

Math in Social Context: How Does FICO Score Discriminates People?

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Statement of Problem

The FICO Score, the standard credit score, is used as a weapon of mathematical destruction as its algorithm creates a systematic discrimination against a disadvantaged racial group.

Background

Equal Credit Opportunity Act:

Prior to the FICO Score, the U.S. lenders granted credit based on the characteristics of their consumers such as race, gender, and more.

In 1974, the Equal Credit Opportunity Act prohibits lending discrimination based on race, color, religion, national origin, marital status, age, and etc.

Redlining:

Redlining discriminated black inner-city neighborhoods so that residents of the areas cannot accumulate wealth through real estate.

Furthermore, those group of racial and financial minorities also got systematical denials of mortgages, insurances, loans, and other financial services based on location.

Possible Suggestions

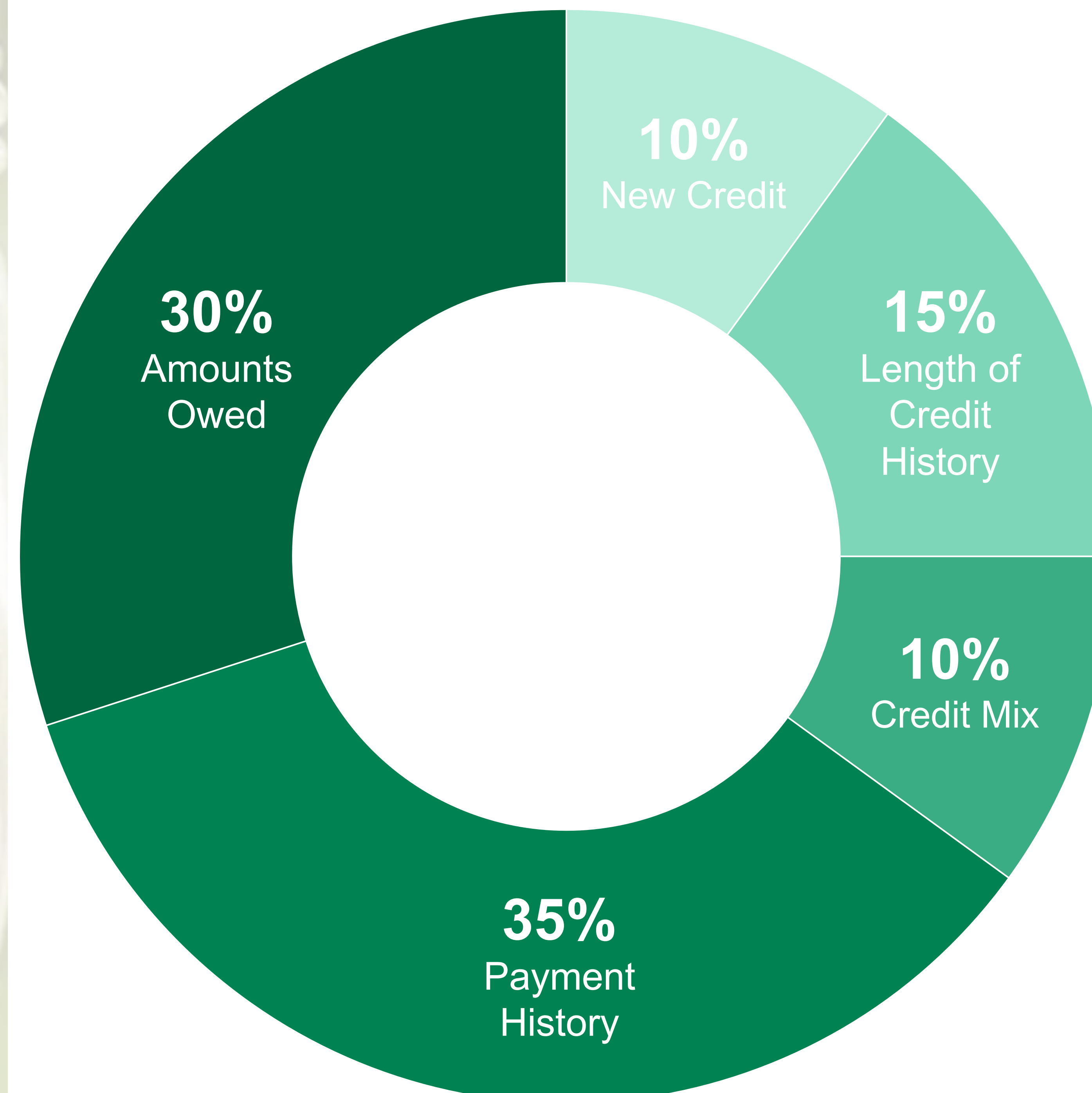
The most credit scoring models only consider homeowners' housing payments and ignore rentals' rental payment history, which put many Black consumers at a disadvantage. Thus, many research suggests the models should include cash flows and payment history on rent and utilities.

How Does FICO Score Discriminates?

Although FICO Score was introduced to provide an equal financial opportunity for everyone, underlying relationships between determinants of FICO and racial discrimination cause the score to be affected.

For example, while homeownership can help one's FICO Score, it is also partially affected by redlining. Thus, minorities are negatively impacted, and will have lower scores than whites in comparable situations. As such, it becomes much harder to borrow and create generational wealth.

FICO CREDIT SCORING FACTORS



Sources

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