

Demystifying FICO® Scores

19th Annual National Consumer Protection Week – Federal Reserve
Bank of Boston

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Typical Credit Score Questions

- » What information is considered in calculating the score?
- » What causes scores to quickly increase or decrease?
- » Higher income results in higher score, correct?
- » What is a good FICO® score to get?
- » How many points do you lose for inquiries?
- » There are so many different scores – I am confused.
- » What is an authorized user and how is it considered by the score?
- » How will account closures/line decreases impact a score?
- » Does missing a mortgage payment result in the biggest point loss?
- » Why is my score different from my spouse's score?

Agenda

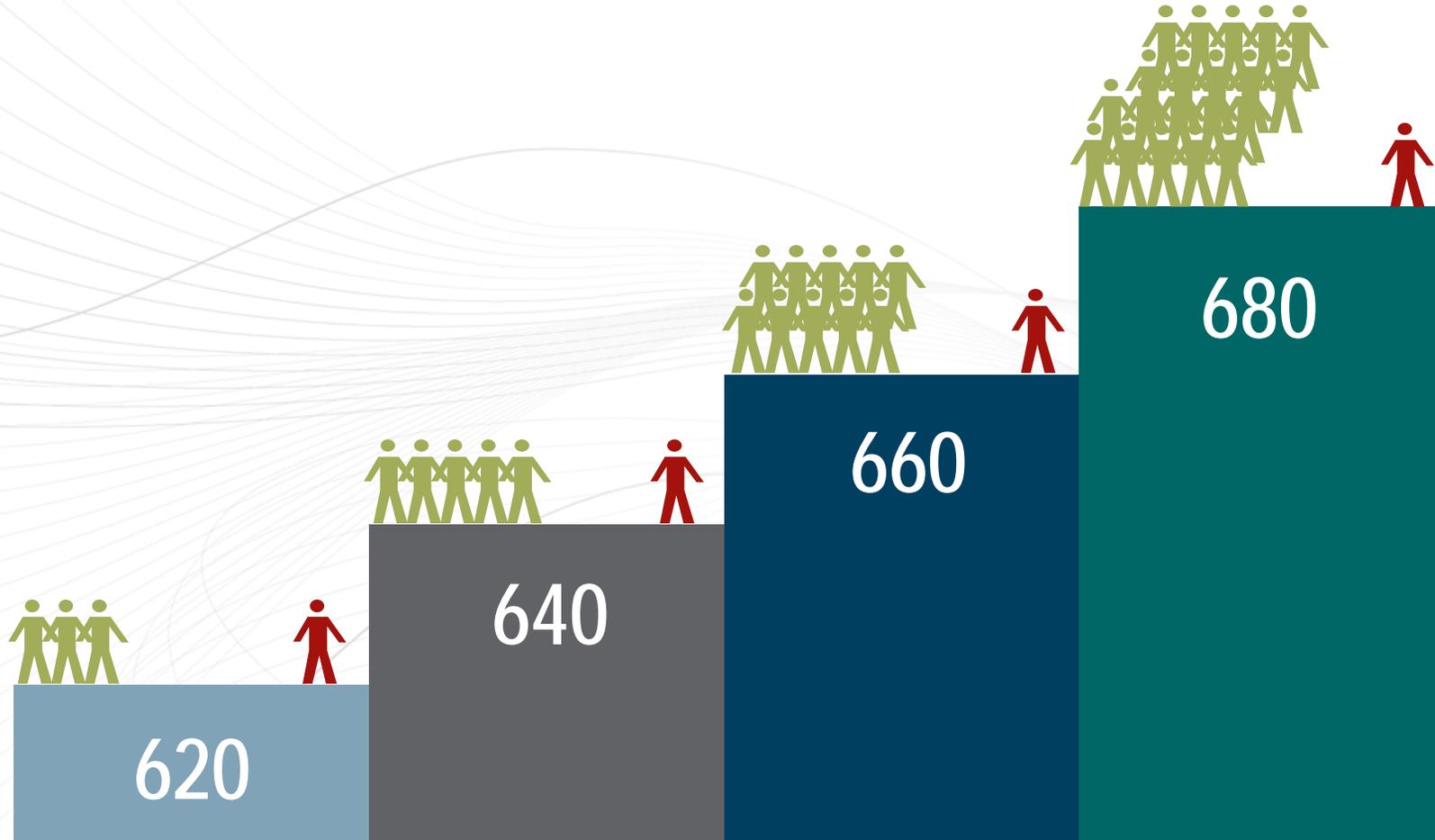


- » **Scoring Basics**
- » FICO® Scores



Product			
Classic FICO® Score	» BEACON®	» FICO® Risk Score, Classic	» Experian/Fair Isaac Risk Model
Classic FICO® Industry Options	» Auto » Bankcard » Finance » Installment » Mortgage	» Auto » Bankcard » Finance » Installment	» Auto » Bankcard » Finance » Installment
NextGen FICO® Score	» Pinnacle SM	» FICO® Risk Score, NextGen	» Experian/Fair Isaac Advanced Risk Score
Bankruptcy Model	—	» FICO® Bankruptcy Risk Score	» Experian/Fair Isaac Bankruptcy Score

Scores are Designed to Rank-Order



Agenda



- » Scoring Basics
- » **FICO® Scores**

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

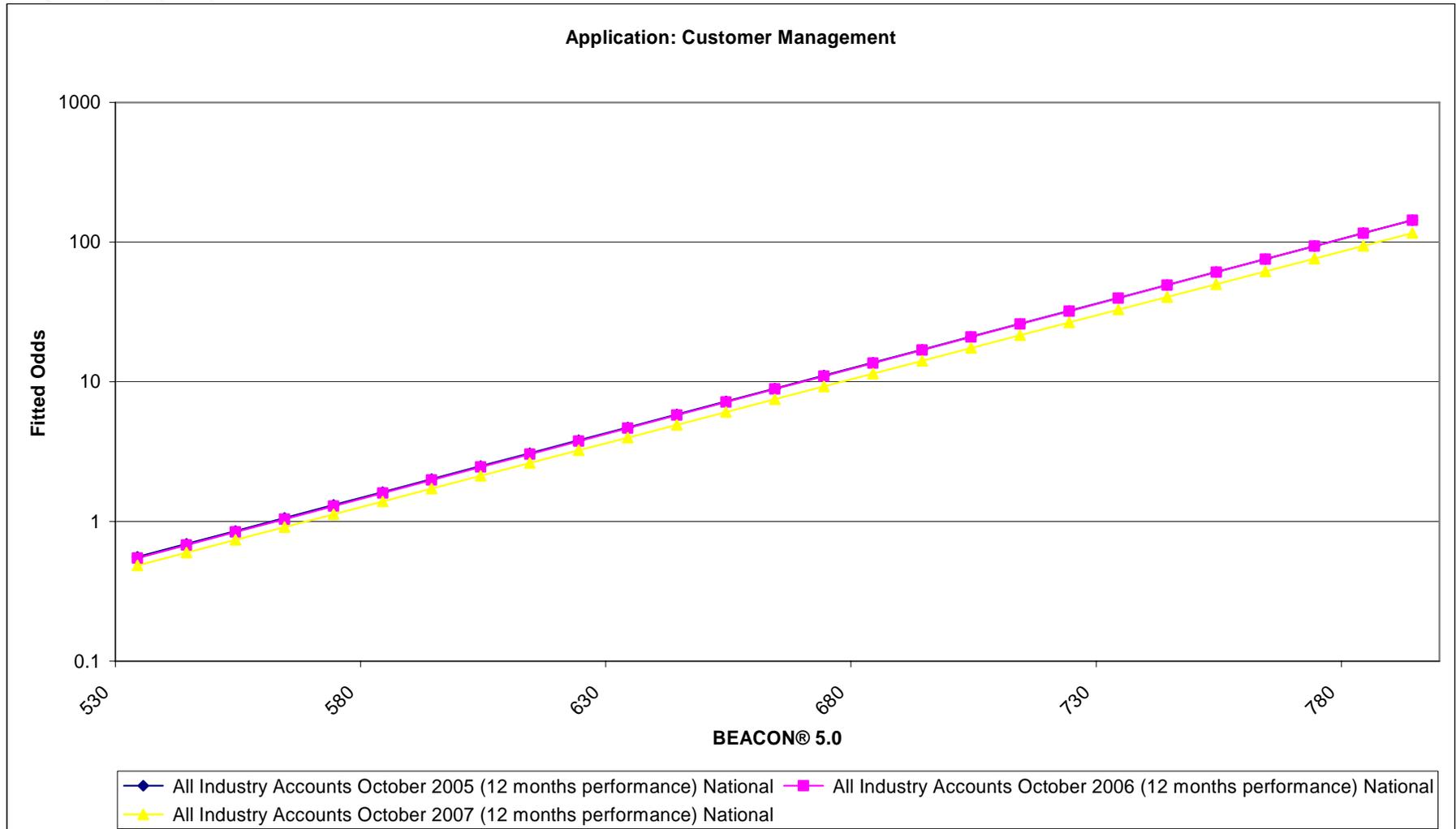
It is a single 3-digit number which rank-orders consumers according to risk.

