

Introduction to Credit and FICO® Scores

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FICO

Housekeeping

- This webinar is being recorded
- Copy of the slide deck will be available on our FOC website (<http://www.FOC-Network.org/>)
- All lines have been muted to reduce background noise
- We will take **questions** at the end but please write your questions into the Q/A box throughout the webinar
- Other **comments or general troubleshooting** can be sent to the chat box
- Send any unanswered questions to your local program officer

Agenda



- About FICO
- FICO® Score Overview
 - An overview of the FICO® Score
 - Different scoring models
 - The five key categories of FICO® Score Predictive Characteristics
 - Reading and understanding a credit report
- FICO® Score Open Access for Credit & Financial Counseling
- Establishing a credit history and a healthy FICO® Score



About FICO

Who Is FICO and What Do We Do?

- FICO is the pioneer of credit bureau credit risk scores
- FICO provides superior predictive models and tools to power lending decisions
- FICO® Scores are used by 90% of top U.S. lenders, and in 90% of U.S. lending decisions
- FICO strives to increase consumer financial literacy



A Path to Inclusion for Over One Billion

- 1.7 billion people globally are under-banked or have no banking relationship at all. Approximately 1 billion more have access to a bank but have no credit history.
- FICO democratized credit in the United States almost 30 years ago with the introduction of the FICO® Score.
- Globally, the FICO Financial Inclusion initiative leverages emerging technology, innovative analytics, new data sources to address the unique credit needs and regulatory environments, and most importantly **consumer education**.






FICO® Score Overview

What is a FICO® Score

- A three-digit number summarizing a consumer's credit risk – how likely a consumer is to pay back credit obligations as agreed.
- A FICO® Score is based on data on a consumer's credit report at one of the three major credit bureaus – Experian, TransUnion and Equifax.
- Lenders use FICO® Scores to help them quickly, consistently and objectively evaluate potential borrowers' credit risk, which makes the lending process faster and fairer.

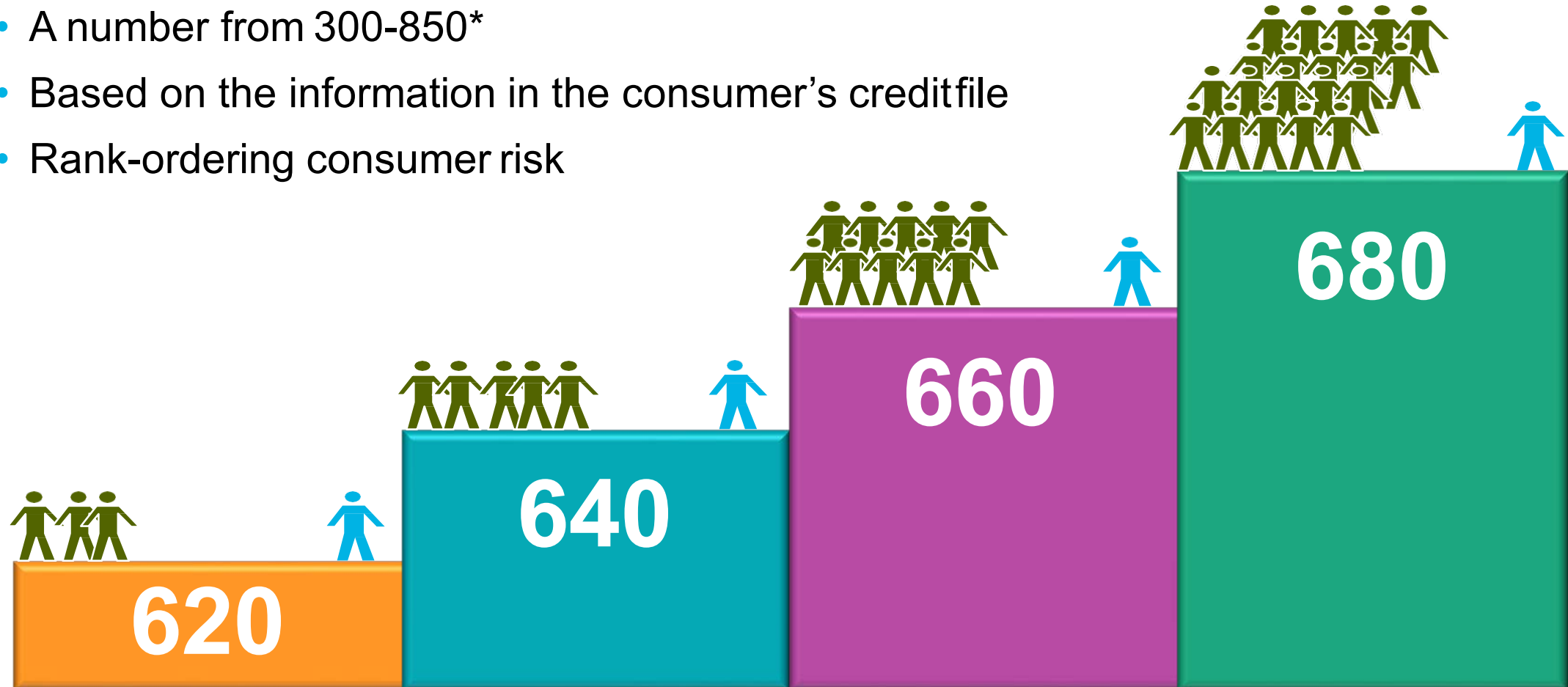
Multiple FICO® Score Versions in Use in the U.S.

