



# FICO® Score Trends in Dynamic Times

Are today's market pressures reshaping credit risk?

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- FICO® scores are aligned to a “moving” odds-to-score relationship on a national level
- FICO® score distributions are not static, rather they are fluid and it is expected that they will change over time
  - Changes in data reported, consumer credit behaviors, lender practices, changing economic conditions, score updates, etc.
- Odds-to-score changes as consumer behavior changes

For these reasons, it is important that each lender monitor and track their portfolio dynamics by FICO® score on a frequent basis and make adjustments to strategies as needed

## Answer common questions:

- How has consumer risk changed over the past few years?
- Do FICO® scores continue to effectively rank-order risk under more current market conditions?
- How are various credit markets faring relative to the mortgage industry?
- Are there opportunities to “fine-tune” strategies to improve risk mitigation?

## Approach: Validate FICO® scores over time on US consumer credit data to evaluate impacts under different time periods:

- October 2000-2002; September 2003-2005; October 2005-2007
- Industry Performance: General & Industry
- Application: Acquisitions & Account Management
- Performance measurement: 90 through Charge-off

# FICO® Score Odds Alignment

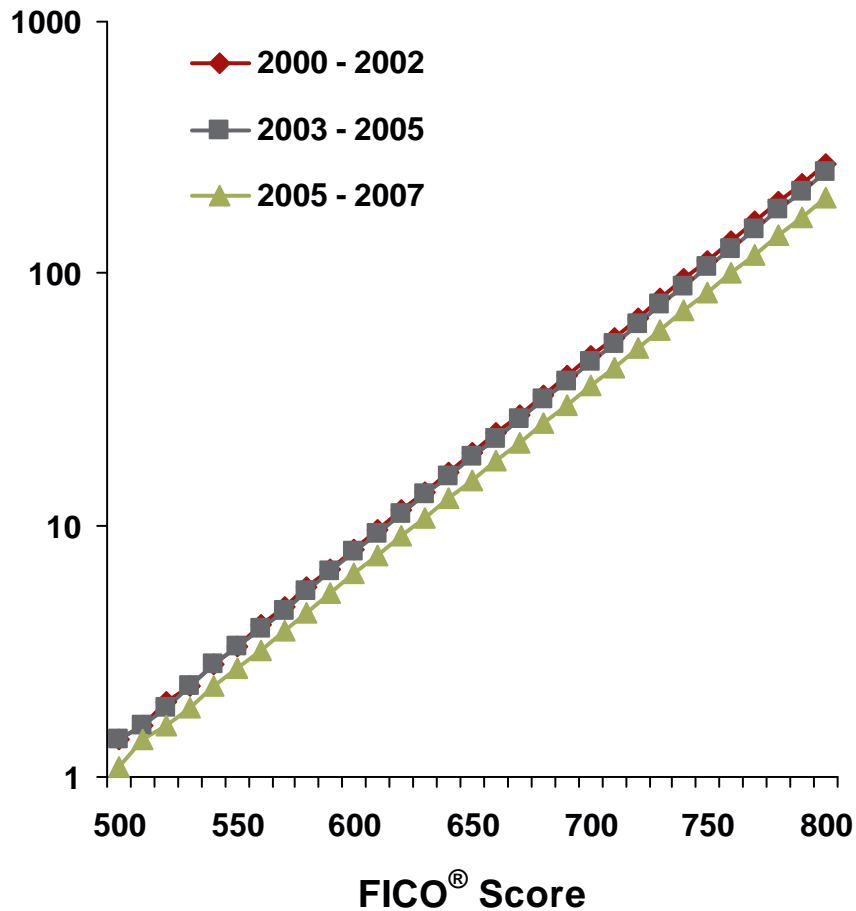
## All Industries, All Accounts and New Accounts



