

**FICOTM WORLD
2010**
**POWER UP
PROFIT
IN THE RESET
ECONOMY**
April 13-16 InterContinental Miami

Credit Scoring Basics

FICO World Preview

Julie Wooding
Principal Consultant, Scores
FICO

FICOTM

This presentation is provided for the recipient only and cannot be reproduced or shared without Fair Isaac Corporation's express consent.

© 2010 Fair Isaac Corporation.

FICO World Preview – Workshop Session

- » Special, Pre-Conference Session
- » Full Day of Practical Workshops
- » Six Industry Experts on Hand
- » Best Practices, Advice and Examples
- » Free with Conference Registration
- » 30% off Conference Fee



Agenda

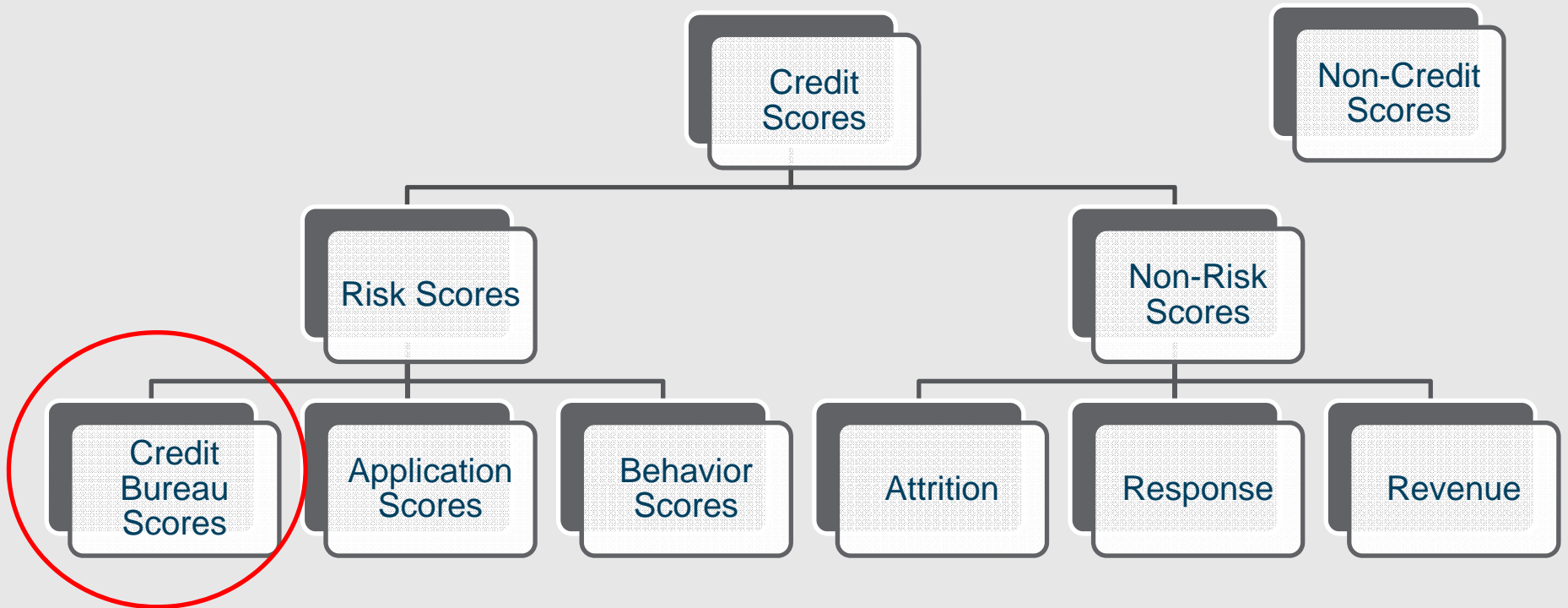


- » Credit Scoring Basics
- » FICO® Score Content
- » Preview of Full FICO World Session

A **statistical process** whereby information about a credit applicant or an existing accountholder is **converted into a numerical score.**

This score is then regarded as a **measure of the credit risk** of the individual concerned (i.e., the probability of repayment).

Types of Scores







The FICO® credit bureau risk score is a summary of the information on the credit bureau file.

It is a single 3-digit number which rank orders consumers according to risk.

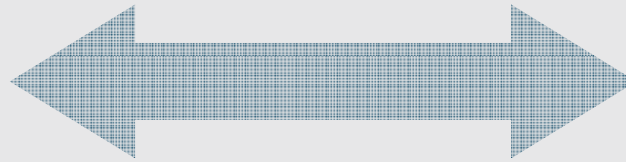
- » FICO® Scores 300 – 850®
- » Industry Scores 250 – 900
- » NextGen Scores 150 – 950
- » FICO® Expansion® 300 – 850®

Credit Bureau Risk Score Products – U.S.



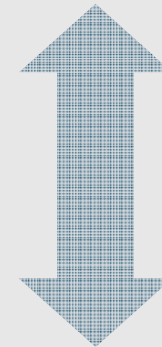
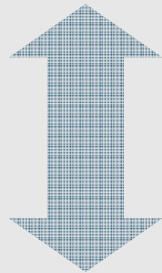
Product				
Classic FICO® Score	BEACON®	FICO® Risk Score, Classic	Experian/ FICO® Risk Model	FICO® Expansion® Score
Classic FICO® Industry Options	Auto Bankcard Mortgage	Auto Bankcard	Auto Bankcard	—
NextGen FICO® Score	Pinnacle SM	FICO® Risk Score, NextGen	Experian/ FICO® Advanced Risk Score	—
Bankruptcy Model	—	FICO® Bankruptcy Risk Score	Experian/ FICO® Bankruptcy Score	—

The Relationship “Web”



