



MBA's ANNUAL 08 SF
CONVENTION & EXPO
WINNING STRATEGIES FOR THE NEW AGE
OCTOBER 19-22 MOSCONE WEST

Views of Mortgage Lending: Past, Present, Future
Perspective of a Veteran Propeller-head

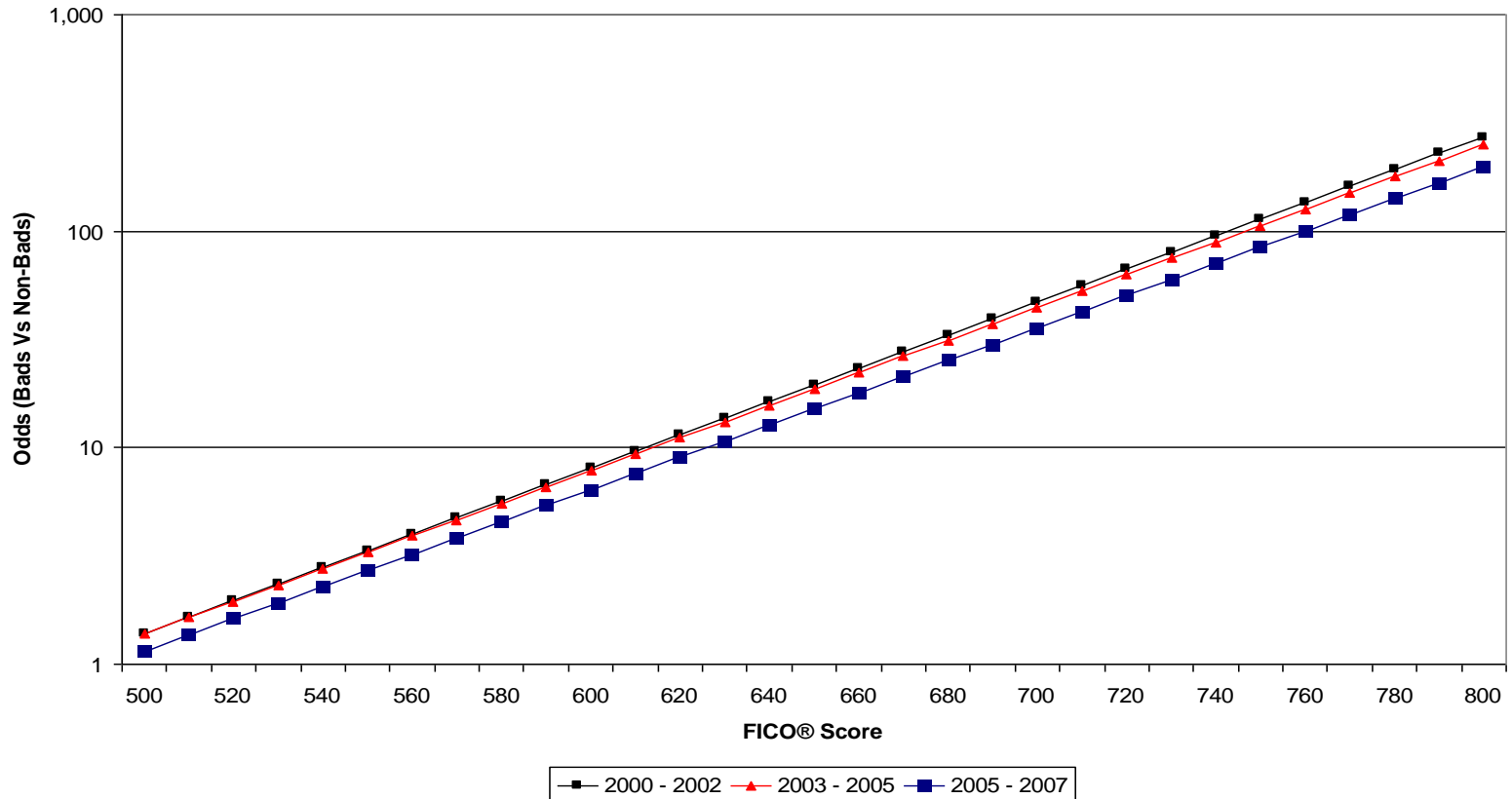
Larry Rosenberger
Resident Fellow
Fair Isaac Corporation