### VINTAGE PERFORMANCE COMPARISON

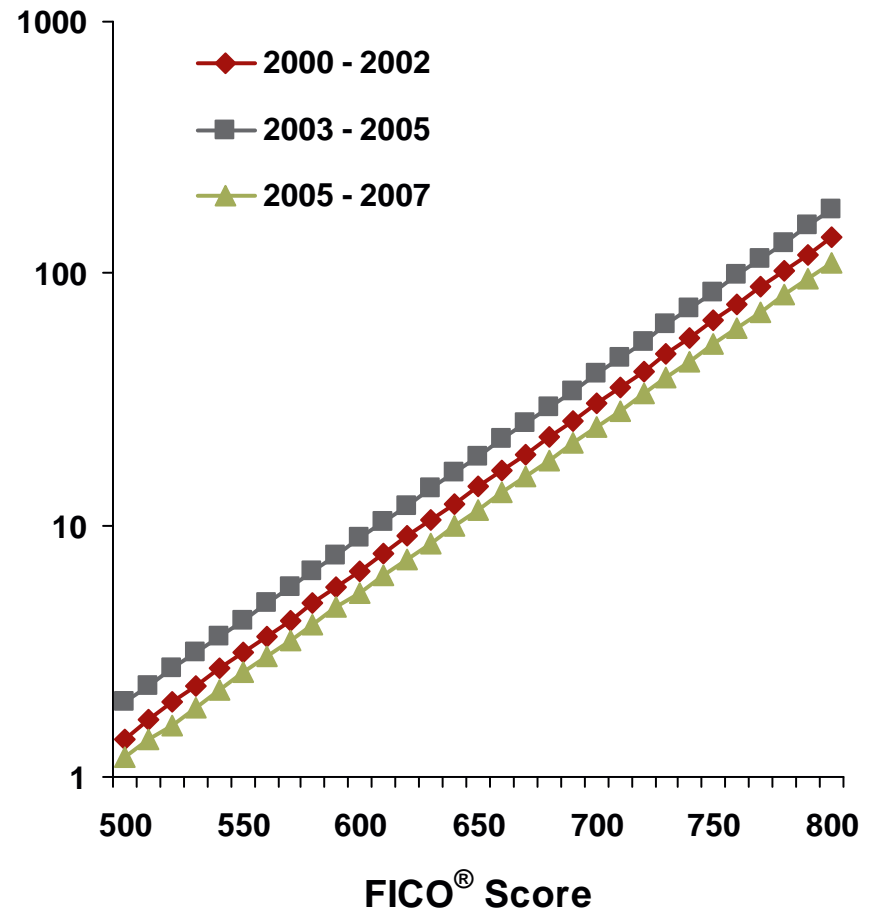
#### ALL EXISTING AND NEW ACCOUNTS

Odds 90 through Charge-off



#### ALL NEW ACCOUNTS

Odds 90 through Charge-off