Consumers

Credit
Grantors

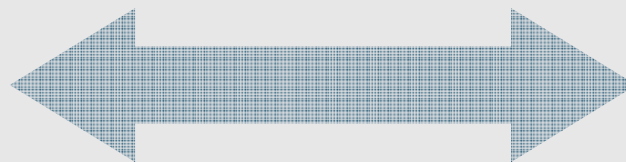


EQUIFAX®

Experian™

TransUnion®

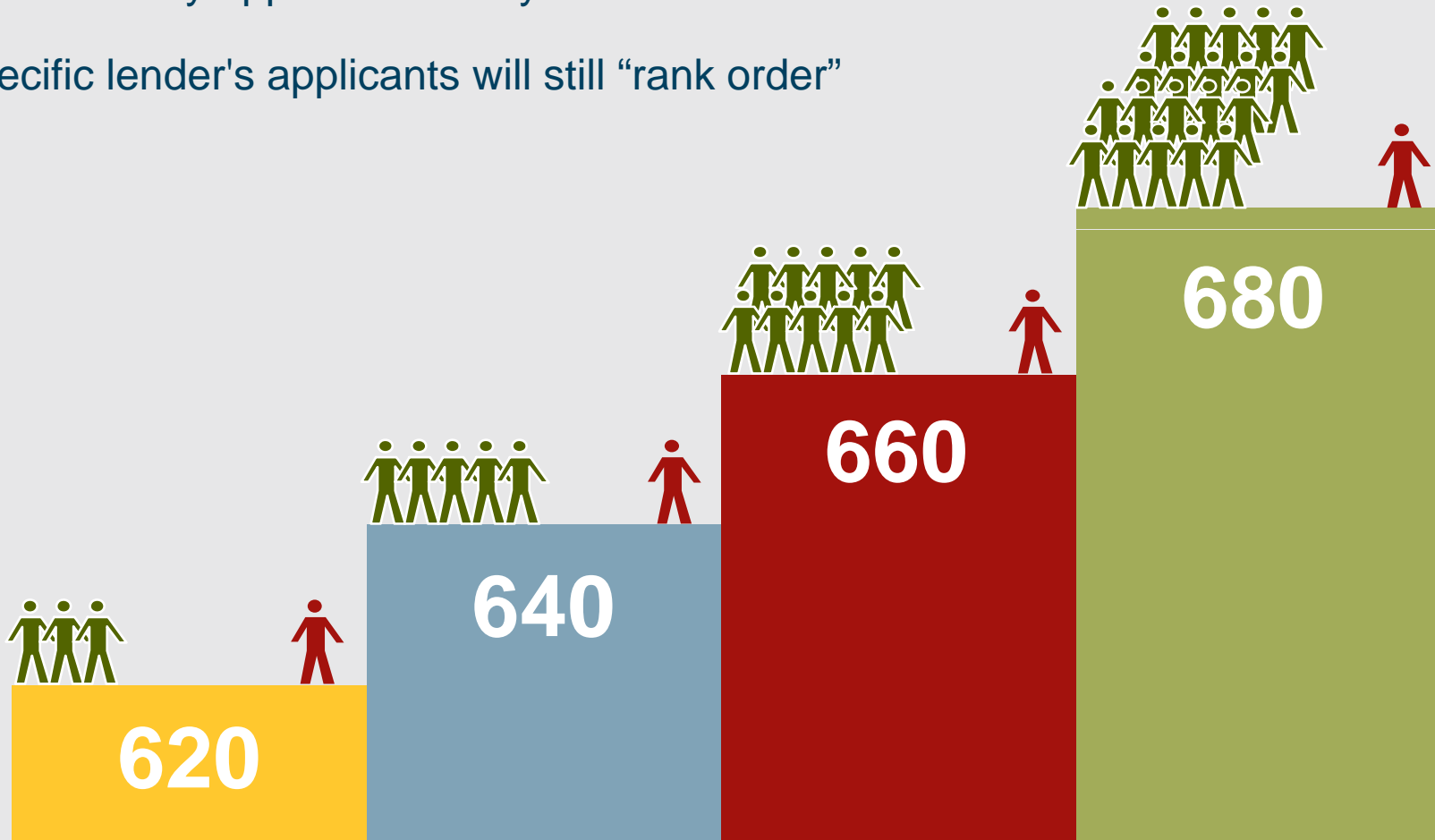
FICO™



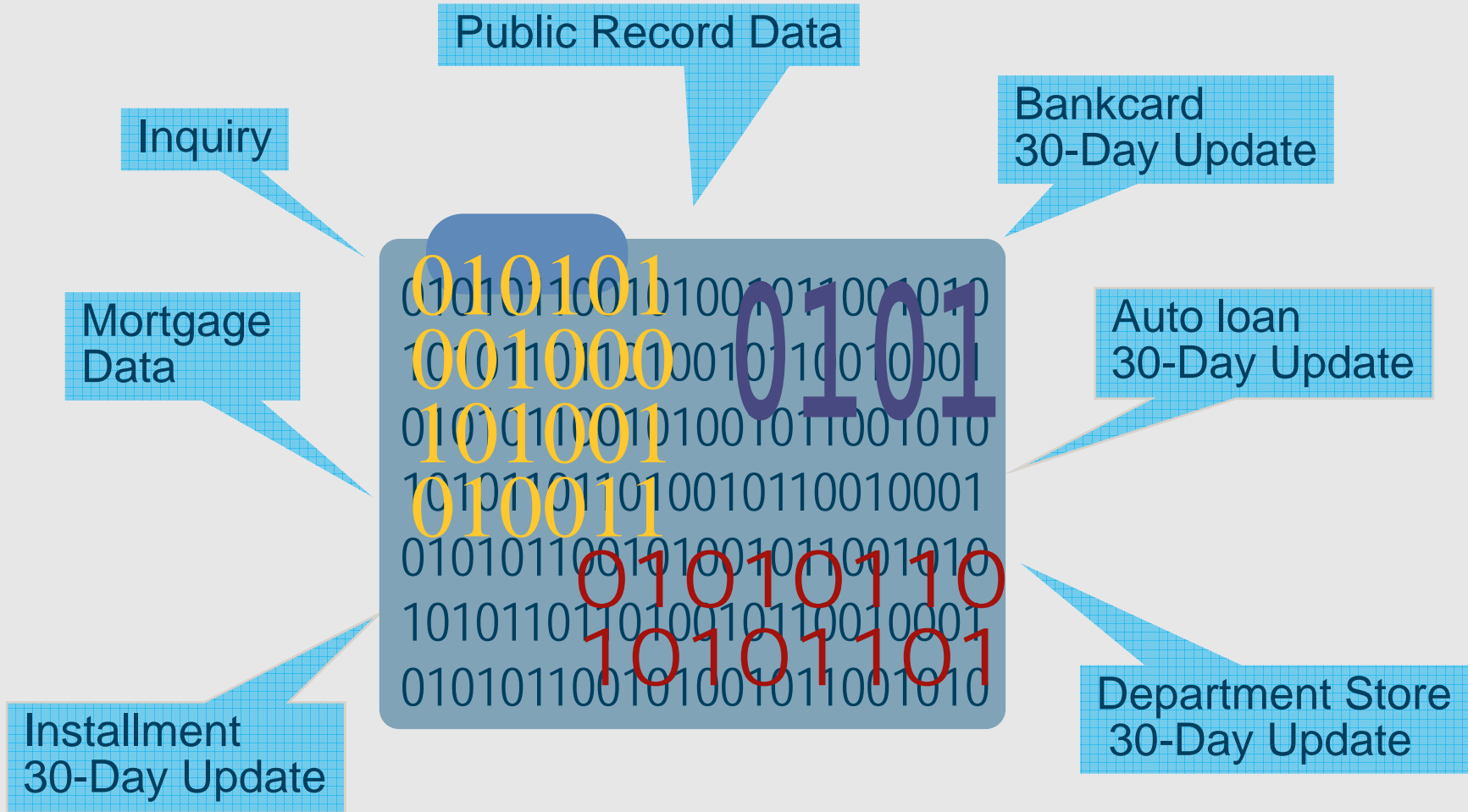
Scores Are Designed to Rank Order

“Odds quote” based on the general population – not necessarily applicable to any one lender

Specific lender's applicants will still “rank order”



What is a Credit File?