- » Classic Score 300 – 850®
- » Industry Option 250 – 900
- » NextGen Score 150 – 950

Effective Risk-Ranking



National Population 3 vintages/12-month performance window



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 1-25-56
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	6-08	3-89	\$5,000	\$0	Current	120+, 6 yrs ago
Auto loan	6-08	7-06	8,000	1,500	Current	
Retail	3-08	6-97	1,000	200	30 days	

5

INQUIRIES

Date	Industry	Date	Industry
7-01-08	Bank	6-01-08	Auto finance
6-15-08	Oil company	2-07-09	Retail

CONSIDERED



Tradelines



Inquiries



Collections



Public Records

NOT CONSIDERED



Age



Address



Employment

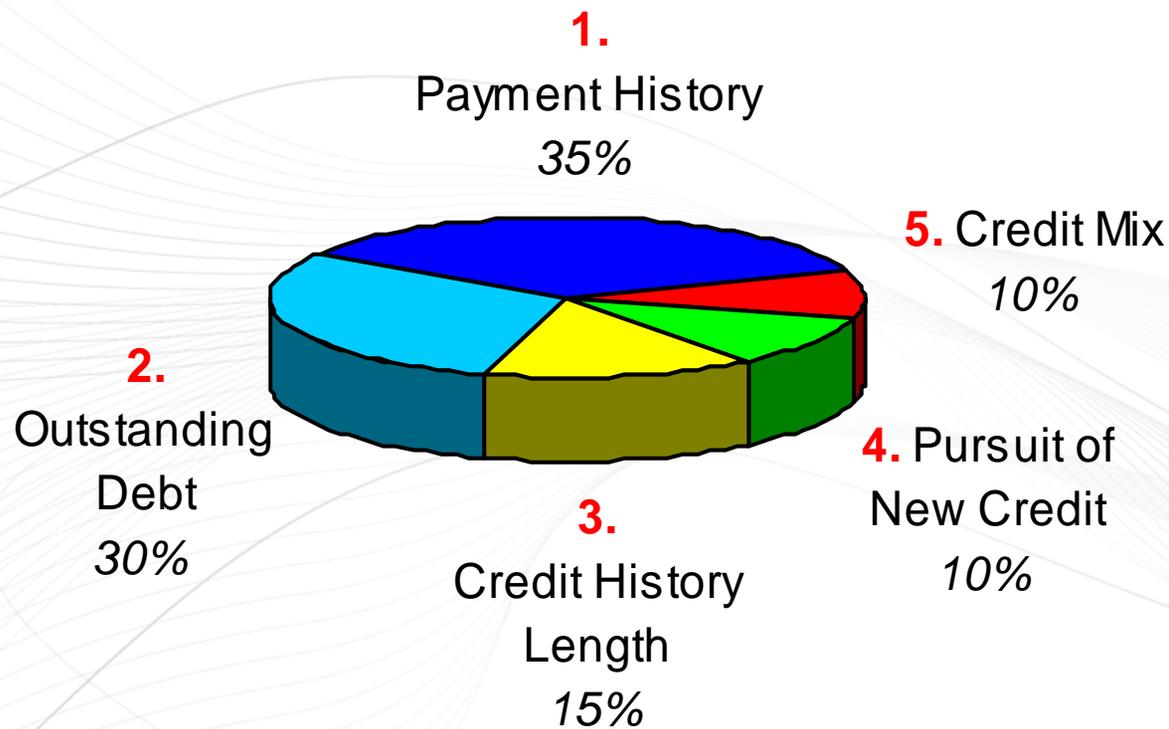


Income

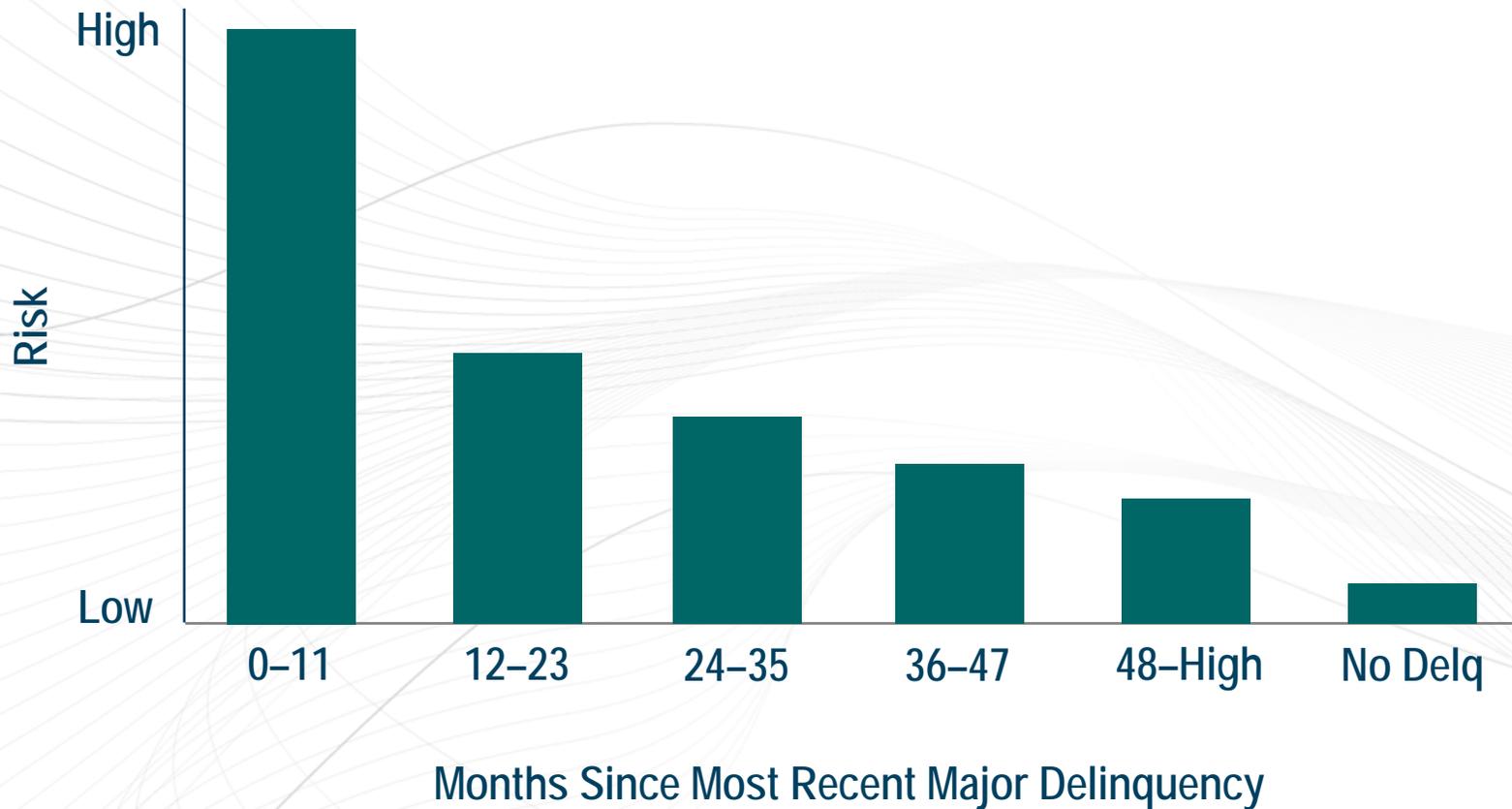


