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## NEWS RELEASE

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### Financial Literacy Tip of the Week

#### TRADITIONAL AND ALTERNATIVE CREDIT SCORING

**Boise, Idaho...** Traditionally credit reporting information and credit scores from the three nationwide consumer reporting agencies have been the cornerstone of a consumer's credit worthiness. As finance continues to become more digitalized and increasingly automated, non-traditional payment histories are being considered by some lenders to evaluate the credit worthiness of an applicant. Alternative information may include but is not limited to a consumer's on-time monthly rent, telecommunications and utility payments, bank account information, employment verification, and educational background.

The Department reminds Idaho consumers to stay up to date on how both traditional and alternative credit scoring methods are evolving so that they have every opportunity to secure good credit.

"We understand that most Idahoans are very busy and don't want or necessarily need, to be credit experts," said Patricia Perkins, Director of the Idaho Department of Finance. "However, it is important for consumers to understand that their credit history and scores will cost them or save them thousands of dollars over a lifetime and should be prioritized."

For decades lenders and others have relied on core credit data focused on financial borrowing and repayment behavior, however even in the traditional credit scoring world, there is no "one" credit score. This number will vary depending on who is calculating the score and the mathematical formula used, and typically factors in a consumer's payment history, the age of accounts, ratio of debt to income, delinquencies, and inquires. Understanding the information on your credit report and knowing how to dispute inaccuracies are fundamental steps in safeguarding credit.

Many financial institutions and third-party companies have made it easier than ever for consumers to monitor their credit, often providing periodic alerts or reminders when a change has occurred. At a minimum, consumers should check their credit reports every year through [annualcreditreport.com](http://annualcreditreport.com) and fix any errors. Under the Fair Credit Reporting Act, consumers have a right to file a dispute with credit reporting companies to correct inaccuracies on their reports.

Evaluating a consumer's financial health using traditional scoring models is an increasing challenge for lenders. Fewer than 60 percent of millennials use credit regularly, and about 21 percent have very little or "thin" credit, even though they may have greater assets or income than peers with "thick" files according to Pew Research. In response, lenders are considering the value in the alternative data sources to better determine a consumer's loan eligibility.

There are risks associated with alternative data collection and use that include consumer privacy concerns, inadvertent discrimination, or violation of fair lending laws.

Consumers wanting to include alternative data scores usually must opt-in to credit products offered by private companies that collect this data for a credit score, although some existing products are currently also offered by credit bureaus. Meanwhile the ways to build traditional credit have not changed. Consumerfinance.gov provides the following guidance:

- Pay every bill on time.
- Keep credit card balances low relative to your credit limits. This benefits a highly influential scoring factor called credit utilization.
- Be judicious about applying for new credit. A flurry of new applications can suggest financial distress.
- Keep old credit card accounts open unless you have a compelling reason to close them, such as a high annual fee. Their credit limits help your credit utilization and older cards also contribute to credit age, a minor factor in your score.

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*Consumers can obtain information about financial firms, professionals, or products, as well as view more Department press releases and other information on the internet at <https://finance.idaho.gov> or by contacting the Department at (208) 332-8000 or Idaho toll-free at 1-888-346-3378.*