FICO® Score Odds Alignment

All Industries/All Existing and New Accounts

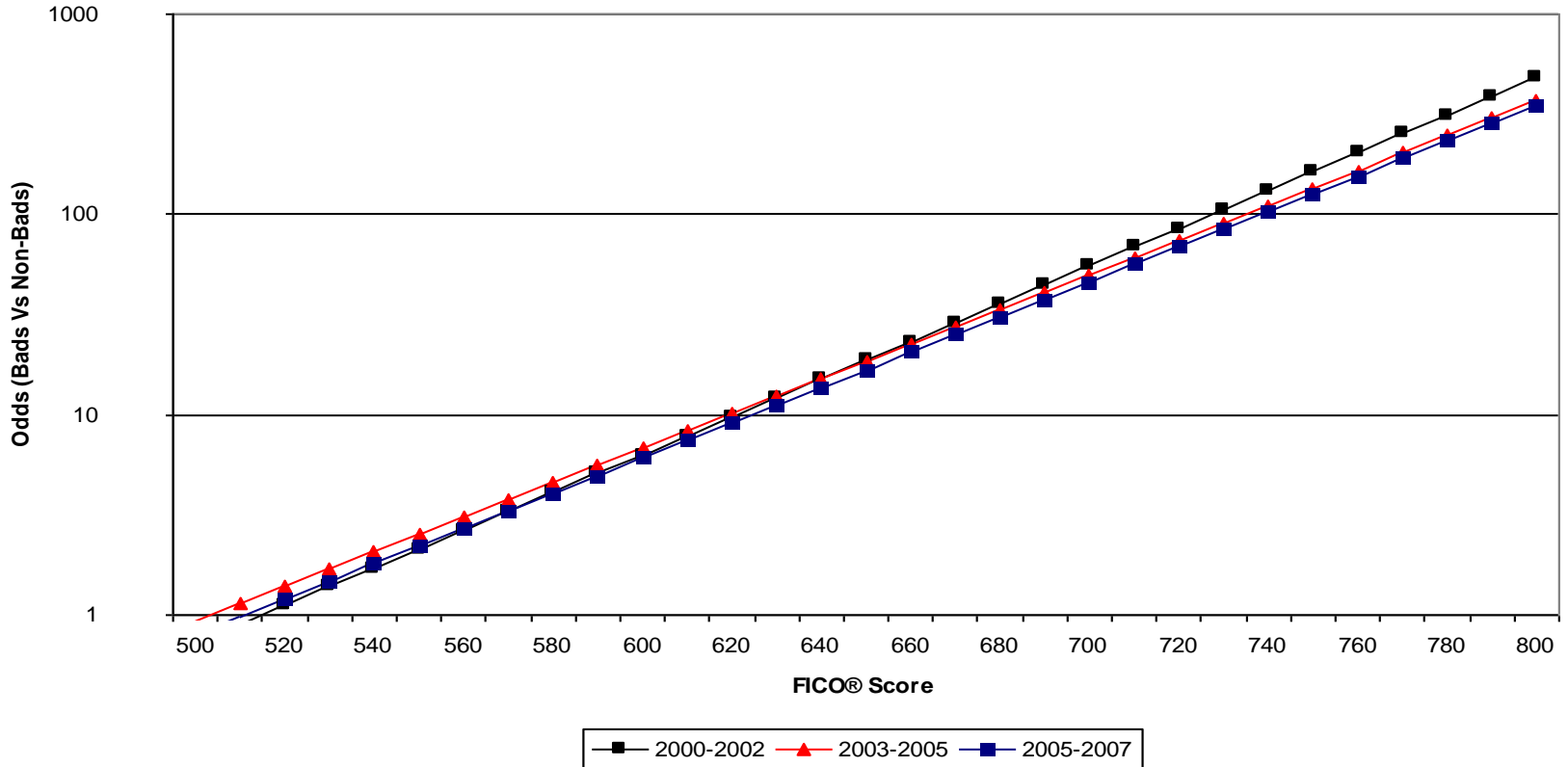
FICO® Score Alignment
All Existing & New Accounts
Tradeline Performance
Bad Definition: 90s & Charge-Offs



FICO® Score Odds Alignment

Non-Dept Store Retail - Existing Accounts

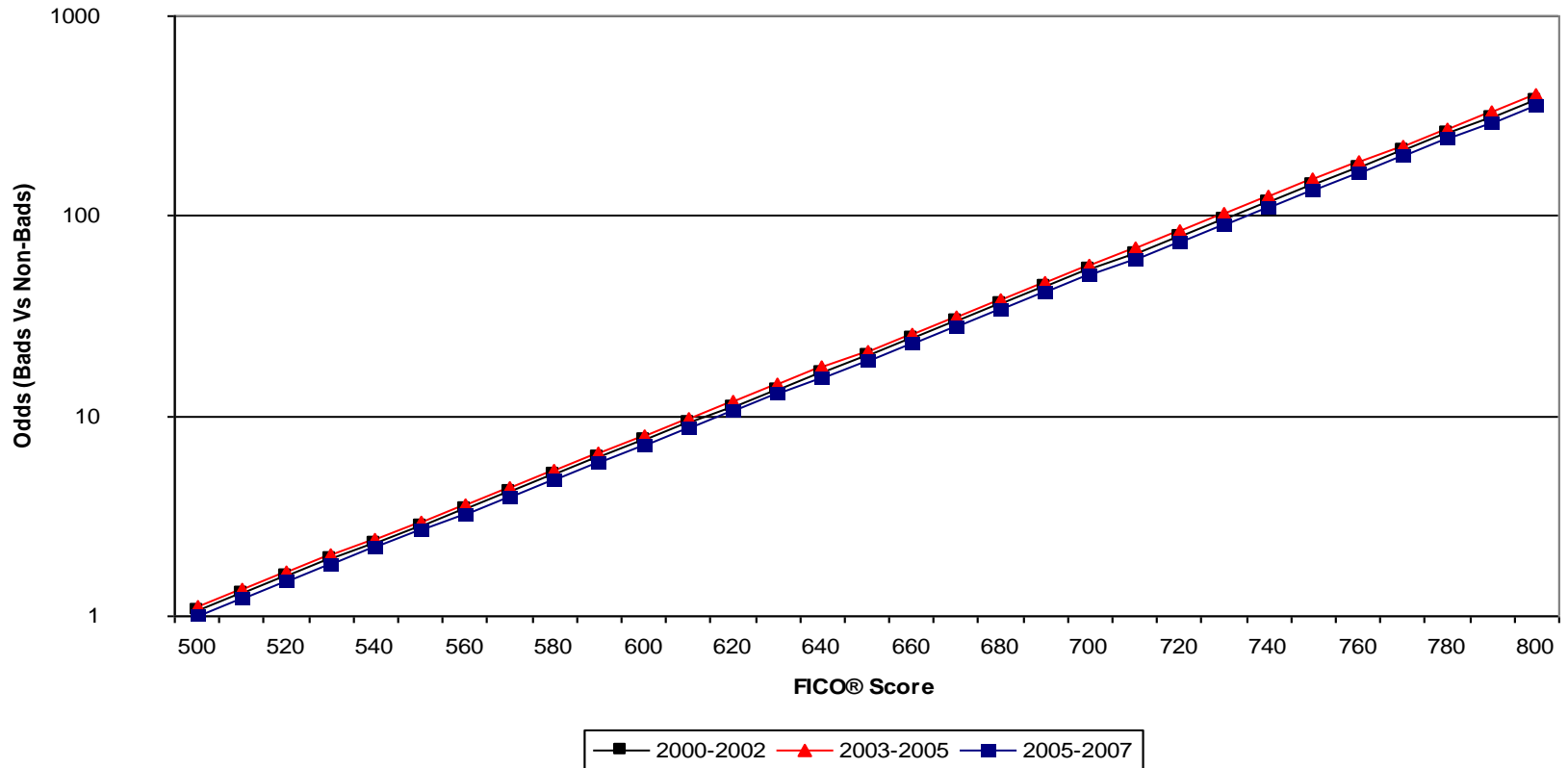
FICO® Score Alignment
Existing Non-Department Store retail Revolving Accounts
Tradeline Performance
Bad Definition - 90s & Charge-Offs



