The evidence that the industry was ever good at sorting borrowers into “risky” and “not-so-risky” categories is slim at best. Particularly in the subprime market, price and risk did not correlate closely. A California study found that 60% of subprime borrowers believed they had good or excellent credit. In 2005, borrowers with FICO scores of 700 or higher who found themselves in the subprime market nonetheless paid 0.29 percentage points more than borrowers in the prime market with FICO scores below 600. Lenders’ reliance on credit scores to determine risk may also be misplaced. Evidence suggests that credit scores have become less predictive of default risk.

Footnotes


Prime, subprime, and Alt-A mortgage loans are defined in § 2.4 [1], infra.


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Links
[1] https://library.nclc.org/nclc/link/ML.02.04