

Hello Everyone,

Today's missive avoids adding to the cacophony of political chatter. Instead the focus is the arcane subject of FICO scores.

Yes sirree (!), if you are having trouble getting a date, just talk FICO. That's my saying.

Signed Your Was-Excited-The-Political-Ads-Were-About-To-End-But-Was-Then-Told-2020-Campaigns-Are-Already-Prepping Financial Advisor,

Greg

KKOB 11.05.2018 Have We Lost Our Minds? FICO

Bob: So, Greg, your topic this morning is, "Have we lost our collective minds?" Is that right?

Greg: It is. And, it has nothing to do with the elections. And since no one knows what will happen tomorrow, let's focus on something the politicians (regardless of whomever wins) will likely have to deal with once the election is over. And, that something is---the thrilling subject of---FICO scores. Bob, you're familiar with FICO scores, right?

Bob: Sure: It's your credit score. A high FICO means you can get a loan at a low rate---- and a low score means you either pay higher interest --- or you can't get a loan at all.

Greg: Excellent—and right. So, do you remember in the not-so-distant past...only 10-15 years ago...when the following happened:

- Banks lowered lending standards, so people with poor credit could qualify for loans?
- Then, the rating agencies turned a blind eye to this claptrap and rated billions in questionable loans as A+?
- And, the Federal Government approved and encouraged the whole thing in the name of equality?
- And, then housing prices popped down, flipping houses no longer worked, millions of people couldn't pay their loans, the housing bubble popped, stocks tanked, and the economy went into a tailspin?

Do you remember all that?

Bob: How could I forget? It was a disaster. Some never recovered. We said we'd never let it happen again. But, I'm guessing you're about to tell me we're doing something similar to back then.

Greg: I think we are. Here's what's going on. The fact is millions of Americans have no FICO score. They either have no credit history or their credit score is so bad their FICO is zero.

So, the geniuses at FICO decided to change their methodology regarding how they calculate credit scores. And, here's what they did.

Even if you have a history of not paying your bills.... if you can somehow manage to keep \$400 in your bank account, and not overdraw for two consecutive months, you now get a big boost to your credit score.

Thus, over seven million people who couldn't previously qualify can now get car loans, mortgages, credit cards, student loans. You name it. Oh, and people who were deemed marginal borrowers before are now boosted to higher levels as well.

Bob: But, like you just said, this is what contributed to the housing bubble. So, why are they doing this? There must be a reason.

Greg: Here's their explanation. FICO said they "*found problems with credit reporting and recommended changes to help consumers.*" Uhhh, OK. I guess I get that. We all want people to have a chance in life, but the timing of this couldn't be worse.

Here are some fun facts, that might argue for doing the exact opposite.

- Overall debts levels—not just here in the US, but globally-- are at their highest levels---ever!
- 14% of the companies in the S & P 500 don't even generate enough income to pay the interest on their debts. And 40% of corporate debt is rated just one step above junk or lower.
- Consumer debt will hit \$4 trillion (!) this year...yet another record.
- And credit card, auto, and student loan debts are at all-time highs.

Sometimes, I think I should have a pillow in my office, so when I read stories like the FICO one, I can just scream into it without upsetting the people in the offices next to me.

Anyway, there's my rant. Happy Monday. If you haven't done so already, go vote. Oh, and invest with an eye toward, "Uh oh, the politicians are going to have to solve a debt problem again."

Bob: I want a pillow in the studio, but it would be so I could take a nap during the news....but, never during the business report!! How do people reach you?

Greg: Yeah, yeah. You're probably started drinking Red Bull as soon as I said FICO score. My number is 508-5550, 508-triple-5-zero. Or go to my website at zanettifinancial.com.

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