Product			
FICO® Base Score	<ul style="list-style-type: none"> • FICO® Score 9 • FICO® Score 8 • FICO® Score 5 • FICO® Score 4 	<ul style="list-style-type: none"> • FICO® Score 9 • FICO® Score 8 • FICO® Score 4 • FICO® Score 98 	<ul style="list-style-type: none"> • FICO® Score 9 • FICO® Score 8 • FICO® Score 3 • FICO® Score 2
FICO® Industry Scores (For each version)	<ul style="list-style-type: none"> • FICO® Auto Score • FICO® Bankcard Score 	<ul style="list-style-type: none"> • FICO® Auto Score • FICO® Bankcard Score 	<ul style="list-style-type: none"> • FICO® Auto Score • FICO® Bankcard Score

- Base FICO® Scores range from 300 to 850, though industry specific FICO® Scores have a slightly broader score range, 250-900
- Models at each bureau are redeveloped periodically to enhance and improve the predictive power of the score
- A lender chooses the version to use

FICO® Scores are Designed to Rank-Order Risk

- A FICO® Score is:
 - A number from 300-850*
 - Based on the information in the consumer's creditfile
 - Rank-ordering consumer risk



* FICO® Industry Scores have a broader score range

Predictive Credit Bureau Data Used in a FICO® Score

Data elements used must be **permissible** and **predictive**

Considered



Trade lines (accounts)