FICO® Score Odds Alignment

Department Store - Existing Accounts

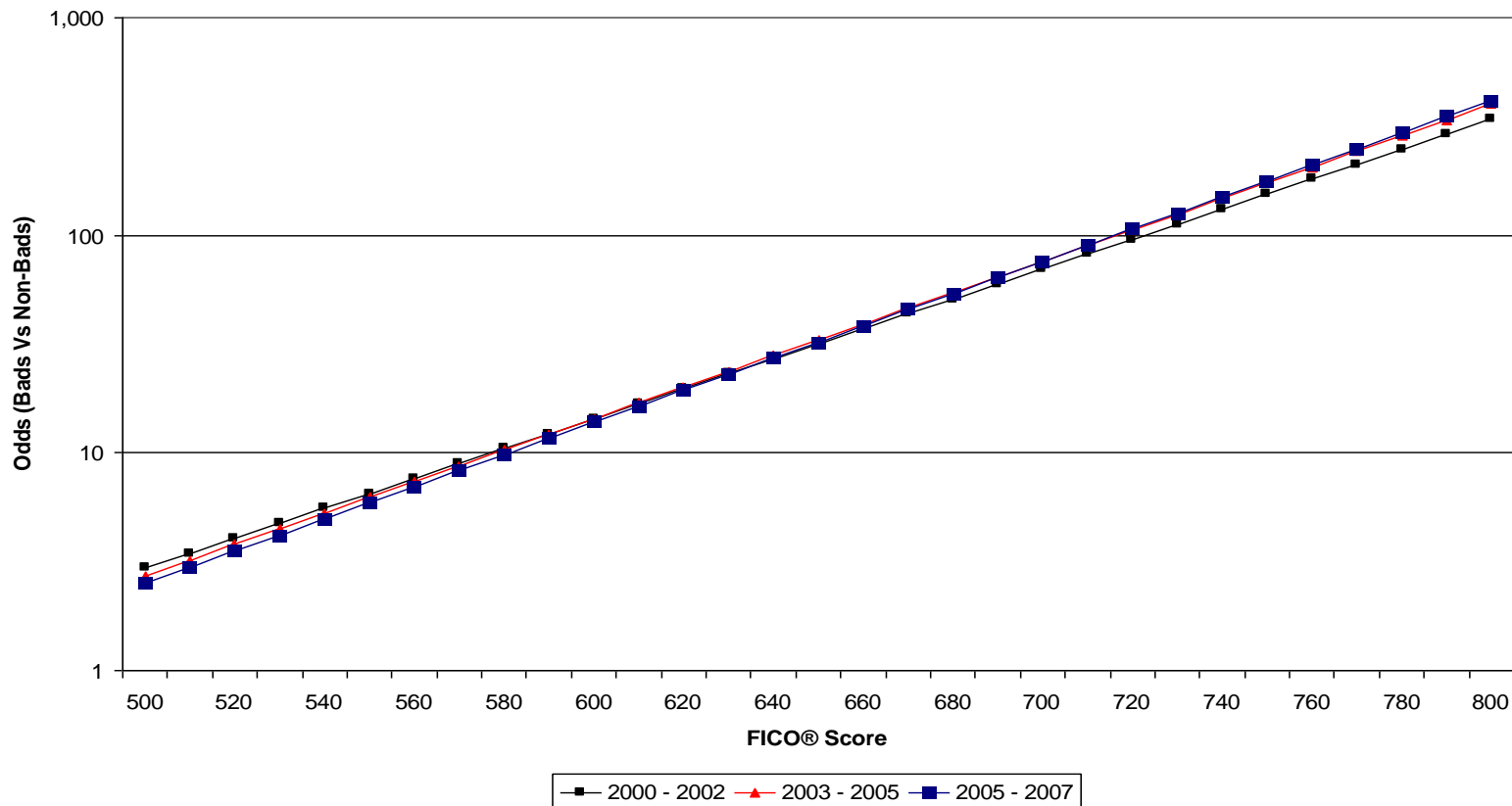
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Existing Department Store Revolving Accounts
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FICO® Score Odds Alignment

Auto — Existing Accounts

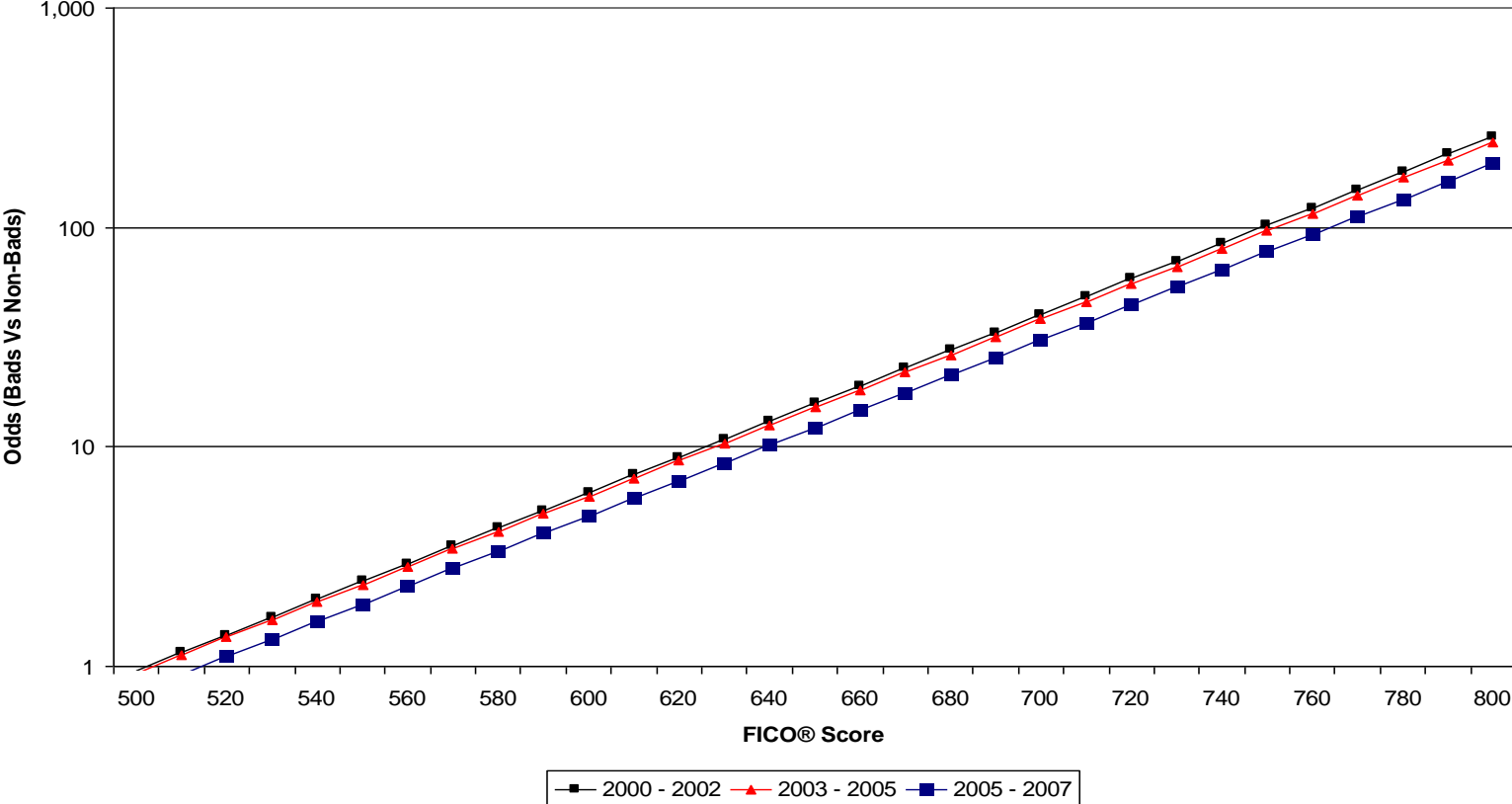
FICO® Score Alignment
Existing Auto Finance Accounts
Tradeline Performance
Bad Definition: 90s & Charge-Offs