Sample Credit Report

“The Five Information Zones”



1

IDENTIFYING (PERSONAL) INFORMATION

I. Wishfor Credit
805 Main St.
Anytown, America 77777

12 Lost Lane
Somewhere, USA 66666
Date of Birth 1-25-45
SSN 888 88 8888

Sam's Gas & Oil
Attendant

2

PUBLIC RECORD (LEGAL ITEMS)

9-06 Judgment \$1000 Satisfied 3-07

3

COLLECTION ITEMS

7-05 Collection \$500

4

TRADE LINE (ACCOUNT) INFORMATION

Industry	Date Reported	Date Opened	High Credit	Balance	Current Rating	Historical Rating
Bankcard	2-10	3-89	\$5,000	\$0	Current	120+, 6 yrs ago
Auto loan	2-10	7-07	8,000	1,500	Current	
Retail	12-09	6-03	1,000	200	30 days	

5

INQUIRIES

Date	Industry	Date	Industry
7-01-09	Bank	6-01-09	Auto finance
6-15-09	Oil company	2-07-09	Retail

CONSIDERED



Tradelines



Inquiries



Collections



Public Records

NOT CONSIDERED



Age



Address



Employment



Income



Gender

CHARACTERISTIC

A question on the application

For example:

- » # of inquiries in the last 6 months
- » Average balance on revolving accounts

ATTRIBUTE

Answer given by the applicant

- » Example for # of inquiries: 4
- » Example for average balance: \$600

Sample FICO® Scoring Model

Example: Partial Model



Category	Characteristic	Attributes	Points
Payment History	Number of months since the most recent derogatory public record	No public record	75
		0 – 5	10
		6 – 11	15
		12 – 23	25
		24+	55
Outstanding Debt	Average balance on revolving trades	No revolving trades	30
		0	55
		1 – 99	65
		100 – 499	50
		500 – 749	40
		750 – 999	25
Credit History Length	Number of months in file	1000 or more	15
		Below 12	12
		12 – 23	35
		24 – 47	60
Pursuit of New Credit	Number of inquiries in last 6 mos.	48 or more	75
		0	70
		1	60
		2	45
		3	25
Credit Mix	Number of bankcard trade lines	4+	20
		0	15
		1	25
		2	50
		3	60
	4+	50	

Credit Bureau File



No



Previous serious delinquency
or derogatory public record?