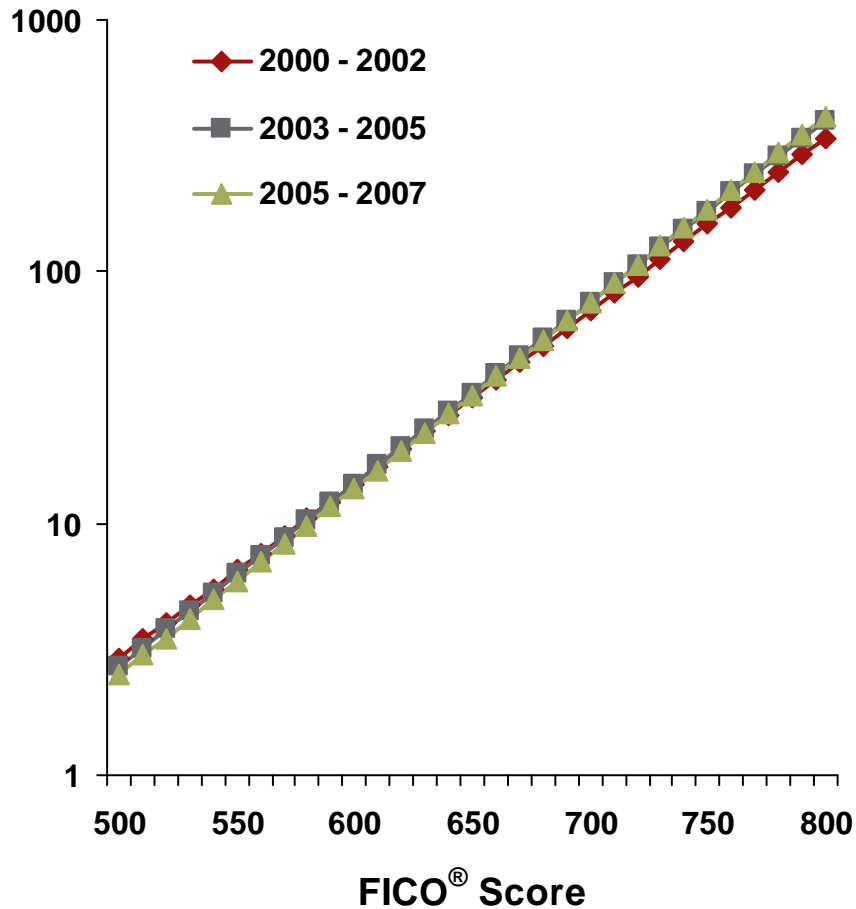
# FICO® Score Odds Alignment

## Auto Vintage Performance Comparisons



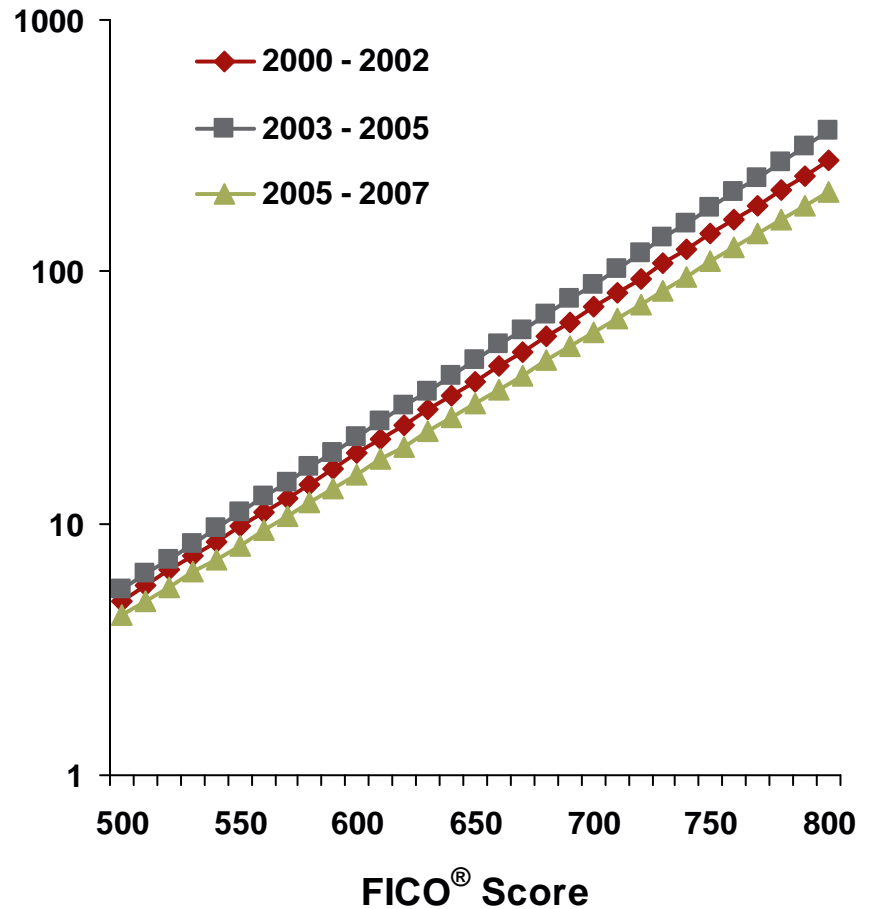
### EXISTING AUTO FINANCE ACCOUNTS

Odds 90 through Charge-off



