

FICO Shakes Up Market For Credit Scores

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Fair Isaac is upending the credit-scoring industry by giving mortgage lenders a way to get its credit scores without buying them from Experian, Equifax or TransUnion.

Shares of Fair Isaac, which goes by the name FICO after its well-known credit score, surged 18% Thursday and the shares of the credit-scoring firms fell as much as 11%.

The change, announced late Wednesday, is among the biggest shake-ups to the credit-scoring system in decades, reflecting regulatory scrutiny in the second Trump administration. Earlier this year, the Federal Housing Finance Agency authorized lenders to use FICO rival VantageScore—built by the three credit bureaus—for government-backed mortgages, challenging FICO's monopoly over the \$13 trillion mortgage market for the first time.

Until now, mortgage credit specialists known as tri-merge resellers had to purchase FICO scores through Experian, Trans-Union and Equifax to provide lenders with a combined score drawing from all three. These resellers exist because federal guidelines require mortgage lenders to evaluate scores from each bureau, but lenders prefer to work with a single company.

FICO sells algorithms that generate three-digit credit scores based on data compiled by the credit bureaus and doesn't have access to the same type of customer data on its own. That means resellers will still have to pay bureaus for credit reports, even if they opt to buy the score directly from FICO.

FICO's new program streamlines that process by letting resellers buy scores straight from the company for \$4.95—the same price it charges credit bureaus—and an additional \$33 once a loan closes. Under the new program, both fees are charged for scores from each credit bureau. After credit-bureau markups, the average cost for resellers and other mortgage companies is about \$10 a score.

Dan Smith, president of the Consumer Data Industry Association that represents the three credit bureaus, said the direct license program amounts to "another price increase by FICO."

The trade group said the \$33-per-score closing fee could add \$99 to the cost of a typical mortgage, since federal guidelines still require lenders to pull reports—with the underlying data

not provided by FICO—from each of the major bureaus. On mortgages with two borrowers, the closing fee total would rise to \$198. Resellers and lenders usually pass at least some of these fees onto borrowers in closing costs.

In the past, credit bureaus have blamed the rising costs of credit checks on FICO, which has raised its fee from 60 cents in 2018. The credit firms have long profited from reselling scores.

Analysts at TD Cowen called the move "politically positive," arguing it could ease pressure from Washington. Housing regulators have pressed to reduce the cost of pulling credit scores to help home buyers in a historically unaffordable market.

In a social-media post Thursday, FHFA Director Bill Pulte called the move by FICO a "first step." He urged the credit bureaus to "take similar creative and constructive actions" and VantageScore to ensure "they are competitive, in every way, including but not limited to costs."

How much cost savings get passed down to lenders and borrowers depends on how credit bureaus and resellers respond. Choosing to participate in FICO's new program would require new workflows in an industry historically resistant to

change.

Representatives for Cotality and Factual Data, two of the largest tri-merge resellers, said the companies haven't decided whether to participate.

Bob Broeksmit, chief executive of the Mortgage Bankers Association, said in a statement that the change was a "step in the right direction" but that it "remains to be seen" whether it would result in materially lower costs.

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