Yes



**8 “non-derog”
scorecards
based upon:**

- » Thickness of file
- » Age of file
- » Recency of new openings

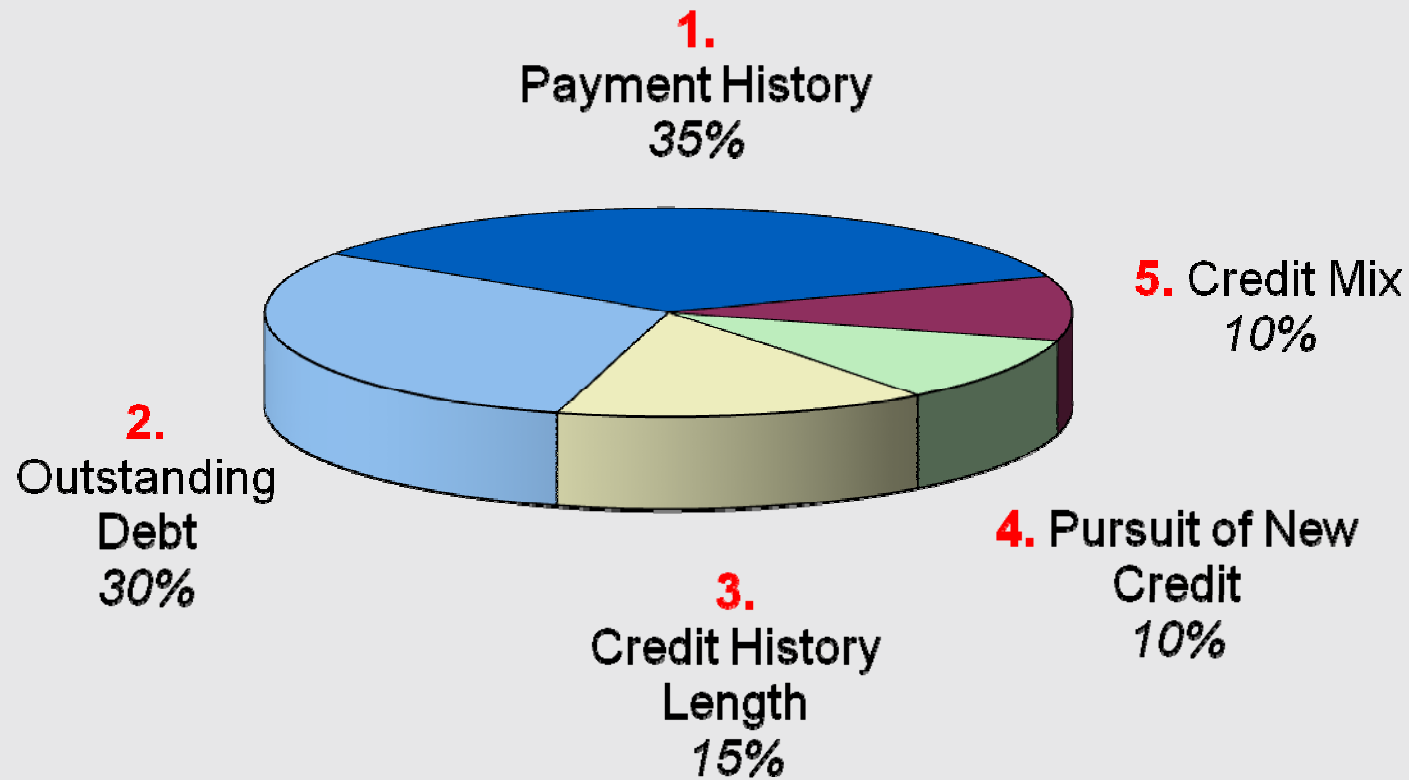


**2 “derog”
scorecards
based upon:**

- » Public record
- » Worst rating



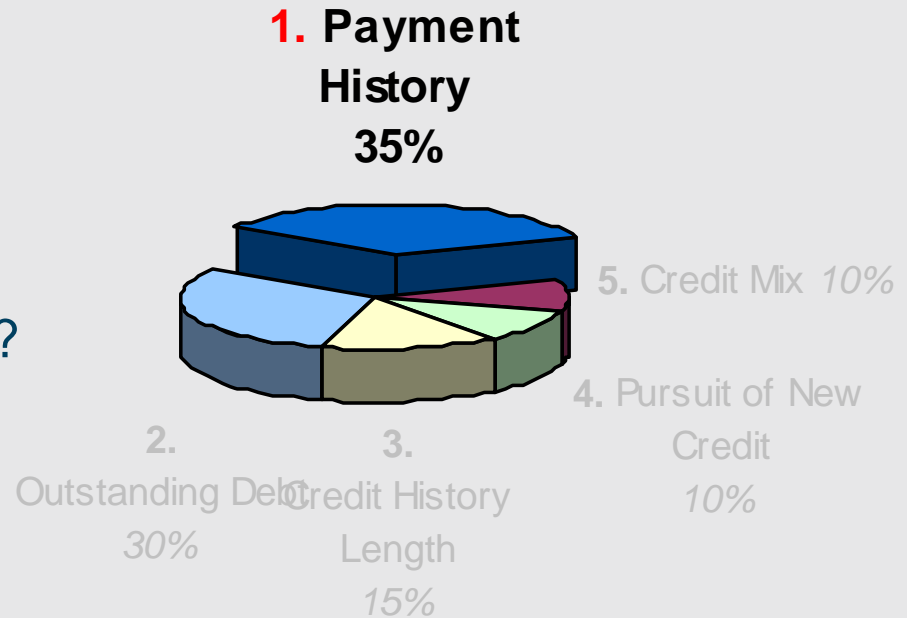
Categories of Predictive Characteristics

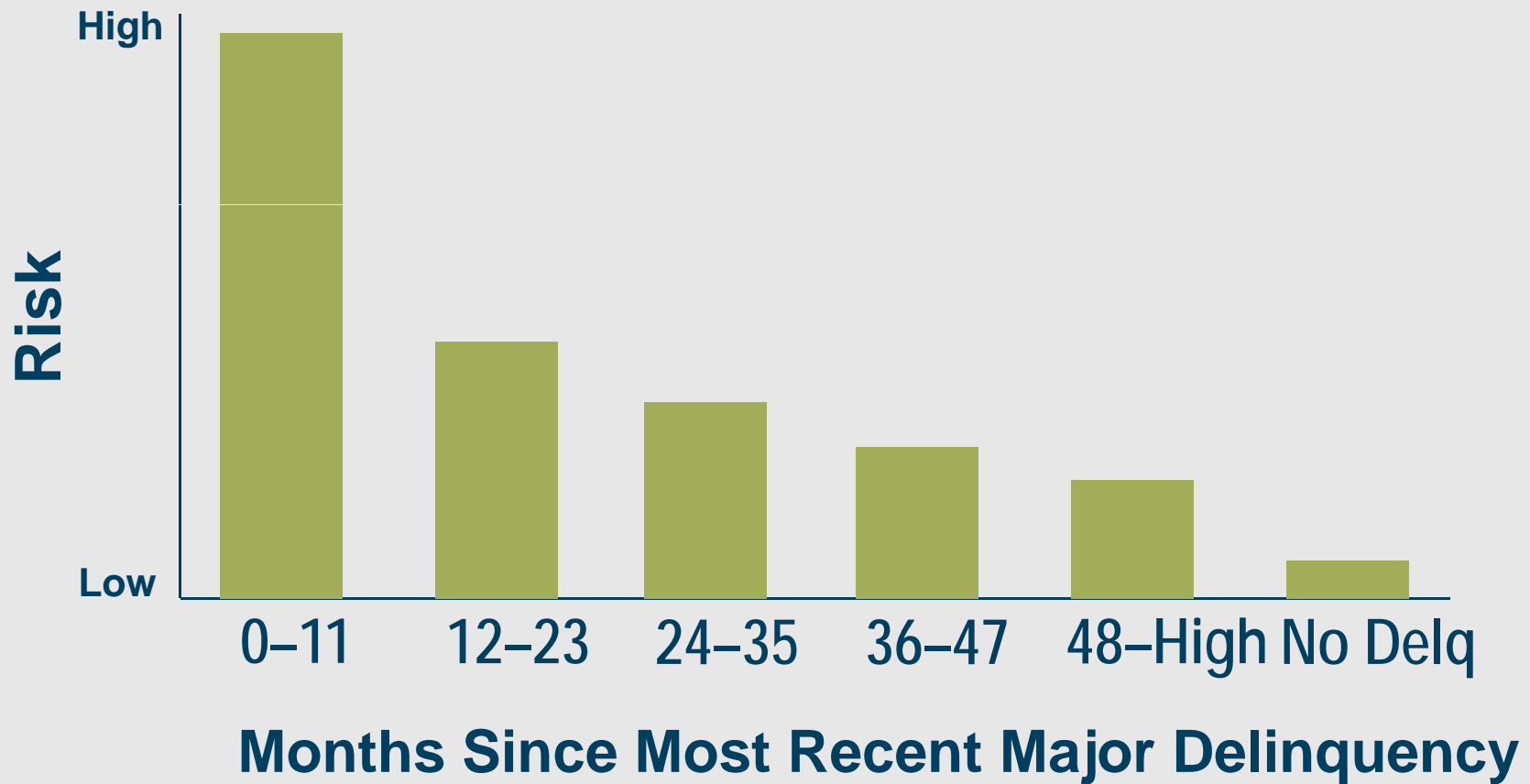


1. Payment History

Key Factors:

- » How recent 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?