FICO® Score Odds Alignment

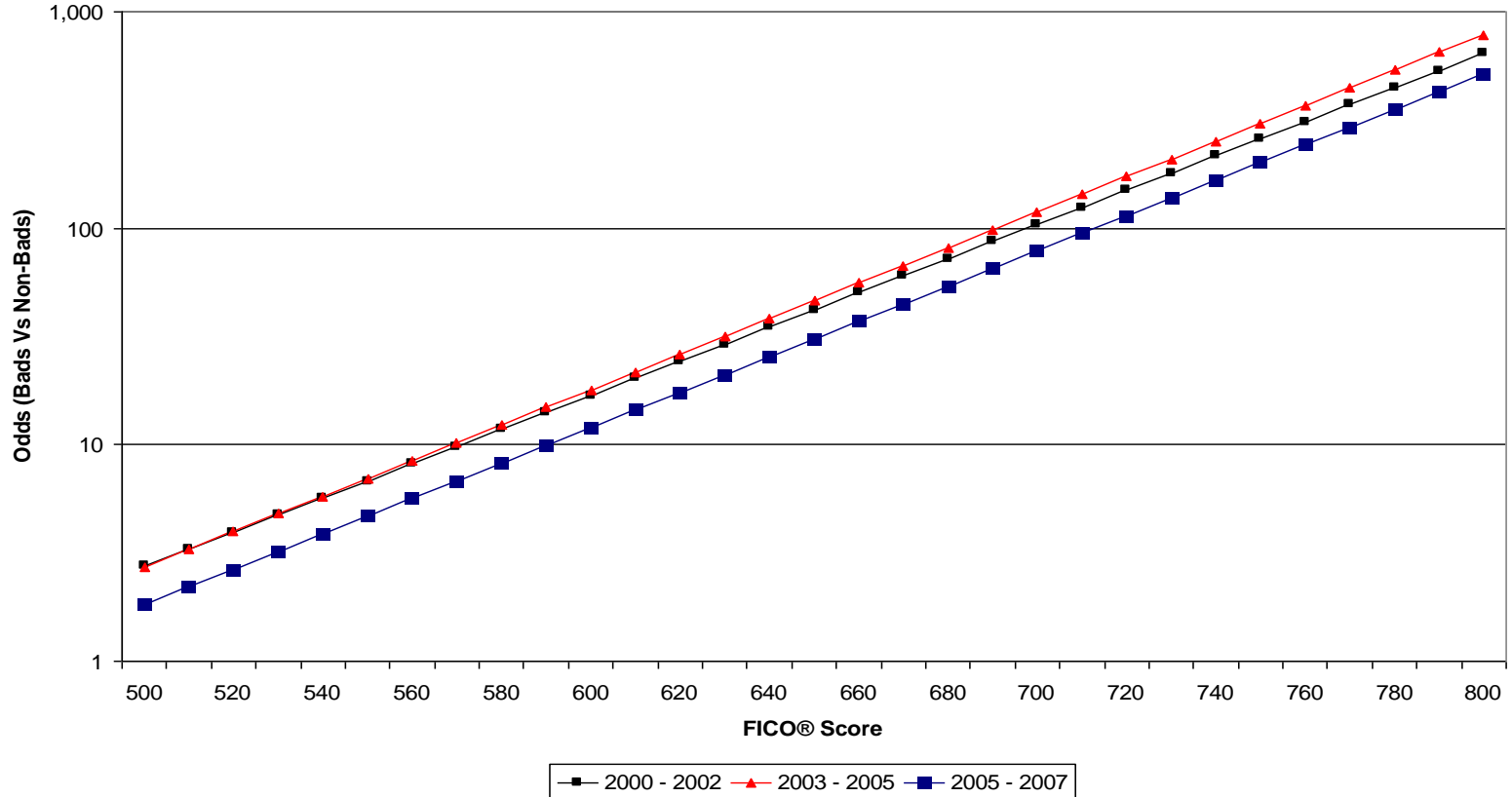
Bankcard — Existing Accounts

FICO® Score Alignment
Existing Bankcard Accounts
Tradeline Performance
Bad Definition: 90s & Charge-Offs