Gender

Categories of Predictive Characteristics

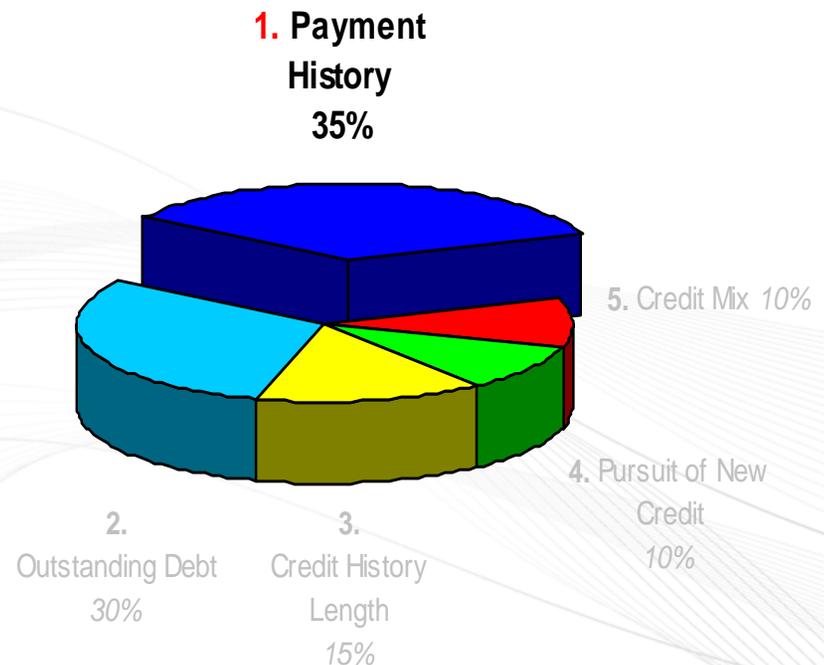


Payment History – Example



Key Factors:

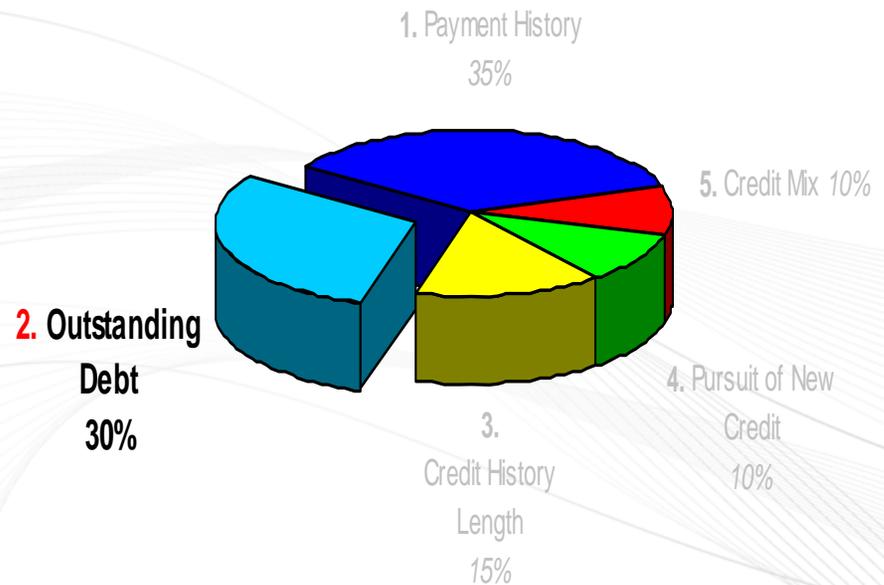
- » How recent is the most recent delinquency, collection or public record item?
- » How severe was the worst delinquency – 30 days, 90 days?
- » How many credit obligations have been delinquent?