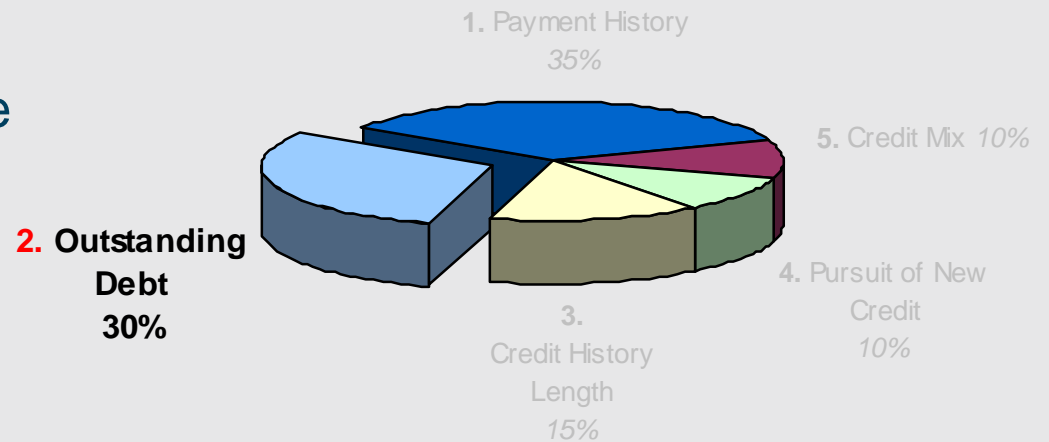




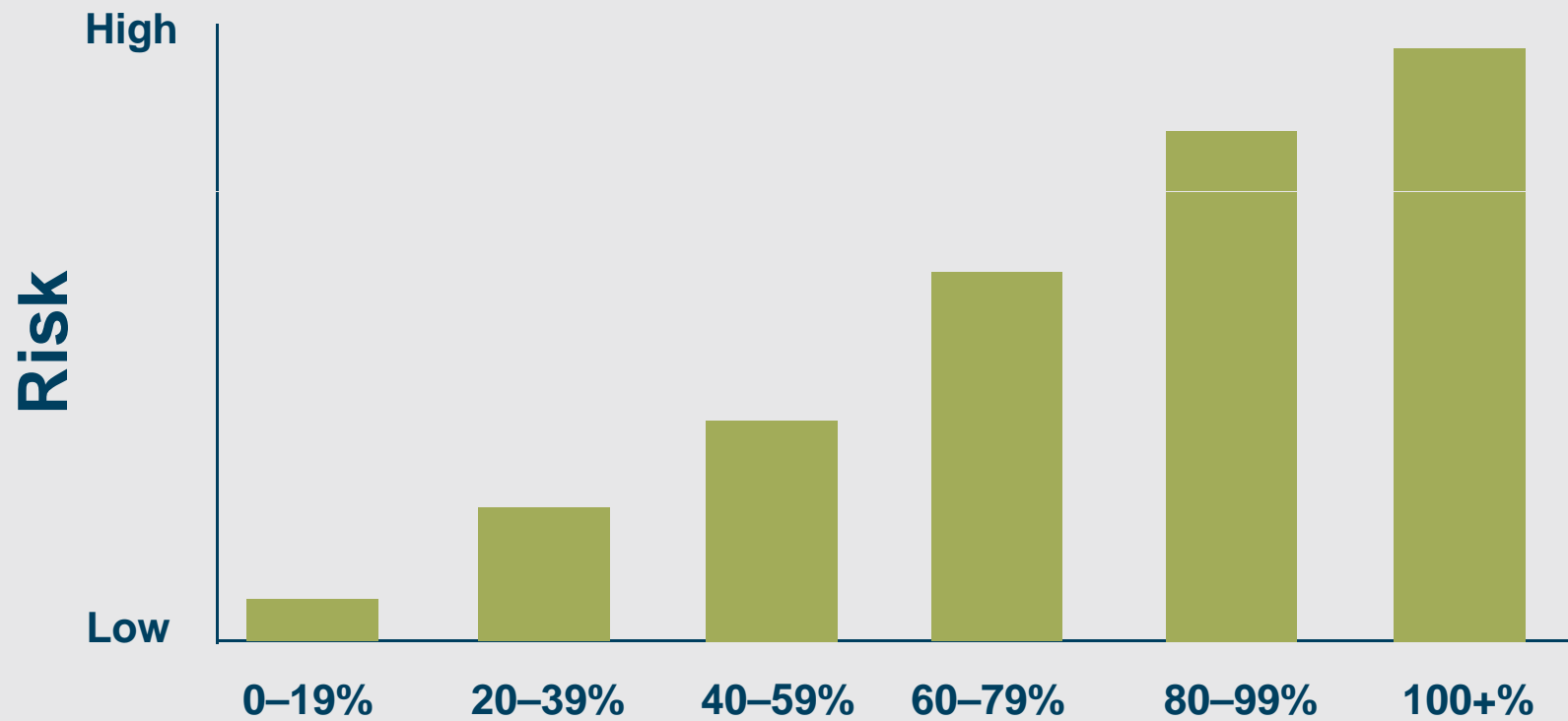
2. Outstanding Debt

Key Factors:

- » How much does the consumer owe creditors?
- » What percentage of available credit card limits is the consumer using?
- » What percentage is outstanding on open installment loans?