FICO® Score Odds Alignment Mortgage — Existing Accounts

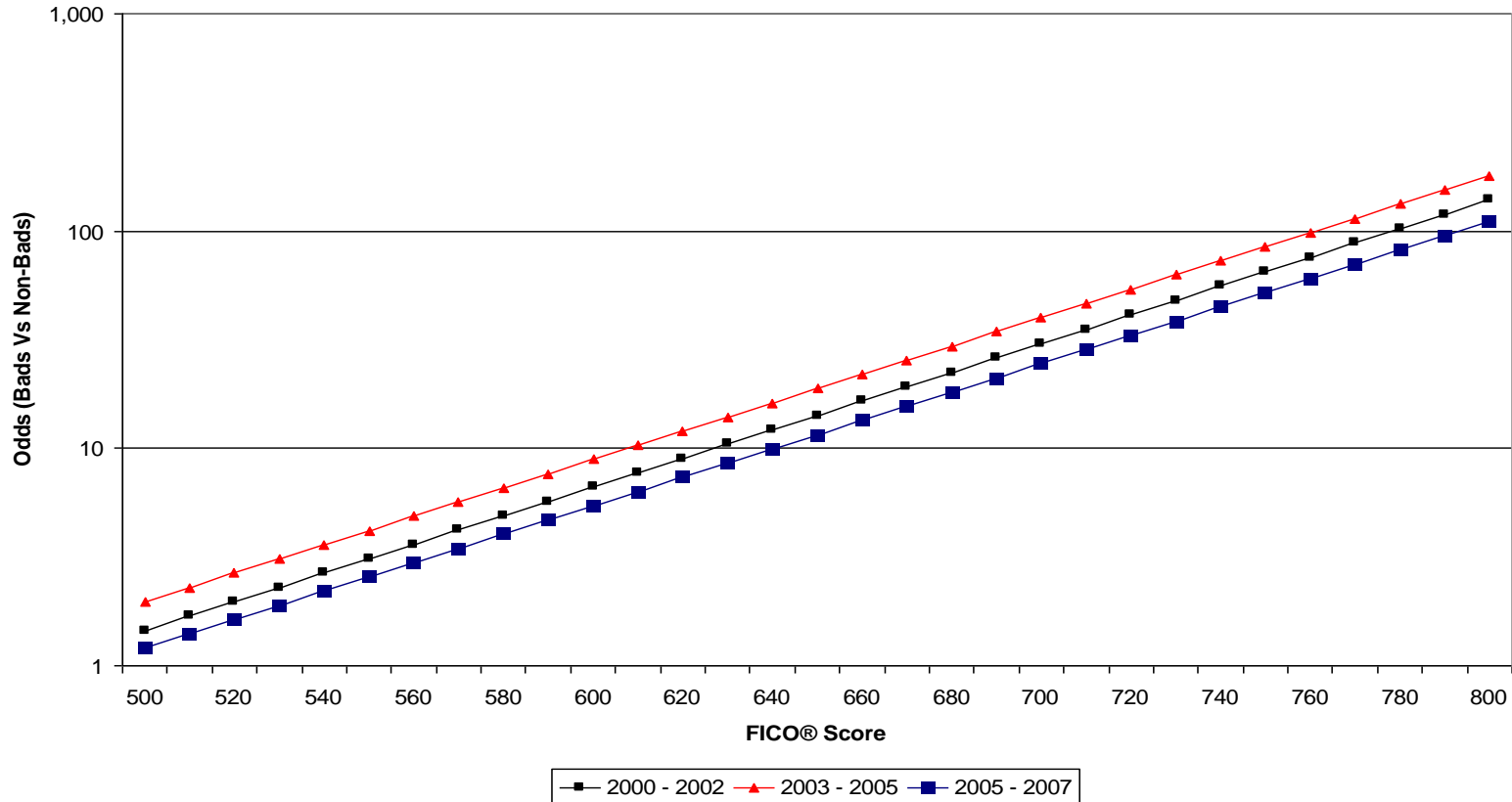
FICO® Score Alignment
Existing Mortgage Accounts
Tradeline Performance
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FICO® Score Odds Alignment

All Industries/New Accounts

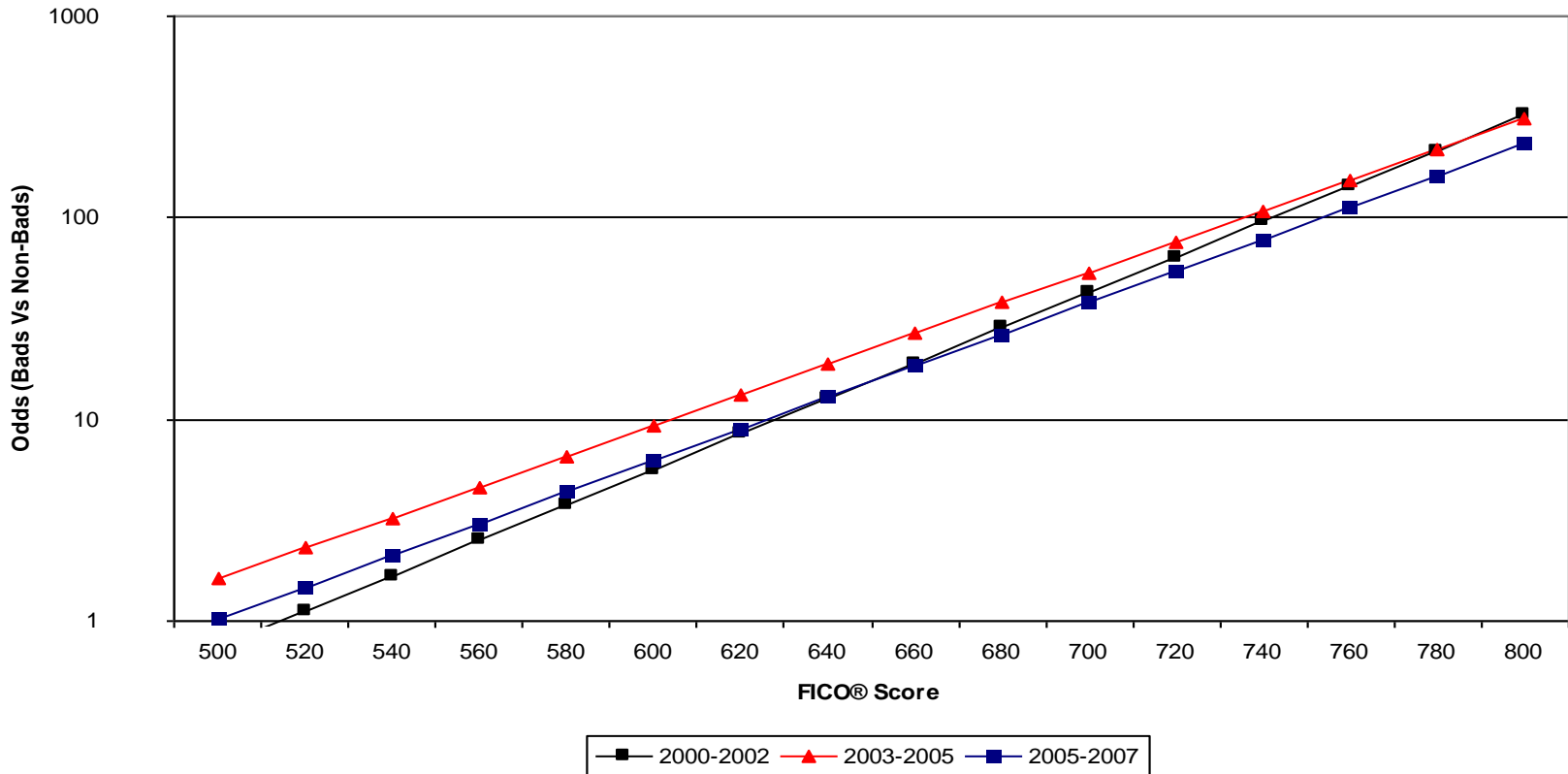
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All New Accounts
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FICO® Score Odds Alignment