### NEW AUTO FINANCE ACCOUNTS

Odds 90 through Charge-off



# FICO® Score Odds Alignment

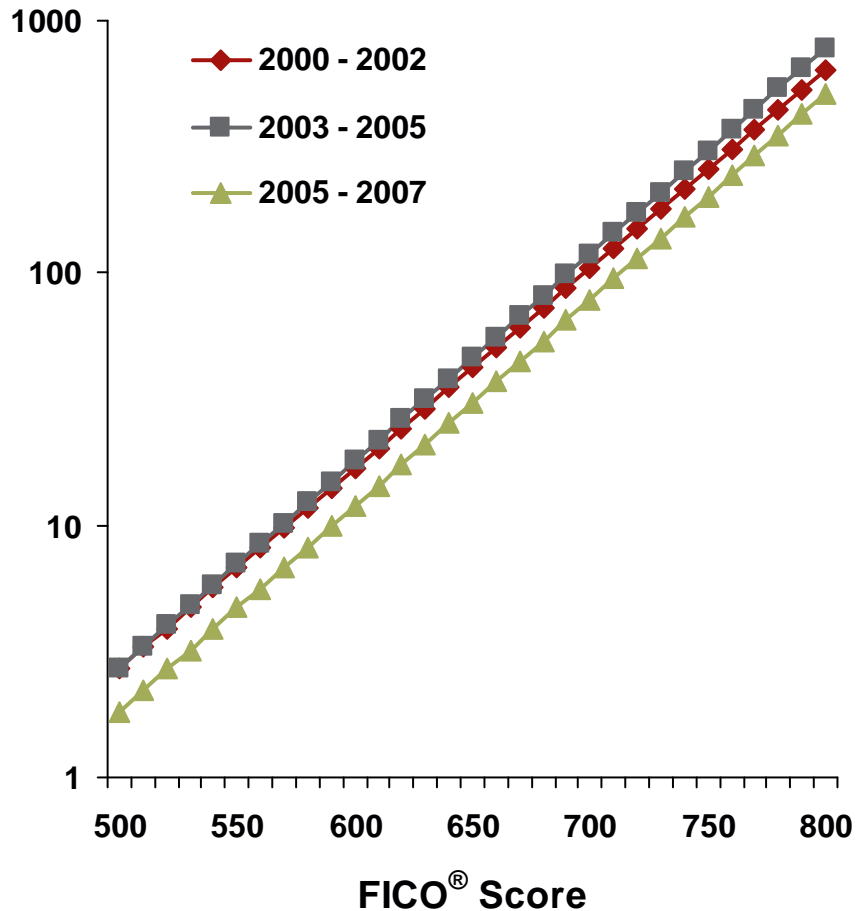
## Mortgage, Existing Accounts and New Accounts



