

## **Inside 1to1 Privacy**

**Date: 02/08/2007**

**Issue: February 8, 2007**

**People: Jay Cline**

### **Fair Isaac's myFico.com: Case Study of Privacy Transparency**

If you ask a hundred people what privacy means to them, it's likely that not a single one of them will say "transparency" or "openness," core principles embedded in privacy laws from the Yukon to Down Under. But ask those same people if they'd like to know what makes up their credit score, and all 100 will raise their hands.

This disconnect has lent itself to one of the most unique case studies in the privacy arena. Within a generation, the FICO credit score has acquired enormous influence in American life, determining what interest rates we qualify for and how much of a house we can buy. At the same time, all of this is done through daily intercompany exchange of some of our most sensitive information. If there ever were a situation demanding the highest privacy standards, this is it.

So have you ever asked yourself who makes your FICO score? I did last month, and I found some intriguing answers.

You might think it's the major credit-reporting agencies (CRAs) – Experian, Equifax, or TransUnion – that create this score. In fact, the CRAs do play a central role in the process.

But it's actually the Fair Isaac Corporation steadily growing, 2,700-employee company based out of Minneapolis – that owns the secret FICO formula. Founded in 1956 by William Fair and Earl Isaac, the \$800 million firm sells more than 100 information products and services to 2,600 companies in 60 countries, according to its Web site. Their stated aim is to help businesses make decisions and fight fraud.

The CRAs and Fair Isaac launched the FICO score process in 1989.

"Fair Isaac provides the formula to the CRAs," said Craig Watts, Public Affairs Manager for Fair Isaac. The CRAs subsequently use the information they receive about people seeking credit to calculate their FICO scores. The CRAa then sell those scores to lenders.

"There are 10 scorecards built into the score," Watts said. There is one for people who've declared bankruptcy, one for "thin file" consumers with a limited credit history, and eight others for people with different kinds of delinquencies. Each person is routed

into one of these scorecards that will generate a FICO score between 300 and 850, Watts explained.

"The median score in America is 723," he said, but just 13 percent top 800.

To most people, though, their credit score has remained a mystery. When ordinary Americans have applied for credit in the past, they have felt at the mercy of a secretive process that uses their personal information against them.

Enter [myFico.com](http://myFico.com). Launched in 2001, amid similar moves by E-Loan to disclose credit scores to consumers for the first time, the site allows you to view all three of your credit reports, chart your FICO score over time, and, this is the neat part – run simulations that show how financial choices you make will change your score.

I ran the free trial, and found out my score was 748. I ran the simulator, and it warned me that if I took out a car loan right now, my score could drop to 718. But keep all my payments on time for a few more months, and I could bump it up to 768, putting me in the top bracket qualifying for the lowest interest rates. Better to wait a few months before getting the car.

Arming consumers with this information and a way to understand the impact of their decision-making is a good example of empowering people to control their information, and in the process, winning one small battle for privacy.

If your company ranks its customers and gives better deals and services to those with the highest scores, take a chance – make your scoring process transparent for them. They just might try to "up" their score with you.