Non-Department Store Retail - New Accounts

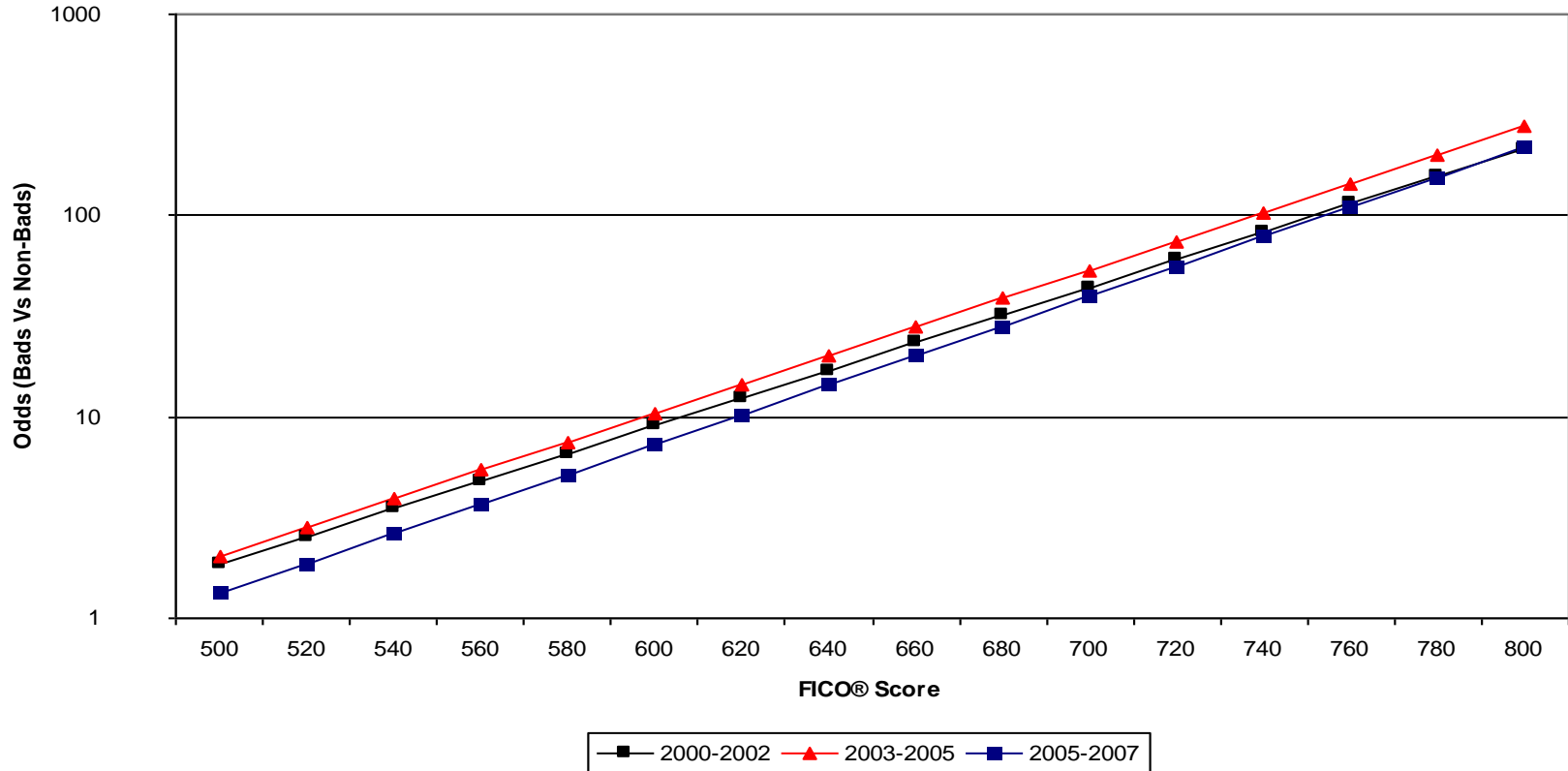
FICO® Score Alignment
New Non-Department Store Retail Revolving Accounts
Tradeline Performance
Bad Definition - 90s & Charge-Offs