### VINTAGE PERFORMANCE COMPARISON

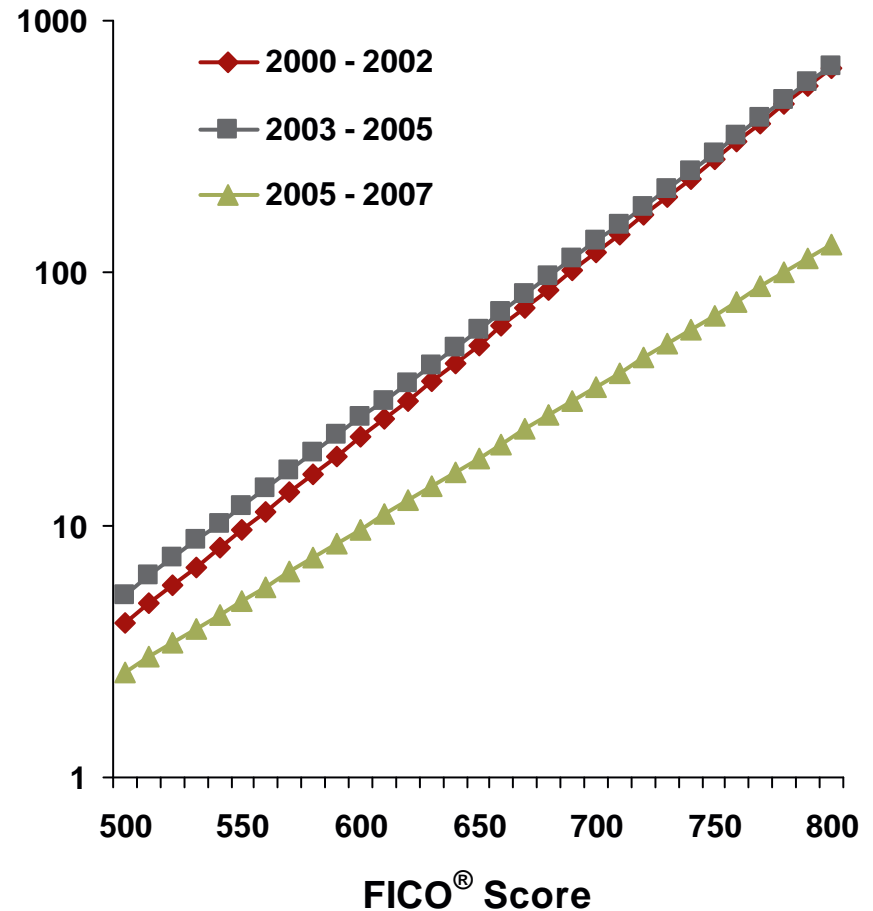
#### EXISTING MORTGAGE ACCOUNTS

Odds 90 through Charge-off

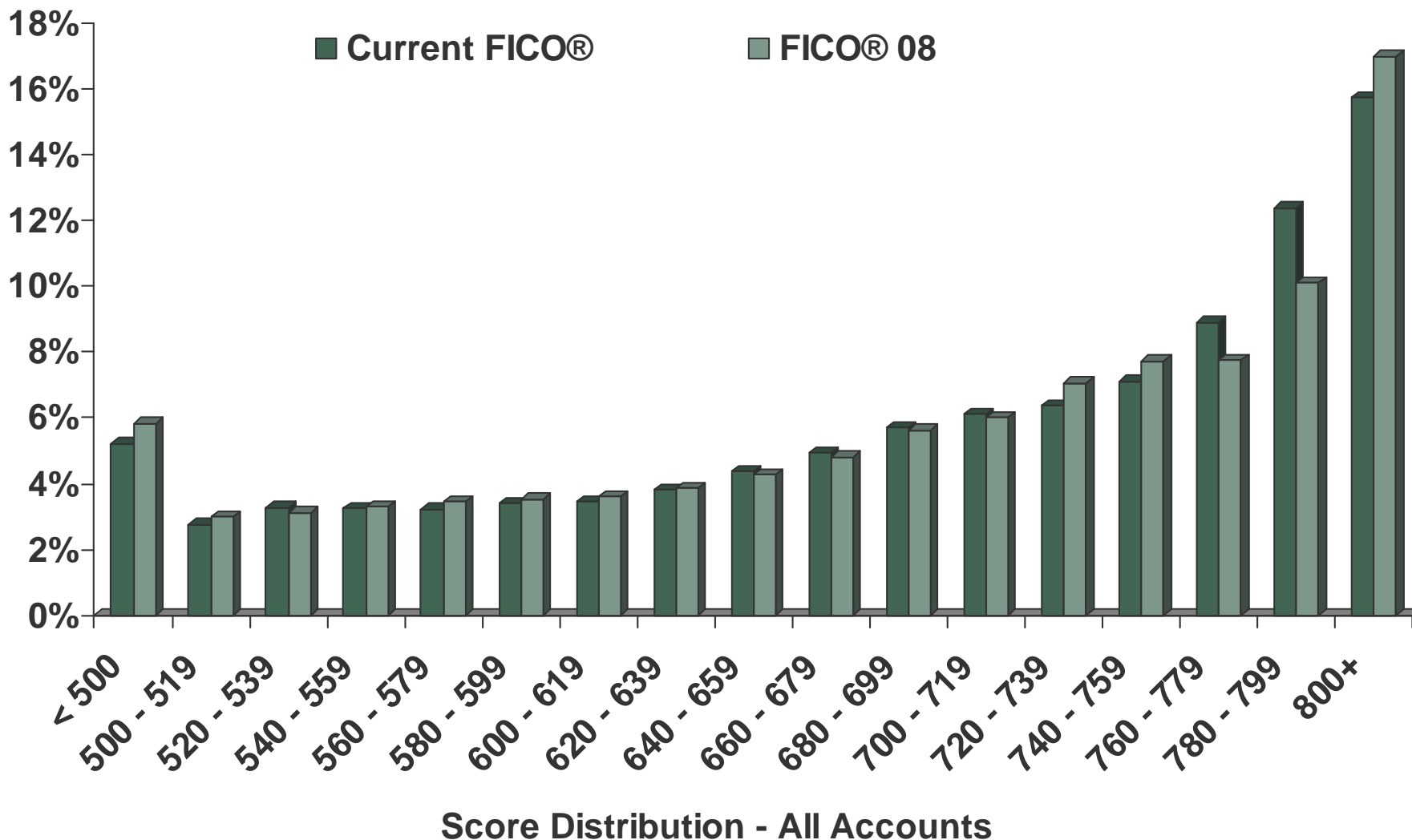


#### NEW MORTGAGE ACCOUNTS

Odds 90 through Charge-off



# Modest Score Distribution Changes Similar to Prior Updates



Data