

FICO[®] scores and the Credit Underserved Market

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Roundtable on Using Alternative Data Sources in Credit Scoring

Challenges and Opportunities

PAID

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What we'll cover today

- ▶ Basic facts about FICO scores
- ▶ FICO scores and the Credit-Underserved Market
- ▶ Attempts by Fair Isaac to use of alternate data sources – the FICO® Expansion™ score
- ▶ Where consumers can obtain additional information about credit reports, scores and their use

FICO® score definition

The “FICO score” is a summary of the information on a consumer’s credit file.

It is a single, 3-digit number between 300 and 850 which rank-orders consumers according to risk, and includes 4 text explanations of how score could have been higher

Higher scores equate to lower future risk of default

While consumers do not see these names, FICO scores are marketed as:

Beacon by Equifax

Experian/ Fair Isaac Risk Model by Experian

FICO® Risk Score, Classic (formerly *Empirica*) at TransUnion

FICO score predictive characteristics



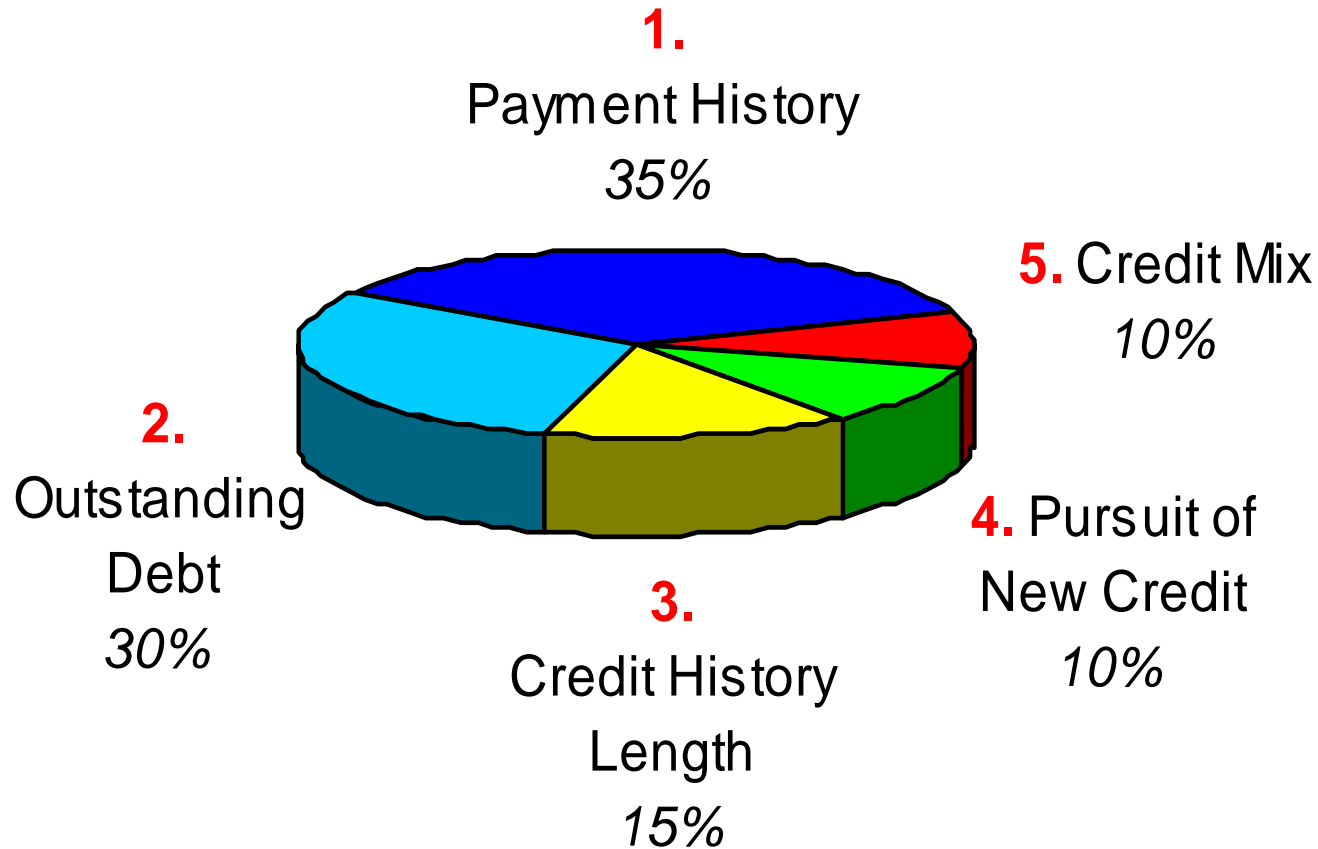
CONSIDERED

- Tradelines*
- Inquiries*
- Collections*
- Public Records*

NOT CONSIDERED

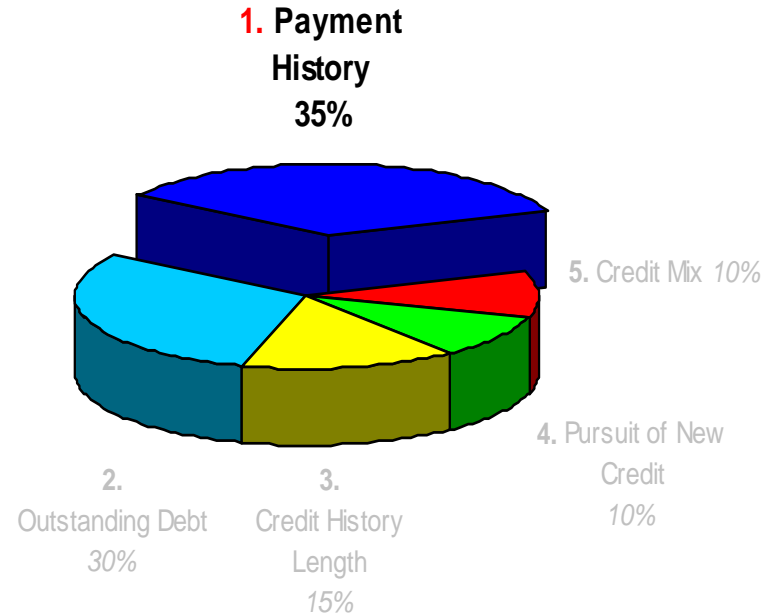
- Age*
- Address*
- Employment*
- Income*
- Gender*

The 5 areas a FICO score considers



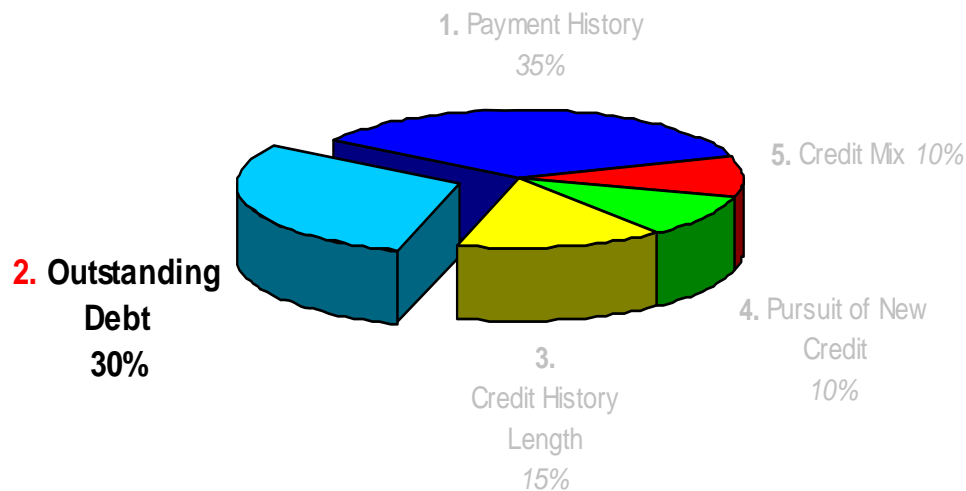
1. Payment History – Key Factors

- ▶ Were bills paid on time, as expected or not?
- ▶ How far past is the most recent delinquency, collection or public record item?
- ▶ How severe was the worst delinquency – 30 days, 90 days?
- ▶ How many credit obligations have been delinquent?