FICO® Score Odds Alignment

Department Store – New Accounts

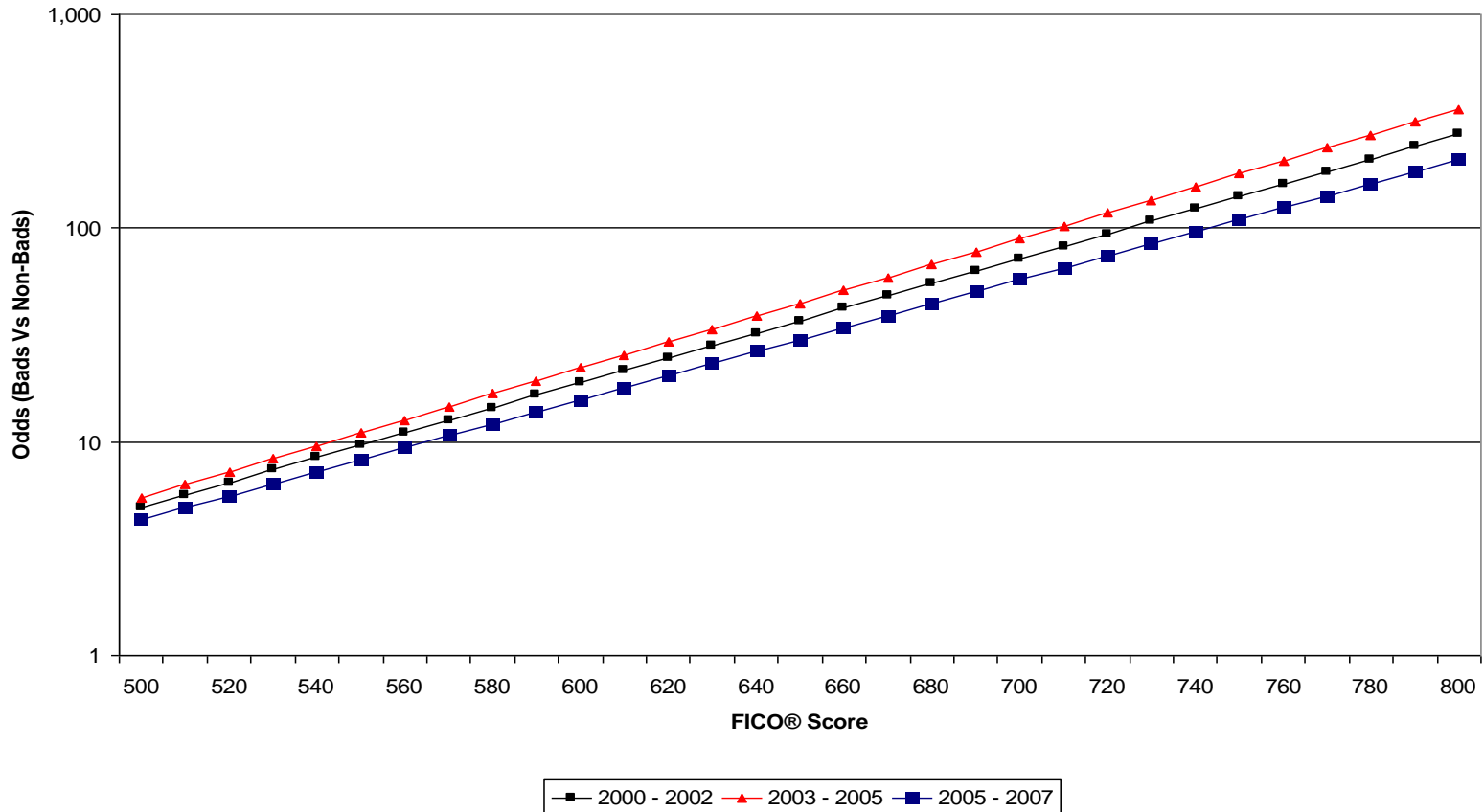
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FICO® Score Odds Alignment

