MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

GREAT SEAL STATE OF NORTH DAKOTA

ROLL NUMBER

DESCRIPTION

1428

2001 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1428

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1428

House Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date Feb. 5 2001

Tape Number	Side A	Side B	Meter #
2	X		7.05-27.07
3	X		9.08-15.59
Committee Clerk Signature			

Minutes: Chairman R. Berg, Vice-Chair G. Keiser, Rep. M. Ekstrom, Rep. R. Froelich, Rep. G. Froseth, Rep. R. Jensen, Rep. N. Johnson, Rep. J. Kasper, Rep. M. Klein, Rep. Koppang, Rep. D. Lemieux, Rep. B. Pietsch, Rep. D. Ruby, Rep. D. Severson, Rep. E. Thorpe.

Rep Mike Grosz: Sponsoring bill to define the rating score for insurance companies.

Rep Johnson: How do you police this?

Rep Grosz: They would have to give you two reasons why you are being denied.

Rep Kim Koppelman: Currently you can be denied insurance because of a credit problem even if your credit is an unrelated issue. This is a post consumer regulation.

Pat Ward: *ND Domestic Insurance Co.* **Opposed with written testimony.**

Rep Froseth: How is potential-to-earn rated?

Ward: It's based on performance with credit but flexibility is offered.

Kent Olson: *NDPIA* We are mildly opposed.

Vice-Chairman Keiser: We'll close the hearing on HB 1428.

Rep Keiser: I move a do not pass.

Rep Koppang: I second.

13 yea, 0 nay, 2 absent **Carrier Rep Froseth**

Date: 2-5-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. ~~Click here to type Bill/Resolution No.~~ 1428

House Industry, Business and Labor Committee

☐ Subcommittee on
or
☐ Conference Committee

Legislative Council Amendment Number

Action Taken Do Not Pass

Motion Made By Keiser Seconded By Koppang

Representatives	Yes	No	Representatives	Yes	No
Chairman- Rick Berg	✓		Rep. Jim Kasper	✓	
Vice-Chairman George Keiser	✓		Rep. Matthew M. Klein	✓	
Rep. Mary Ekstorm	✓		Rep. Myron Koppang	✓	
Rep. Rod Froelich			Rep. Doug Lemieux		
Rep. Glen Froseth	✓		Rep. Bill Pietsch	✓	
Rep. Roxanne Jensen	✓		Rep. Dan Ruby	✓	
Rep. Nancy Johnson	✓		Rep. Dale C. Severson	✓	
			Rep. Elwood Thorpe	✓	

Total (Yes) 13 No 0

Absent 2

Floor Assignment Rep Froseth

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

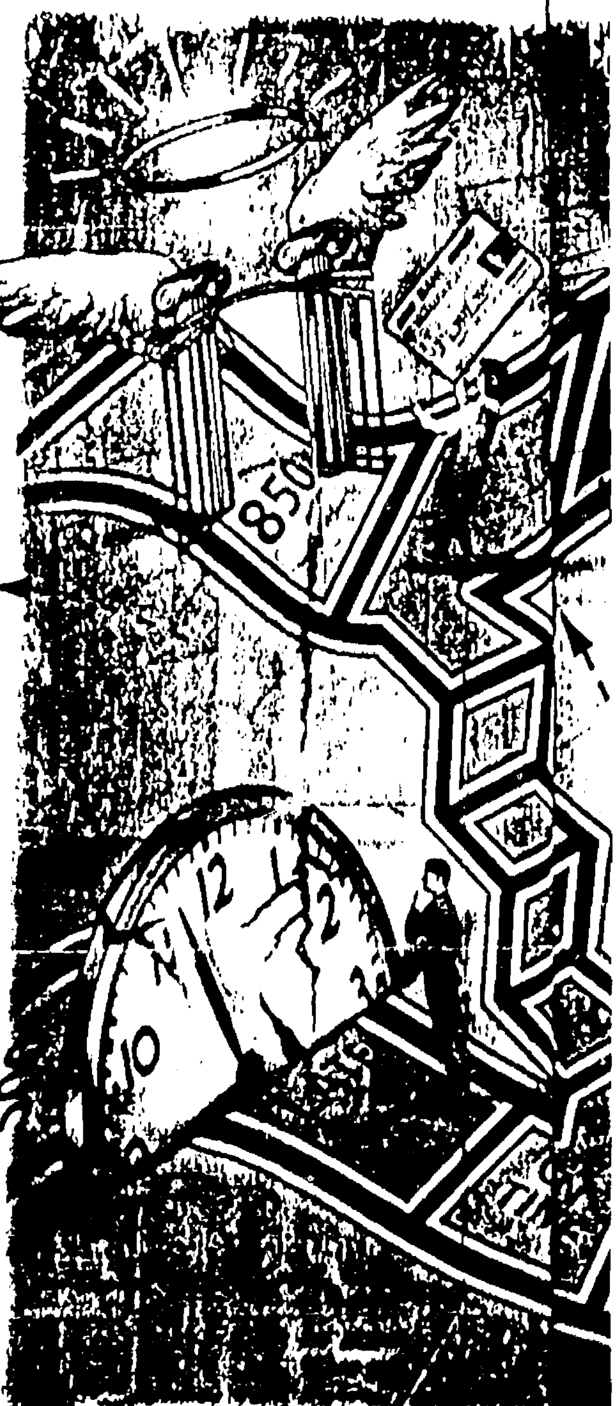
HB 1428: Industry, Business and Labor Committee (Rep. Berg, Chairman) recommends **DO NOT PASS** (13 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1428 was placed on the Eleventh order on the calendar.