provided by TransUnion, Analysis conducted by Fair Isaac

# Changes in Predictive Patterns

## New Accounts

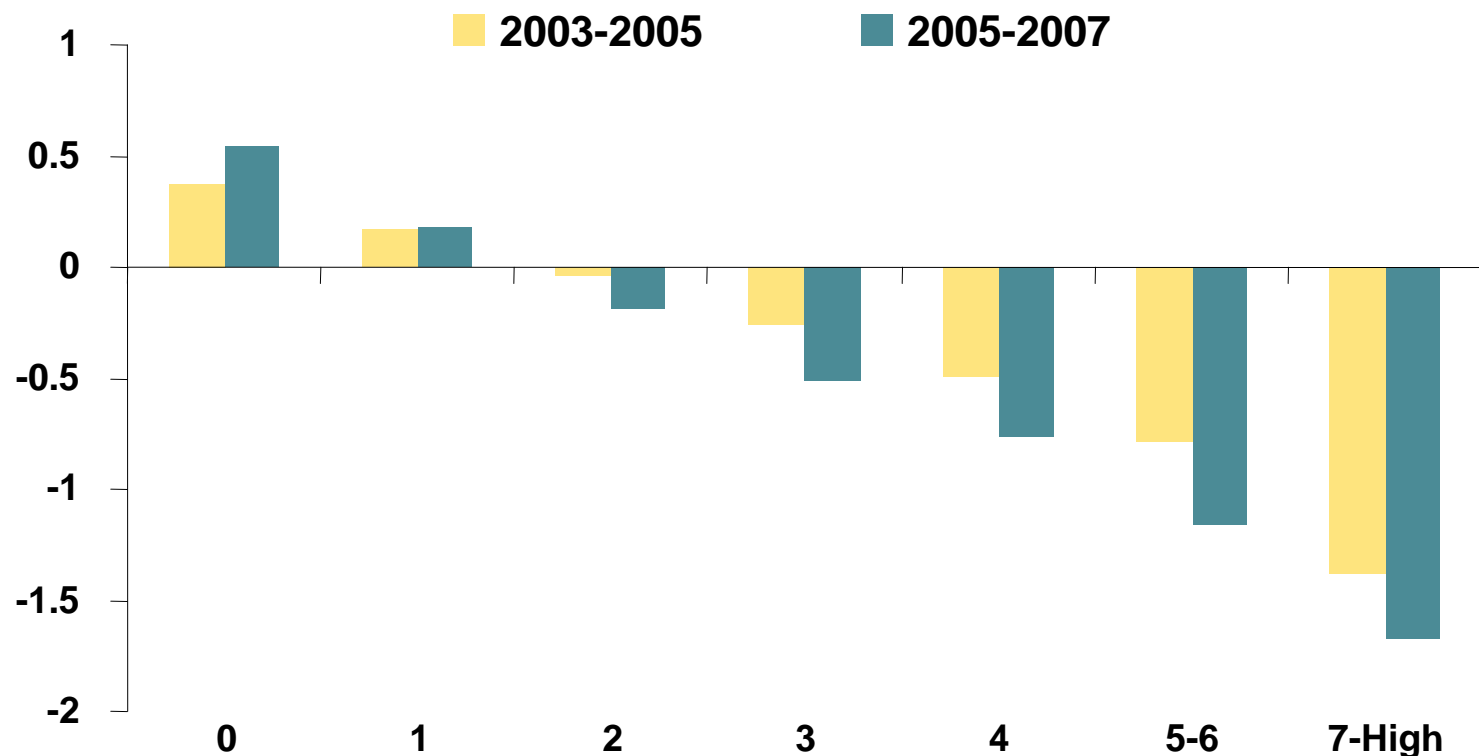
- Have predictive risk patterns changed on recent vintage (2005/07) compared to 2003/05 vintage?
- What predictors are more relevant now?
- Findings:
  - Generally, scorecards are stable
  - Some predictive pattern shifts in lower level variables
    - Multiple inquiries & recent inquiries more risky at given score
    - Short file history was slightly more risky at given score
    - Slight risk pattern changes for revolving trade-oriented characteristics