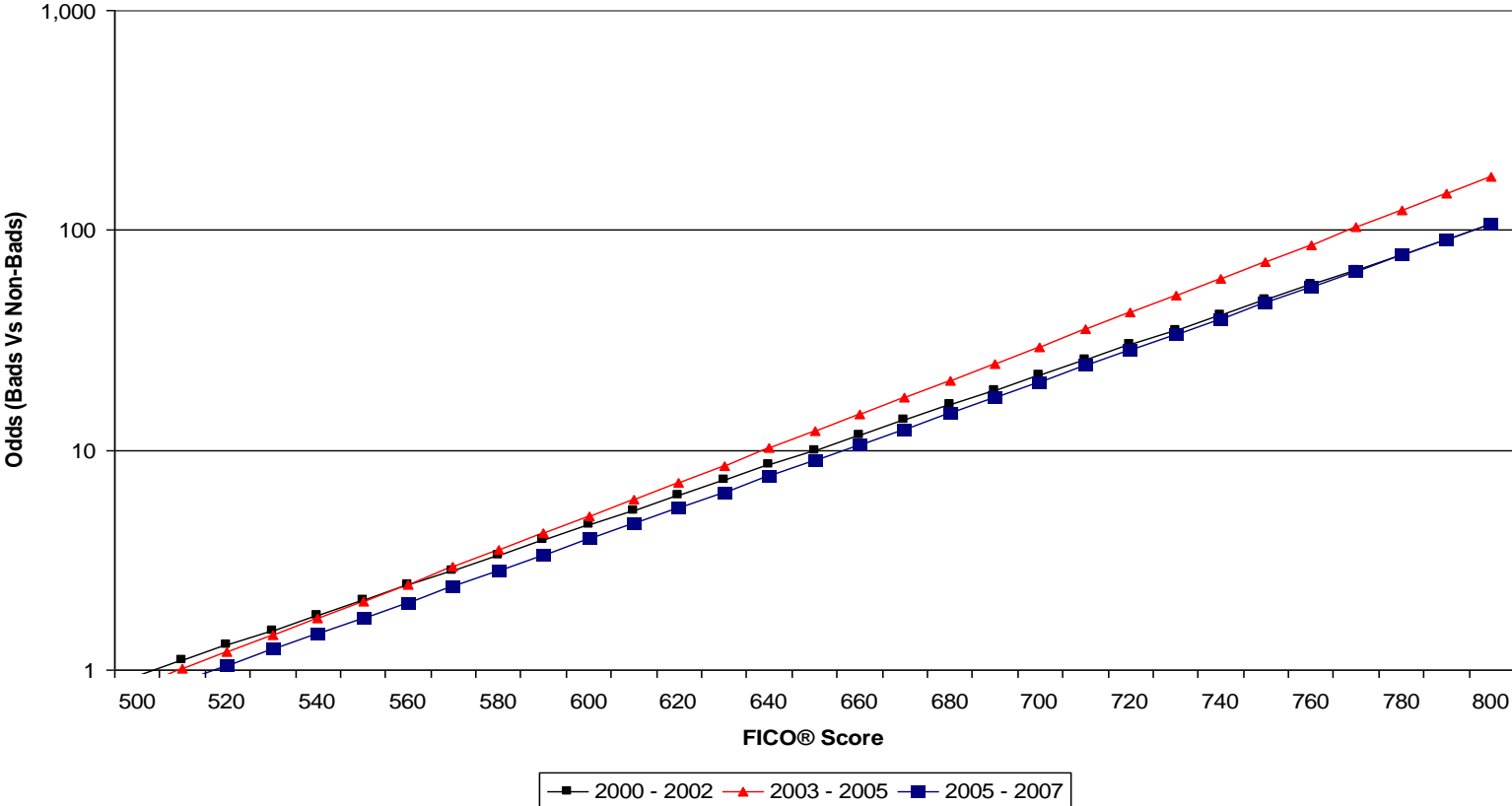
Auto — New Accounts

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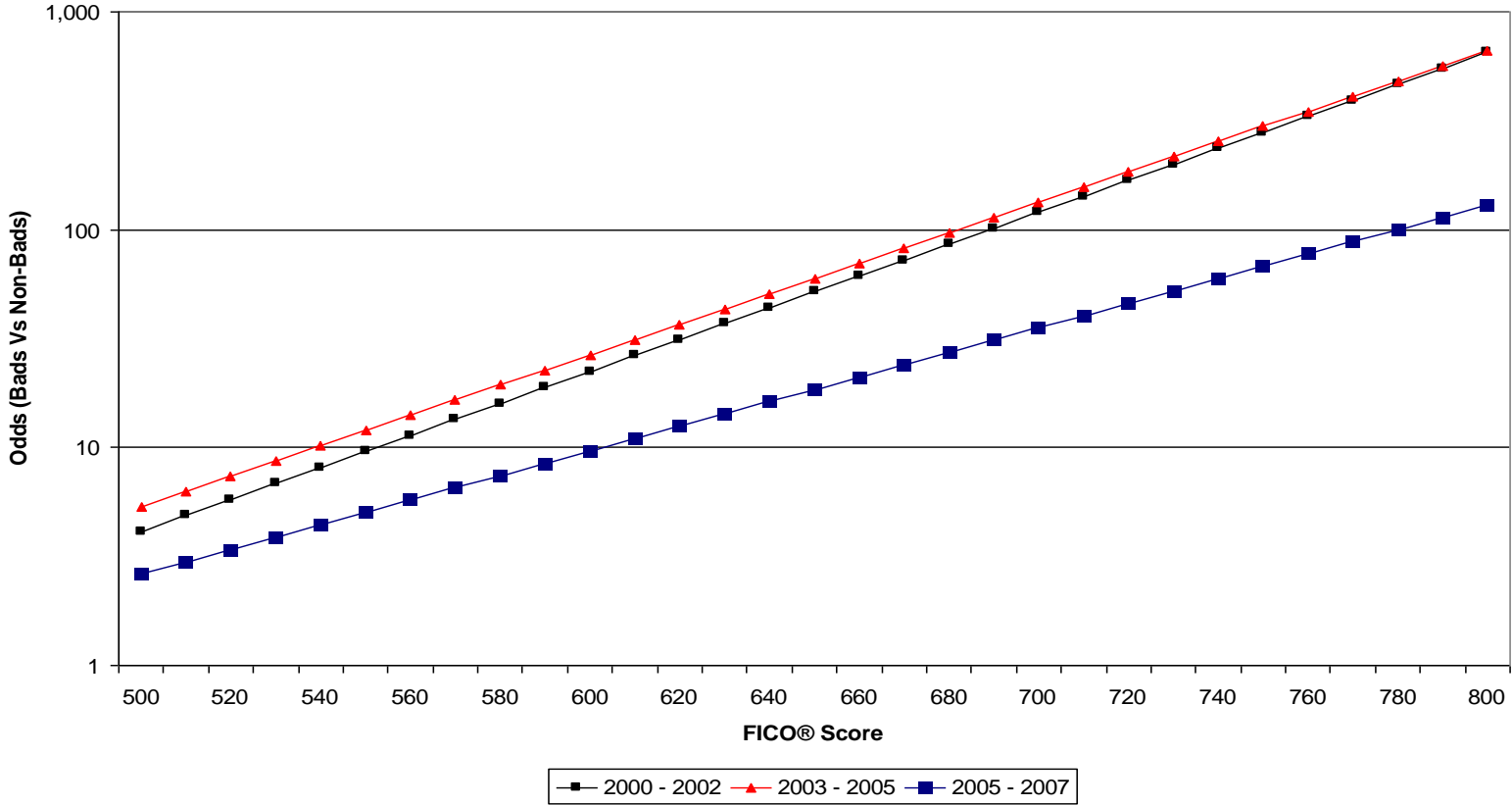
FICO® Score Odds Alignment Bankcard — New Accounts

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FICO® Score Odds Alignment Mortgage — New Accounts

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- The evidence that the FICO Score has held up as a rank-orderer of consumer risk is irrefutable.
 - True for all U.S. consumer credit products
 - True for existing accounts/loans as well as new accounts/loans
- The absolute repayment odds versus FICO Score does drift over time.
 - Directionally, the drift is usually correlated with economic and/or market conditions
 - Under most changes in conditions for most credit products, the drift is gentle over time
 - Under the recent extreme shifts in conditions, for new mortgage loans, the drift has been dramatic
- Changes in product features, underwriting standards and fudging/fraud can lead to flattening of the repayment odds versus FICO Score relationship for a specific credit product – while other products with no such changes exhibit no such flattening
- For the future, such drifts and slope changes can be dealt with by adding “forward-looking” components to today’s state-of-the-practice risk assessment tools
 - These forward-looking components should include both:
 - An extrapolative component based the analysis of past data over time, and
 - A disruptive component based on domain expert assessments of future phenomena not present in historical data