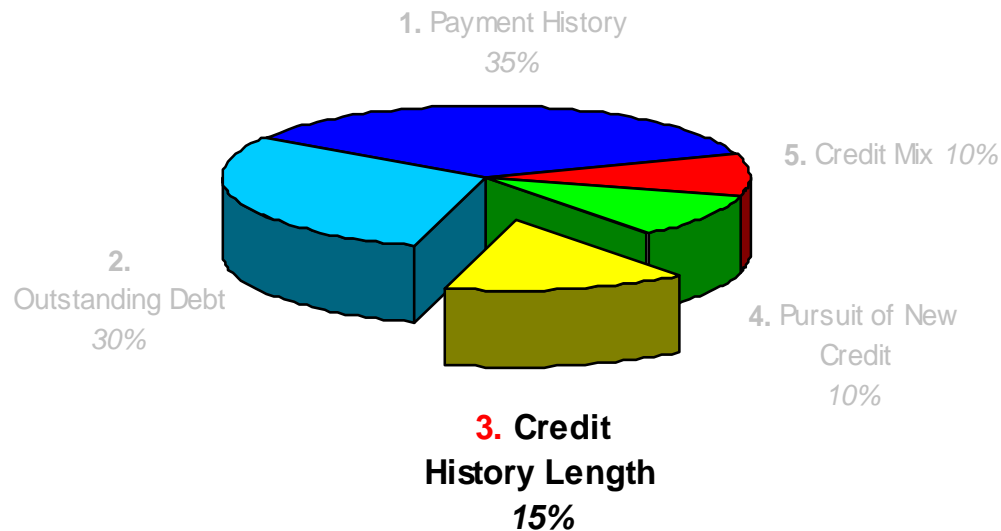
2. Outstanding Debt – Key Factors

- ▶ What percentage of available credit card / revolving limits is the consumer using? (The more “maxed out”, the worse.)
- ▶ Installment debt - *# of open installment loans w/balance loans*



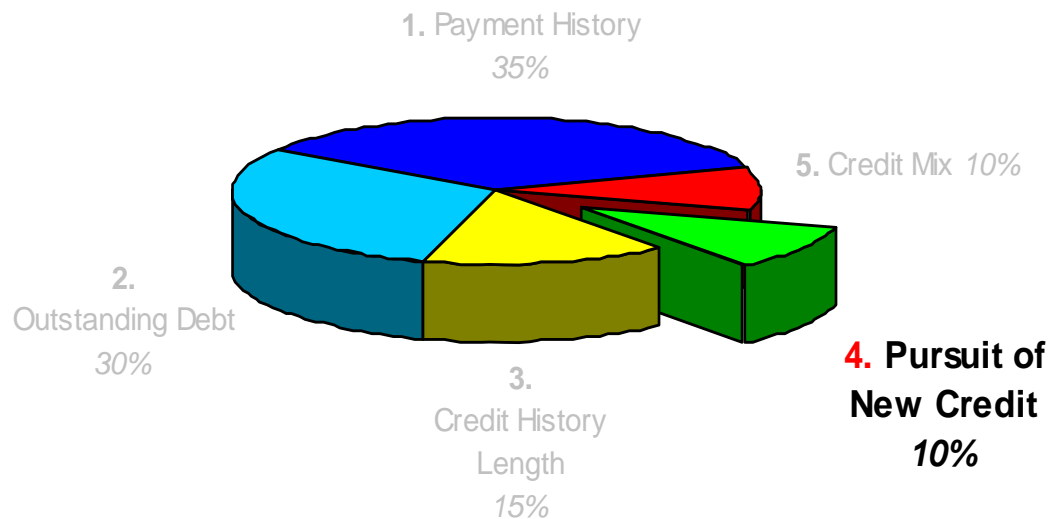
3. Credit History Length – Key Factors

- ▶ How long accounts have been established – average number of months that accounts have been open
- ▶ New accounts - *number of months since most recent account opening*



4. Pursuit of new credit – Key Factors

- ▶ Inquiries - *number of recent inquiries (last 12 months)*
- ▶ New accounts - *number of trade lines opened in last year*