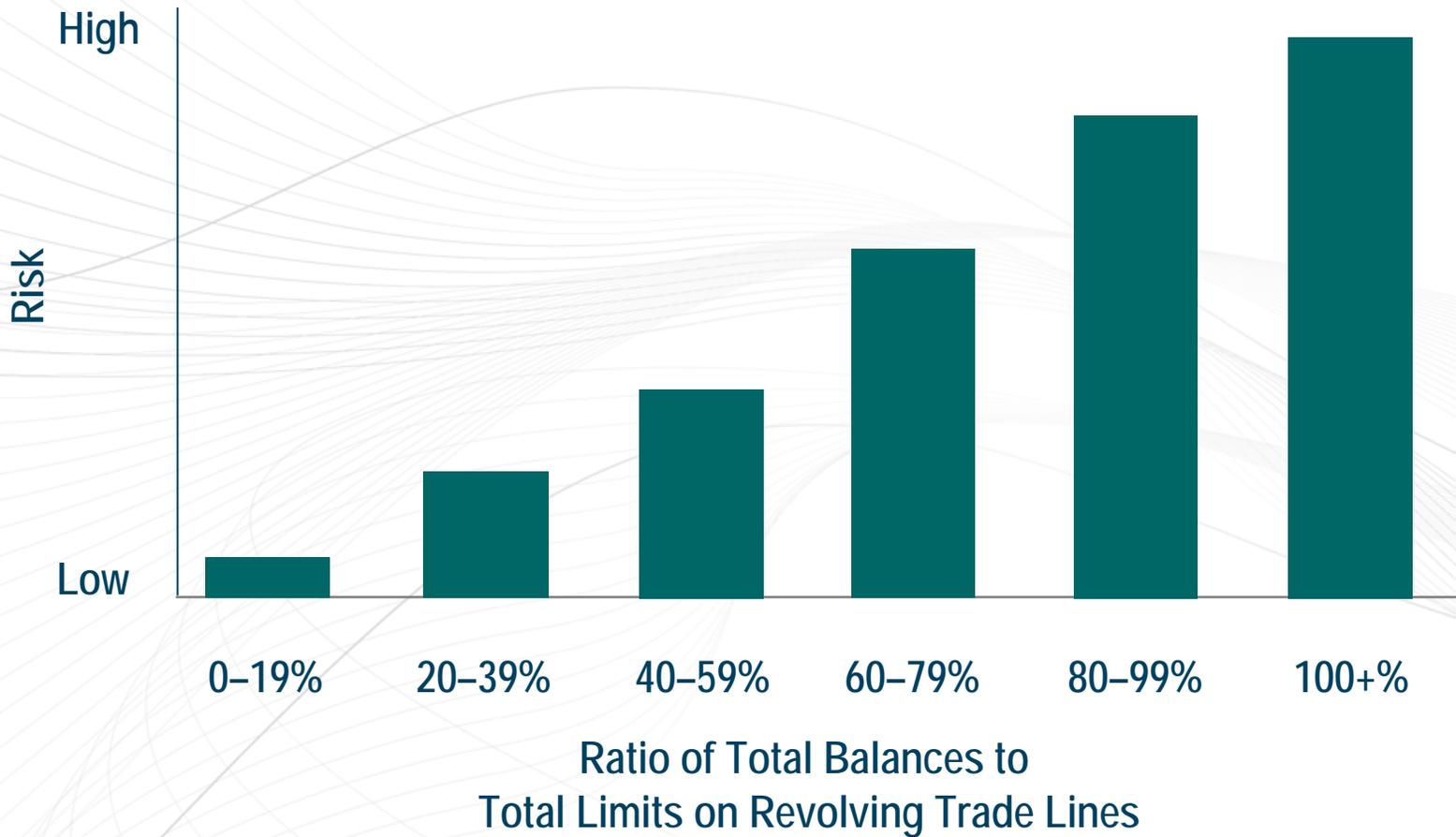
Outstanding Debt

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?