# FICO® Predictive Variable

## # Inquiries Past 12 Months

### # INQUIRIES LAST 12 MONTHS

#### Risk Pattern Comparison



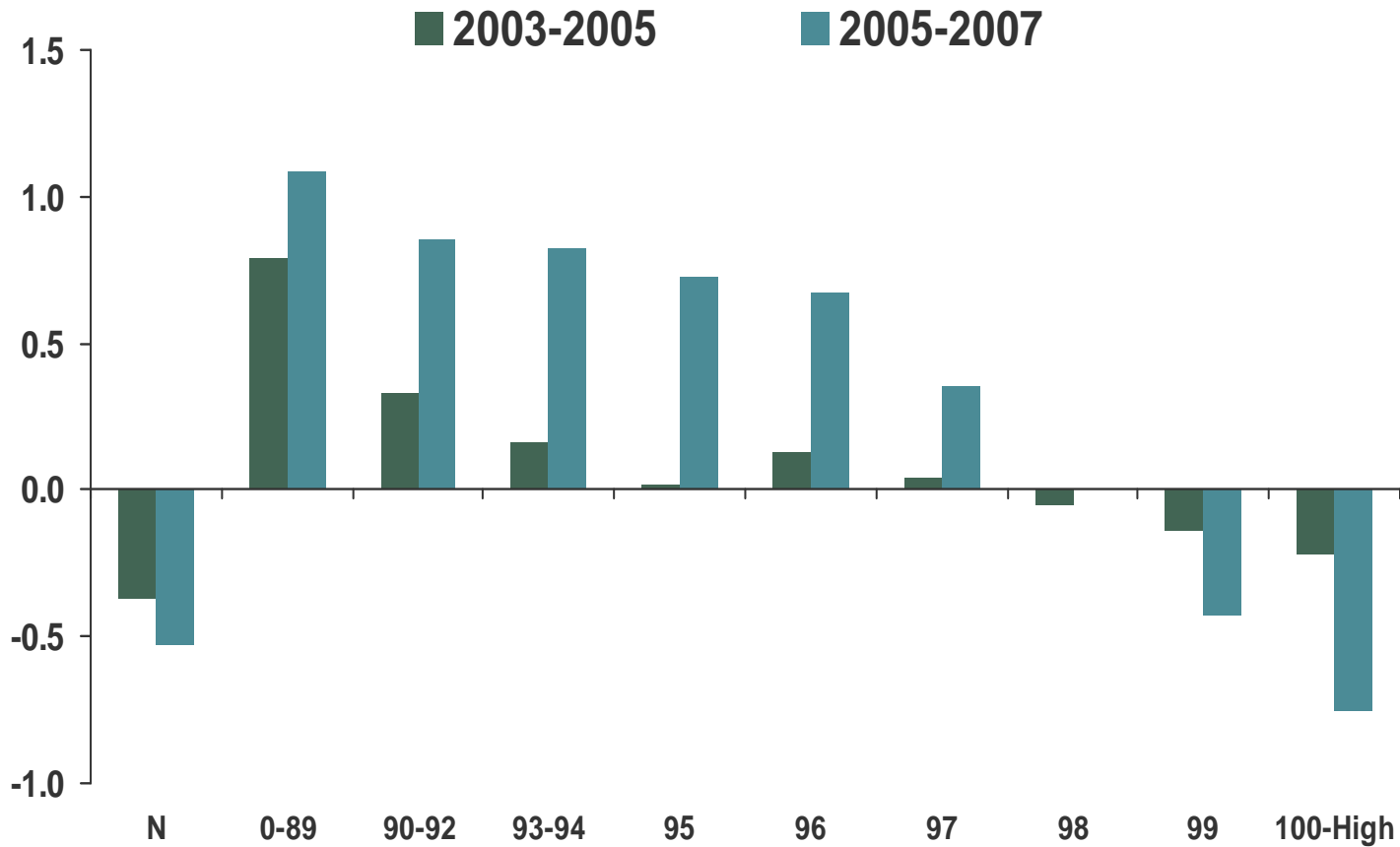
# FICO® Predictive Variable

## Net Fraction % - Mortgage Obligations



### NET FRACTION % - MORTGAGE OBLIGATIONS

#### Risk Pattern Comparison



# Other Research Observations

- FICO® scores continue to effectively rank-order risk across time/industries
- 2005 vintage reflects higher risk (downward shift of odds relative to previous vintages)
- Higher “mortgage risk” and unemployment states show greater risk
- Consumers with mortgages continue to be less risky than those with none
- Changing risk patterns on more recent vintage
  - Multiple inquiries & recent inquiries more risky at given score
  - Short file history was slightly more risky at given score
  - Lack of installment loans was slightly more risky at given score

# FICO® Fact Summary

- Odds-to-score relationship — expected to move and shift
  - FICO® alignment relatively consistent over time
  - Time analysis shows similarly scoring records on the **general population** perform comparably over time
- Score distributions — expected to move and shift
  - Reflect changes in data reporting, national and regional economic impacts, lending practices
  - May not yet reveal underlying increase in risk expected on current data
- Other factors not directly captured by FICO® score :
  - Capacity or income/disposable income
  - Mortgage terms & underwriting
  - Fraud
- It is important to track score distribution and score performance on your portfolios

# THANK YOU

**Learn More:**

**InterACT 09 March 10-13 NYC [www.myinteract.com](http://www.myinteract.com)**

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