The credit-underserved market and FICO scores



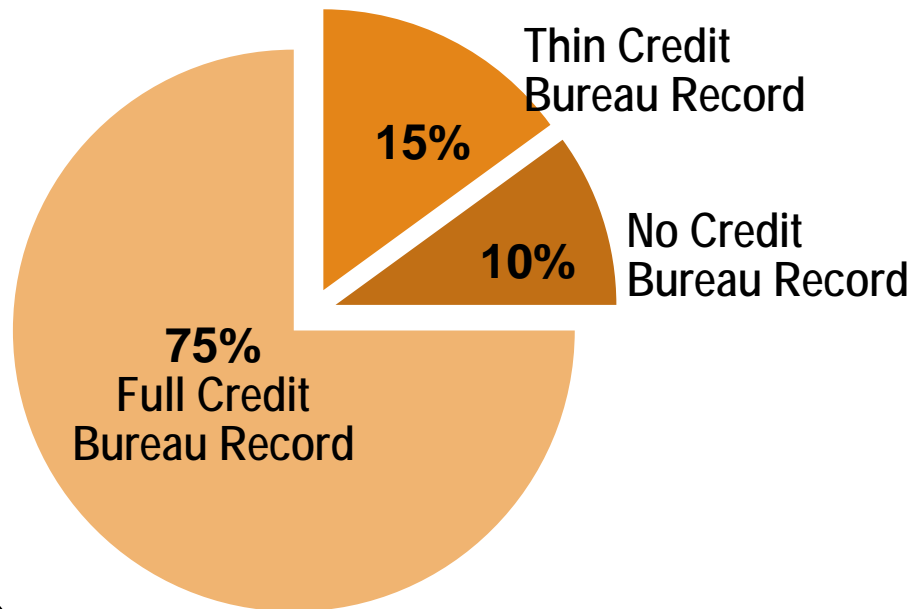
- ▶ The credit-underserved market is comprised of individuals who pay bills and are otherwise credit eligible yet have little or no history at the major credit bureaus
- ▶ Consequently, they have no FICO score
- ▶ These individuals are often then ineligible for traditional credit programs, which results in their paying
 - ▶ Higher rates and fees
 - ▶ Higher down payments
 - ▶ More punitive terms and conditions
- ▶ This non-homogenous group includes immigrants, young adults (especially non-college youth), recently divorced/widowed, and groups culturally adverse to credit use (retirees, ethnic groups that distrust banks/credit grantors)

The underserved market represents a tremendous opportunity

- ▶ About **50 million US adults**
- ▶ Underwriting just 3% of this market creates **\$2.3 billion for mortgage lenders**
\$750 million for auto lenders and
\$113 million for credit card issues



US Adult Population



210 million adults in US

160 million have a full credit bureau record

- ▶ “scorable”

30 million have a thin credit bureau record

- ▶ “no score”

20 million have no credit bureau record

- ▶ “no hit”

The Expansion score brings the power of FICO scores to the underserved market



▶ Uses alternative data

- ▶ Positive Alternative Credit Data
- ▶ Negative Alternative Credit Data
- ▶ Thin File Credit Data
- ▶ Public Record Data
- ▶ Lender Verified Data
- ▶ Application Data
- ▶ Actively exploring additional data sources

▶ Fully regulatory compliant

- ▶ Consumer dispute process built and operational
- ▶ FCRA, GLB, ECOA and FACT Act regulatory compliant

FICO® Expansion™ score

brought to you by



Scorable rates exceed 60% for key lending segments



	Mortgage	IL/Auto	Bankcard	Retail
Scorable rate	80%	95%	82%	62%

Barriers to implementation

- ▶ **Lenders skeptical of underlying data sources**
 - ▶ Concerns over “limited coverage”
 - ▶ Doubtful of predictive power
 - ▶ Traditional higher loss performance of “no hit” and “thin file” populations
- ▶ **Legislative and regulatory prohibitions that block underserved credit granting and data sharing**
 - ▶ State legislative acts to freeze or restrict data reporting in a misguided attempt to protect against ID Theft
 - ▶ Public utility commission restrictions on the use of reporting
 - ▶ Misinterpretation of federal guidance pertaining to sub-prime
- ▶ **Fear that GSEs and secondary market will not buy deals scored using alternate credit data**

FICO® Expansion™ score
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Credit Services, Inc.
a Fair Isaac company

For more information on credit reports and scores:



- ▶ Banks/credit unions – outreach programs
- ▶ Federal/State level government agencies including www.annualcreditreport.com / FACT Act rights
- ▶ Various associations (AAA.com, AARP.com, etc.)
- ▶ Consumer protection agencies (Consumer Federation of America)
- ▶ Financial assistance providers (CCCS, Suze Orman, etc.)
- ▶ The credit reporting agencies
- ▶ Fair Isaac consumer portal (www.myFICO.com)

Questions & Answers

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