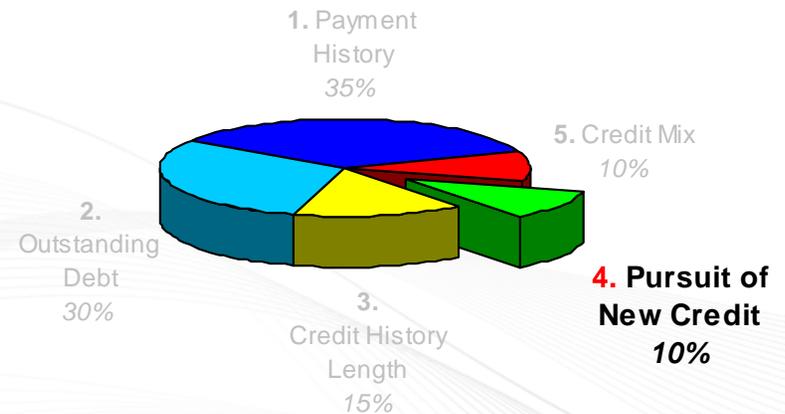
Outstanding Debt – Example



Pursuit of New Credit

Key Factors:

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



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



The credit bureau risk score models observe inquiries over a 12-month period. Auto- and mortgage-related inquiries that occur 30 days prior to scoring have no effect on the score. Outside this 30-day period, auto- and mortgage-related inquiries that occur within any 45-day period are treated as a single inquiry.

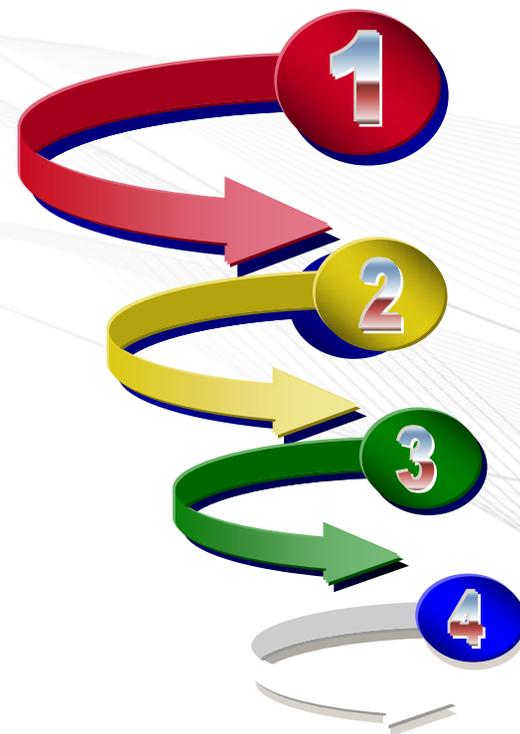
Minimum Score Criteria

- » Not deceased
- » One trade line open at least 6 months
- » One undisputed trade line updated in last 6 months

Exclusion rates may vary widely by population

Credit Bureau Score Reasons

- » Up to four reasons returned
- » Selection and order based upon difference from maximum points
- » Reasons returned on-line and in account management runs



» www.myFICO.com & www.equifax.com – the only source for consumer access to their FICO® score and other credit empowerment information

EQUIFAX

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I want to...

- » Take Charge of My Credit
- » Protect My Identity
- » Buy a Home
- » Buy a Car
- » Compare Products

3-in-1 Monitoring + FREE FICO® Score

What does this economy mean for your credit? Take charge with comprehensive credit **monitoring alerts**, and a **FICO score simulator** that tells you your actions may impact your score.

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- 24 x 7 Customer Care

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- Email alerts when your FICO® score changes

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myFICO FICO® Score Summary

723 Your Equifax FICO® Score (as of APR 2007)

Officially Certified myFICO 300-850 FICO CREDIT SCORE

myFICO FICO® is 50% myFICO credit report & 50% FICO®

Payment history: Your history of payments on time.

Amount of debt: Your total amount of debt.

FICO® score ranges between 300 and 850. Higher scores are better scores. The higher your score, the more services you qualify for as a credit user.



FICO® Scores on Statements

A collaborative three-way consumer credit empowerment program (Lender, Credit Reporting Agency & FICO) that enables the lender to present FICO® Branded Scores, free of charge to consumers, via the lender secured online account portal(s).

THANK YOU

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