Outstanding Debt Example

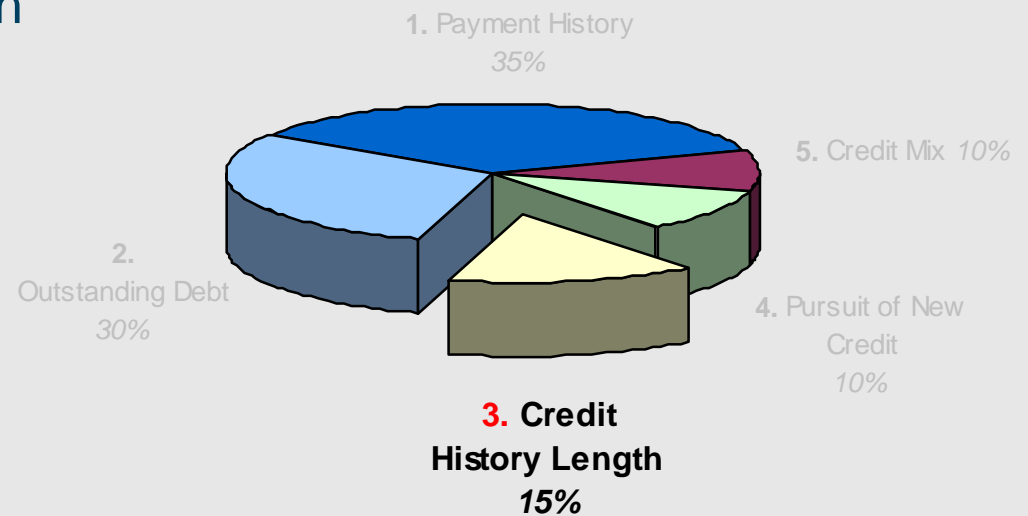


Ratio of Total Balances to Total Limits on Revolving Trade Lines

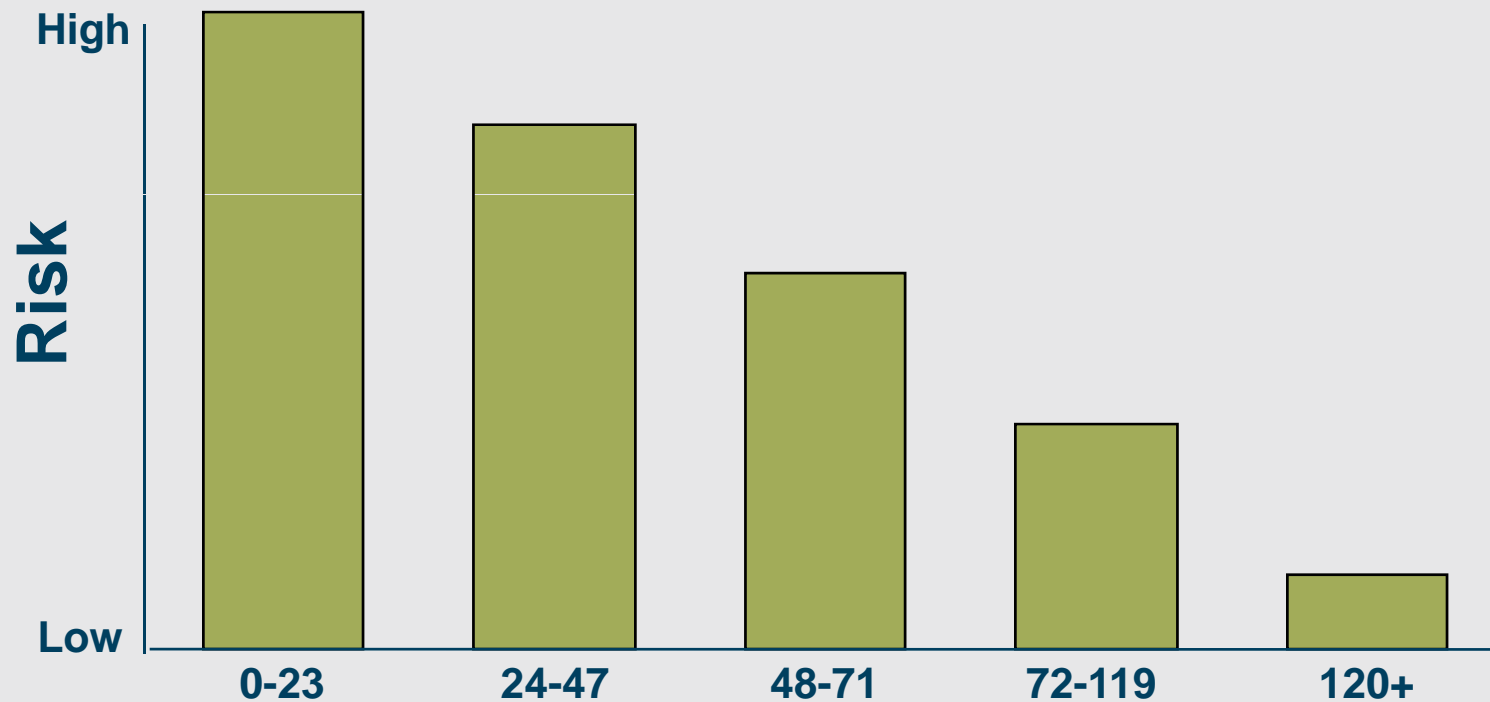
3. Credit History Length

Key Factors:

- » How long have accounts been established – average number of months accounts have been open
- » New accounts – Number of months since most recent account opening



Amount of Credit History Example

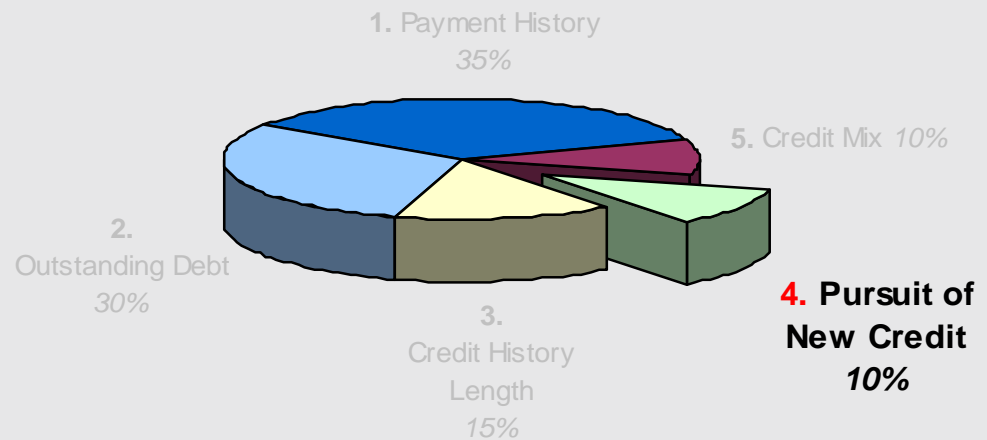


**Number of Months Since Oldest
Revolving Trade Line Opening**

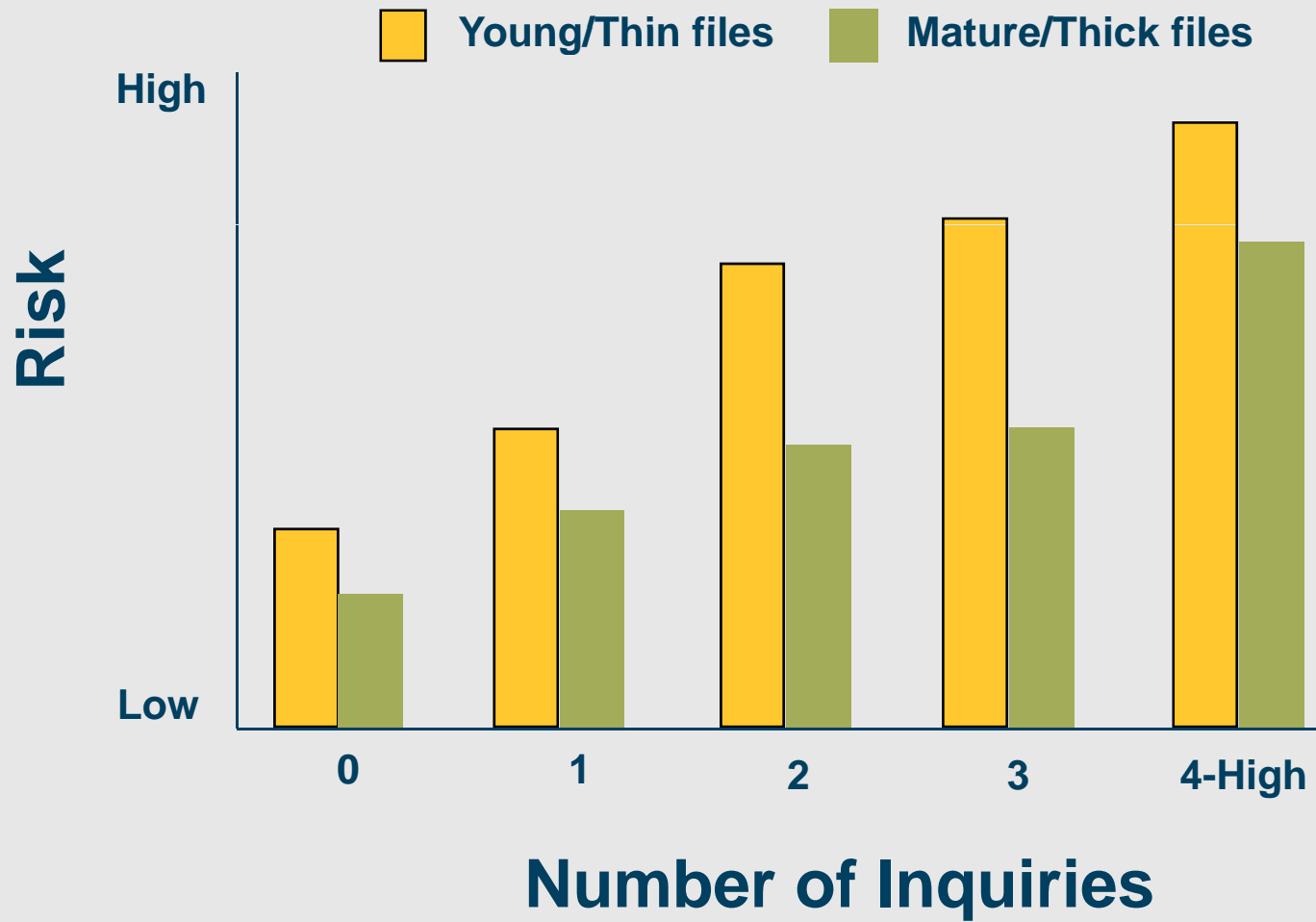
4. Pursuit of New Credit

Key Factors:

- » Inquiries: Number of recent inquiries (12 months)
- » New accounts - Number of trade lines opened in last year



Pursuit of New Credit Example



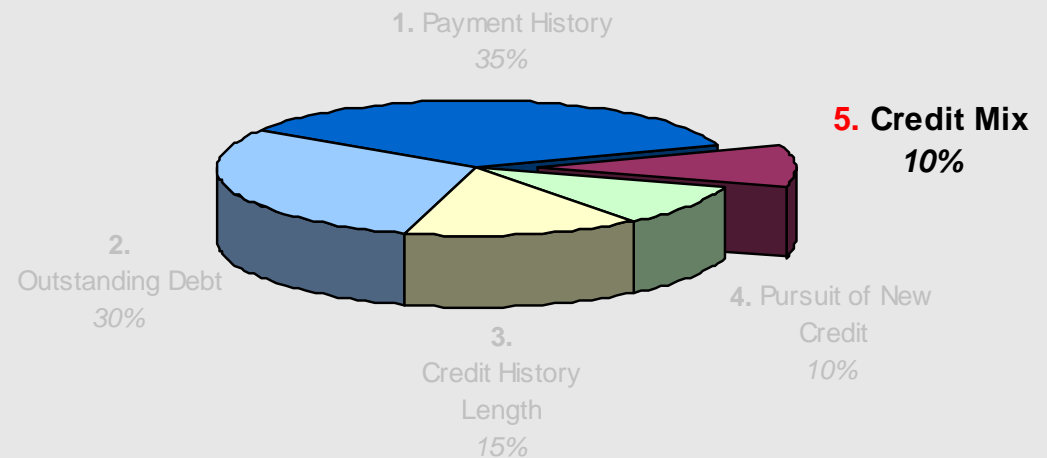
Types of Inquiries

- » FICO® scores only consider consumer-initiated inquiries posted in the last 12 months
- » FICO® scores do not consider the following inquiries:
 - » Promotional inquiries
 - » Account review inquiries
 - » Consumer disclosure inquiries
 - » Insurance inquiries
 - » Employment inquiries

5. Credit Mix

Key Factors:

- » What is the mix of credit product types?
- » Revolving credit – number of bankcard trade lines
- » Installment credit – percent of trade lines that are installment loans



Preview of Full FICO World Session Presented by multiple FICO experts

- » FICO Score Basics
- » **Use of Scores Across the Account Lifecycle**
- » Tracking and Monitoring
- » Risk Management – Customer Management
- » Risk Management – Originations