2001 TESTIMONY

HB 1428

NEWS YOU CAN USE

Credit-scoring secrets are soon to be revealed



BY PAUL J. LIM

You lost, scoring only 550. Your dutiful neighbor won, with an 800, headed for that five-bedroom manse in the suburbs. Your sister is right on the cusp, with a 620, her loan application sitting in purgatory awaiting further review.

This is the world of credit scoring, where a little-known three-digit number called your "FICO score" pretty much determines whether you'll get the house of your dreams or the car of your fantasies. It's not unlike high school, when SAT scores separated the most likely to succeed from the also-rans. Someone is still keeping tabs, in a decision-making process obscured from public view.

But that's about to change. Before the end of March, Fair, Isaac & Co. of San Rafael, Calif., creator of the FICO credit-scoring system, and Equifax, a leading credit bureau, will begin making these scores—which range from 300 to 900—available at their Web sites for a nominal fee. Fair, Isaac still won't disclose the precise methodology by which it determines the creditworthiness of borrowers, based on the amount of debt they have outstanding and their history of paying bills. But even though the scoring process may seem hard to fathom, knowing your FICO number is helpful in figuring out how to get the best deal on many types of loans. That's valuable information because 75 percent of all mortgage loans are sorted on the basis of FICO scores. "Lenders are increasingly relying on these scores," says Chris Larsen, CEO of online lender E-Loan. Dependence on credit scores has deepened since the FICO model was established in 1988 as an increasing number of lenders moved to automated loan approvals. "Many loan products, including some home-equity loans and auto loans, are based almost entirely on your FICO score," adds Larsen.

Despite their importance, FICO scores have largely been kept secret from consumers. But growing pressure from consumer groups led to congressional hearings late last year, and California will require lenders to disclose credit scores beginning this summer, along with an explanation of why scores weren't higher.

By the numbers. The changes couldn't have come at a better time. Even with the slowing economy, home sales are strong. Rates on 30-year fixed-rate mortgages have fallen from 8.65 percent last May to around 7 percent now, opening up a floodgate of refinancing activity.

Now, armed with your FICO number, you will be able to review your credit practices and begin making adjustments to boost your scores. However, you may be surprised to find out that some moves may actually be counterproductive—such as closing out a little-used credit card dating back to college, which shortens your credit history. You will learn that searching often for the best online mortgages can have a deleterious effect on your credit score, suggesting a hunger for debt that will unnerve potential lenders.

Most of those lenders will be happy if your score is 700 or higher. Even though you may still qualify for a loan with a lower score, it will cost you. E-Loan recently examined auto loans and found that consumers with scores of 720 or higher could expect rates of about 7.1 percent, while those scoring between 680 and 719 were getting loans at 9 percent. Meanwhile, if you scored 640 to 679, you would have been charged 10 percent. Anything under 640 and you'd likely be looking at rates of 11 percent or more. The differences add up. A $20,000 car loan for five years at 11 percent will wind up costing you $5,500 *more for the life of the loan than if financed at 7.1 percent.*

But what if your score falls below 680, the point at which many lenders begin examining an application more closely, or below 620, which many lenders consider problematic? What can you do to improve your score? First, you need to understand how your score is calculated:

Payment history. This is the key determinant of your score: Thirty-five percent of the number is based on whether you've

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paid your bills on time. Fortunately, most consumers do so. Sixty percent of borrowers score 700 or higher, which is considered good, if not excellent. Meanwhile, only 13 percent fall below 600.

Debt levels. Your total amount of debt, including balances on credit cards, car loans, and student loans, accounts for the next 30 percent of your score. "So keep balances low in general, especially on revolving debt," notes Fair, Isaac general manager Cheri St. John. That's exactly what Paul Makris did two years ago. In an effort to refinance his home mortgage at the lowest rate, the 48-year-old attorney in Huntington Beach, Calif., cashed in some stock market winnings and paid off about $46,000 on two outstanding car loans. He then used another $10,000 to pay off the balances on four credit cards. The move raised his score, already in the 700s, by about 20 points, his mortgage broker told him. Though pleased, Makris says he "was a bit shocked" that erasing his debts didn't improve his credit more.

Makris's experience points out one of the many quirks in the FICO system. Makris quite naturally thought he would get more credit for eliminating his card balances. "Everyone would agree that paying off revolving debt is a good thing," says Fair, Isaac spokesman Craig Watts. But all things being equal, "having a little balance on a line of credit is a little better than no balance at all," he says. A zero balance provides less information to the FICO scoring model about one's ability to manage debt than keeping a small balance.

Credit history. How long you have had credit counts for 15 percent of the FICO score. In addition to keeping credit card balances at zero, many cardholders go the extra step and close out old accounts. While financial planners say this is a good move, it could end up lowering your score. FICO scores take into account both the age of your oldest account and the average age of all your accounts. By closing out old cards, you may inadvertently lower your score by shortening your credit history.

Closing old accounts can hurt in another way. The FICO model rewards consumers who maintain a big cushion between their outstanding balances and

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