation to existing FICO score cards would also have to recognize, and track, the address of the borrower on the date of the disaster, since in many cases those addresses are changing. In addition, any scoring model that gives negative points for frequent changes of address should be examined, since many hurricane victims are likely to have one or more address changes in coming months.

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West Coast Office  
1535 Mission Street  
San Francisco, CA 94103  
415.431.6747 tel  
415.431.0906 fax  
[www.consumersunion.org](http://www.consumersunion.org)

If for any reason an automatic disaster information shield cannot be developed for each FICO score card, then we ask you to promptly develop and make available to all customers of Fair Isaac scoring models a "Disaster Score Card" which excludes the same type of negative information for disaster victims, and to provide this score card as an update to all current users of Fair Isaac score cards.

Credit scoring's purpose is to make predictions about the likelihood of repayment, based on past payment behavior and other characteristics of the potential borrower as compared with the historical repayment patterns of other people who have similar characteristics. Whether or not credit scoring is as predictive as those who design and use it claim it to be, the extraordinary disruption created by Katrina means that failure to pay a bill for persons affected by Katrina is *not* an indicator of unwillingness to meet financial obligations, and *cannot* predict future nonpayment. Treating post-disaster late or missed payments in the same way as other late or missed payments will unnecessarily and unfairly depress the credit scores of consumers affected by Hurricane Katrina, and of those to be affected by future disasters.

Every month, creditors across America send consumer reporting agencies data about consumer payment conduct on credit cards, car loans, home mortgages, and other kinds of loans. While various regulators have asked financial institutions to consider suspending reporting of negative credit information about Hurricane Katrina victims, the sheer number of creditors reporting to consumer reporting agencies, each of whom is free to choose whether or not to track and non-report accounts from borrowers in the affected areas, means that information that the model is not designed to handle will be getting into consumer reporting files. Consumer credit files will show non-payment or late payment when in fact the consumer did not get a bill, had no home at which to receive the bill, lost a job and income, and/or was trying to meet immediate needs for food, water, shelter and finding loved ones.

The fact that many persons displaced by the storm may be establishing new residences outside the storm area, and changing the address on their bills, increases the likelihood that negative information which is not predictive of future payment probabilities will be reported, because a simple address-based screen by a creditor might allow reporting of negative information that is in fact disaster-related after the consumer establishes residence outside the disaster area. That negative payment information could cause a significant drop in the consumer's credit score under existing scoring models, the vast majority of which were developed by Fair Isaac. The same is true for insurance scoring models,<sup>1</sup> a portion of which were developed by Fair Isaac.

We hope to never see another displacement in our country on the scale and magnitude of that related to Hurricane Katrina, nor to see this level of human suffering anywhere in our country or in the world again. However, there are other regions of the country that face natural disaster threats, and all of our cities are at risk of man-made disasters caused by terrorism. A FICO Disaster Information Shield, once developed, could enhance the integrity and predictability of all FICO scoring models while serving to avoid having those models operate perversely to deprive consumers who are trying to get back on their feet of credit or insurance at favorable prices and terms they would otherwise have been offered. An automatic FICO disaster information shield

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<sup>1</sup> Many consumer groups have deep policy concerns about the fairness of using a credit scoring/insurance scoring approach to underwrite insurance policies, and this request that such models not unfairly include Katrina-related information does not ameliorate those concerns.

would also prevent FICO scores from becoming a barrier to reemployment of displaced people looking for new work with employers who rely in part on credit scores.

For these reasons, we ask you to promptly develop, for each FICO score card, a FICO Disaster Information Shield that, for one year from the date of the disaster, excludes from the data which is scored all negative information associated with trade lines open at the time of the disaster for borrowers who had addresses in the affected areas on the date of the disaster. This shield would operate automatically on all FICO score cards now in use, without the need for the consumer to realize the impact of the economic disruption on his or her credit score, and could also be manually applied by lenders in specific circumstances where the address was outside the affected area but the consumer can show interruption of income caused by the disaster.

We would be happy to meet and talk with you about how to accomplish these goals.

Very truly yours,

Gail Hillebrand  
Consumers Union of U.S., Inc.

Travis Plunkett  
Consumer Federation of America  
Washington, DC

Ed Mierzwinski  
U.S. Public Interest Research Group (U.S. PIRG)  
National Association of State PIRGs  
Washington, DC

Chi Chi Wu  
National Consumer Law Center  
Washington, DC

Lisa Donner  
ACORN  
New York, NY

Ken McEldowney  
Consumer Action  
San Francisco, CA

Steve Cleary  
AkPIRG  
Anchorage, AK

Fredric D. Bellamy  
Phyllis Rowe  
Arizona Consumers Council  
Phoenix, AZ

Alan Fisher  
California Reinvestment Coalition  
San Francisco, CA

Lynda DeLaforge  
Citizen Action/Illinois  
Chicago, IL

Linda Hilton  
Coalition of Religious Communities  
Salt Lake City, UT

Peter Skillern  
Community Reinvestment Association of North Carolina  
Durham, NC

Albert Sterman  
Democratic Process Center, Inc.  
Tucson, AZ

Bill Newton  
Florida Consumer Action Network  
Tampa, FL

Cheryl Hystad  
Maryland Consumer Rights Coalition  
Baltimore, MD

Sarah Ludwig  
Neighborhood Economic Development Advocacy Project  
New York, NY

Brad Lamb  
North Carolina Consumers Council, Inc.  
Raleigh, NC

Sue Berkowitz  
South Carolina Appleseed Legal Justice Center  
Columbia, South Carolina

B.J. Kincade  
Victim's Committee for Recall of Defective Vehicles, Inc.  
Catoosa, OK

Irene Leech  
Virginia Citizens Consumer Council  
Richmond, VA