The Credit Customer Life Cycle



Targeted Mail Strategies

Two-dimensional Strategy Provides Powerful Solicitation Refinement

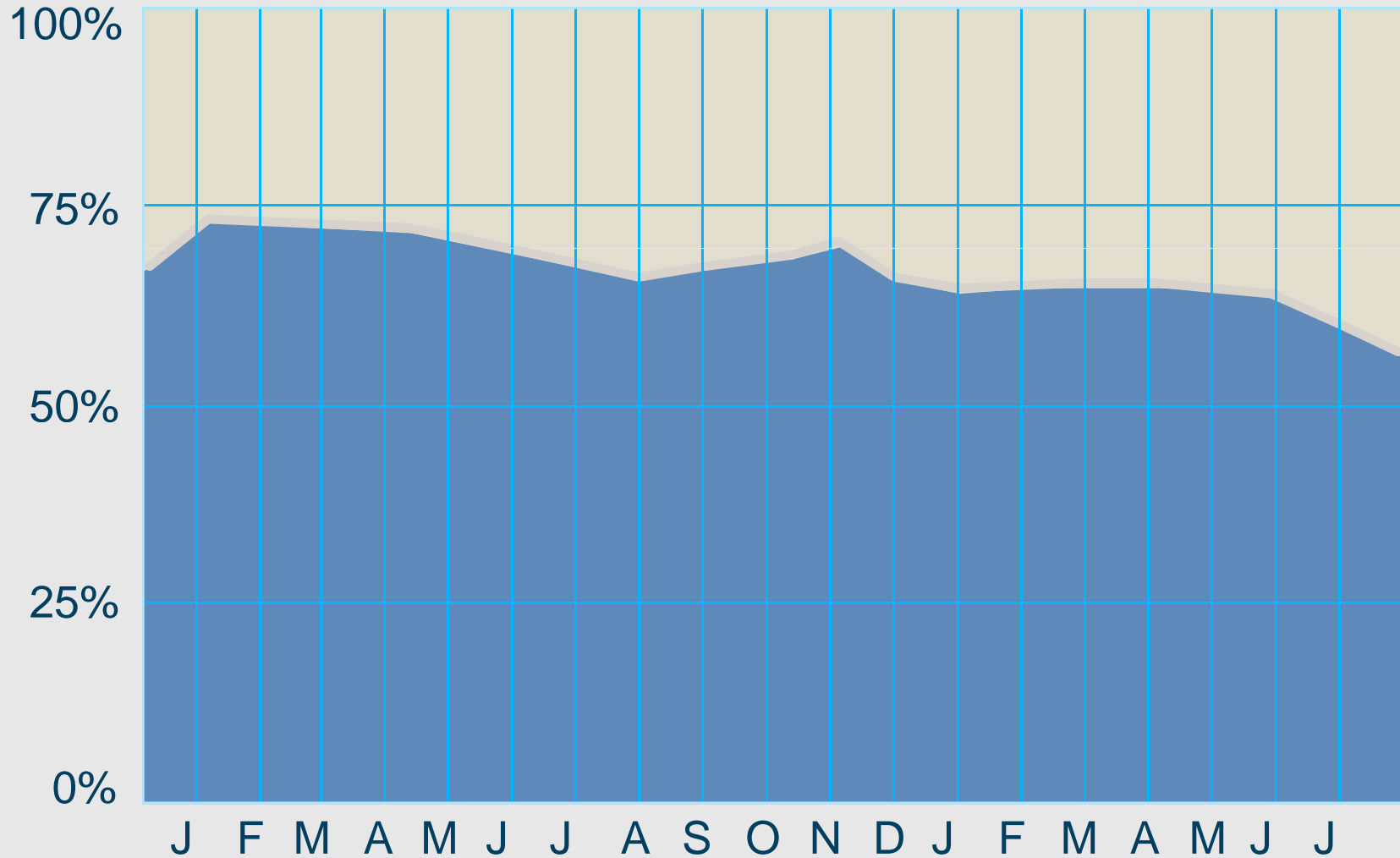


FICO Risk Score	FICO Revenue Score										
	0	1	2	3	4	5	6	7	8	9	
<650	No mail										
...											
...											
670-679	No mail			Minimum Limit			Minimum Limit				
680-689	No mail				Minimum Limit			Medium APR			
...	Standard Limit						Standard Limit		Standard Limit		
770-779	Standard Limit						Low APR		Standard Limit		
780-789	Standard Limit						Low APR		Standard Limit		
790-799	No mail		Premium Limit					Premium Limit			
800-809	No mail			Premium Limit			Very low APR/No fee				
810+	No mail			Premium Limit			Very low APR/No fee				

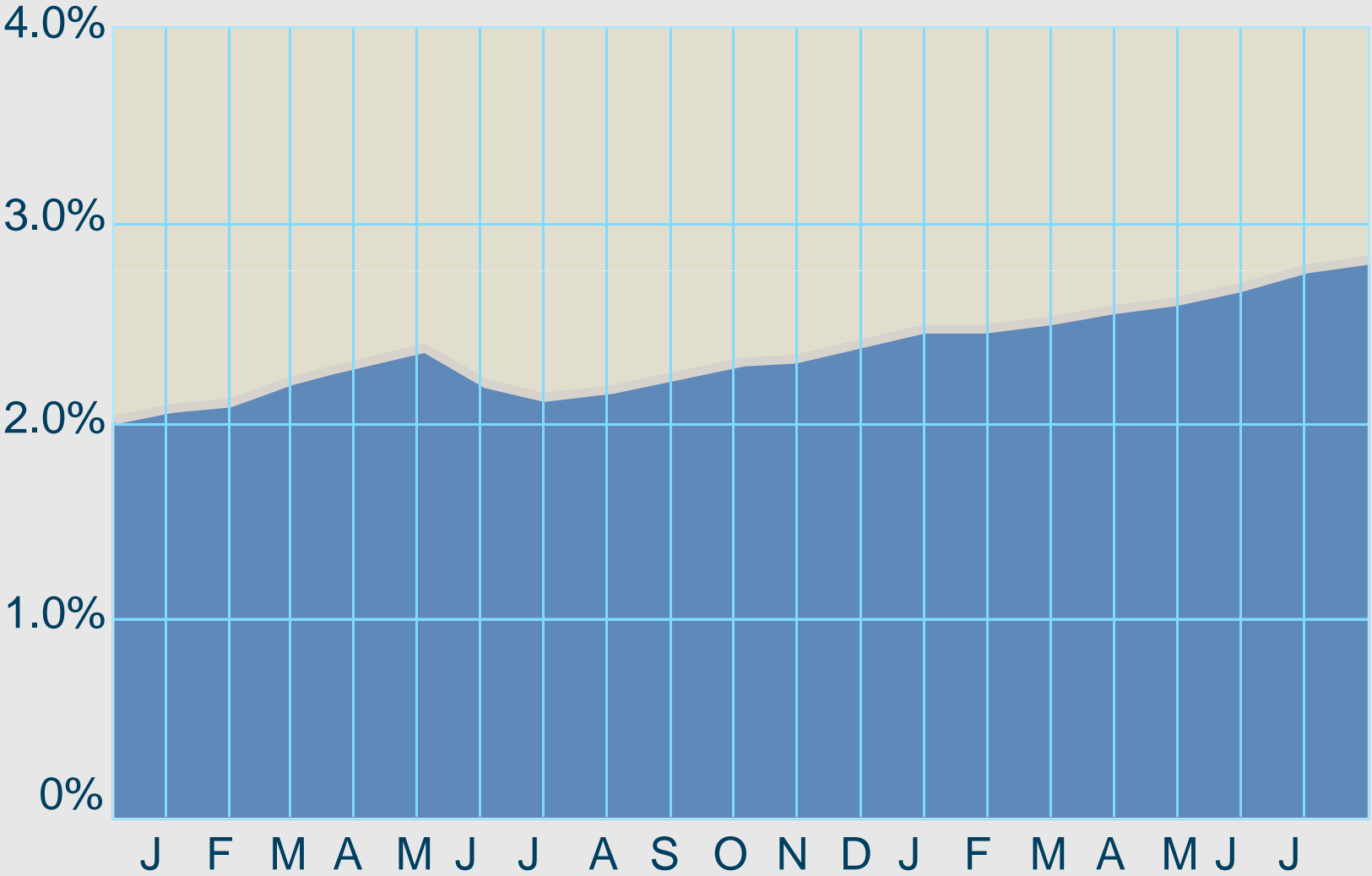
Preview of Full FICO World Session Presented by multiple FICO experts

- » FICO Score Basics
- » Use of Scores Across the Account Lifecycle
- » **Tracking and Monitoring**
- » Risk Management – Customer Management
- » Risk Management – Originations

Acceptance Rates Declining



Delinquency Rates Rising



- » FICO Score Basics
- » In April please join us for this practical set of sessions included in your registration price!
- » The Full FICO World session include these additional sections
 - » Use of Scores Across the Account Lifecycle
 - » Tracking and Monitoring
 - » Risk Management – Customer Fundamentals
 - » Risk Management - Originations
- » Learn with the experts, ask questions about your portfolio and take away sensible tips that you can use to be successful in your job.

**FICOTM WORLD
2010**
**POWER UP
PROFIT
IN THE RESET
ECONOMY**
April 13-16 InterContinental Miami

This webinar is a preview of a
presentation at:

FICO World 2010

April 13-16 Intercontinental Miami

www.fico.com/ficoworld



Keynote Presenter Michael Porter

*Author, **On Competition, Competitive Strategy***

90+ Presentations, Case Studies and Workshops

Free Consultations with FICO Experts

FICOTM

This presentation is provided for the recipient only and cannot be reproduced or shared without Fair Isaac Corporation's express consent.

Q&A

Julie Wooding
JWooding@FICO.com

**FICOTM WORLD
2010**
**POWER UP
PROFIT
IN THE RESET
ECONOMY**
April 13-16 InterContinental Miami

Get your 30% discount on FICO World registration!

- » Register at **www.fico.com/ficoworld**
- » Use code **WEB70**

Join us at these upcoming FICO World Previews

- » March 3 - Solving the Top Issues in Collections & Recovery
- » March 17 - Improve Your Customers' Experience with Fraud Management - Success Story

FICOTM

This presentation is provided for the recipient only and cannot be reproduced or shared without Fair Isaac Corporation's express consent.