Credit inquiries



Collections



Public Records

Not Considered



Age



Address



Employment



Income

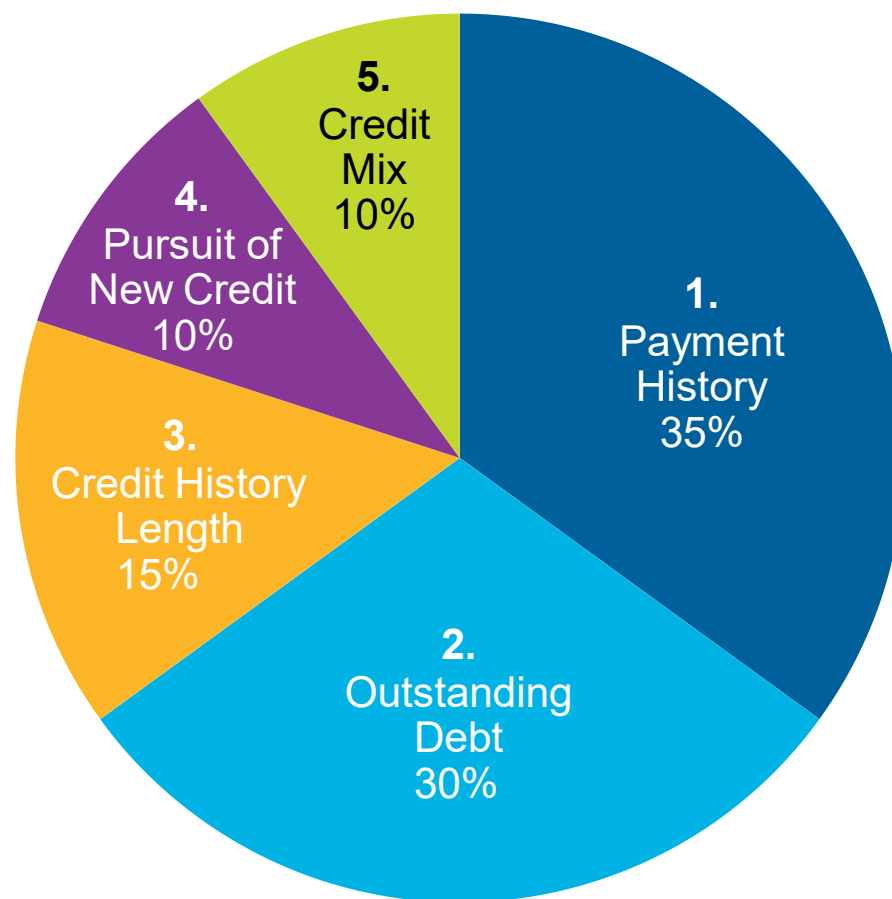


Gender



The 5 Key Categories of FICO® Score Predictive Characteristics

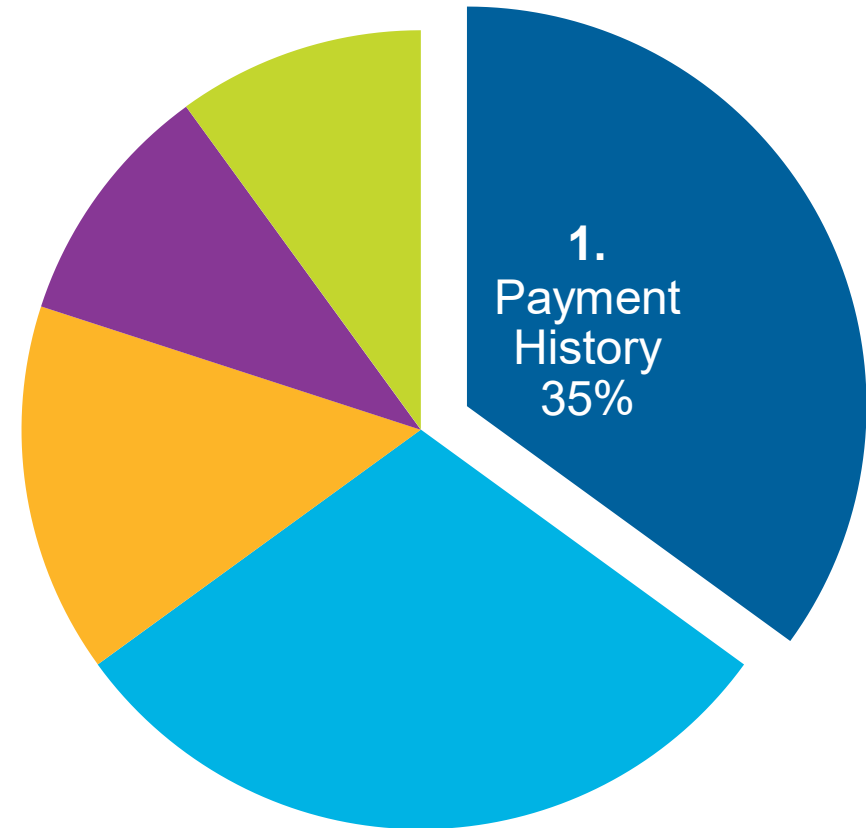
Five Categories of FICO® Score Predictive Characteristics



1. Payment History

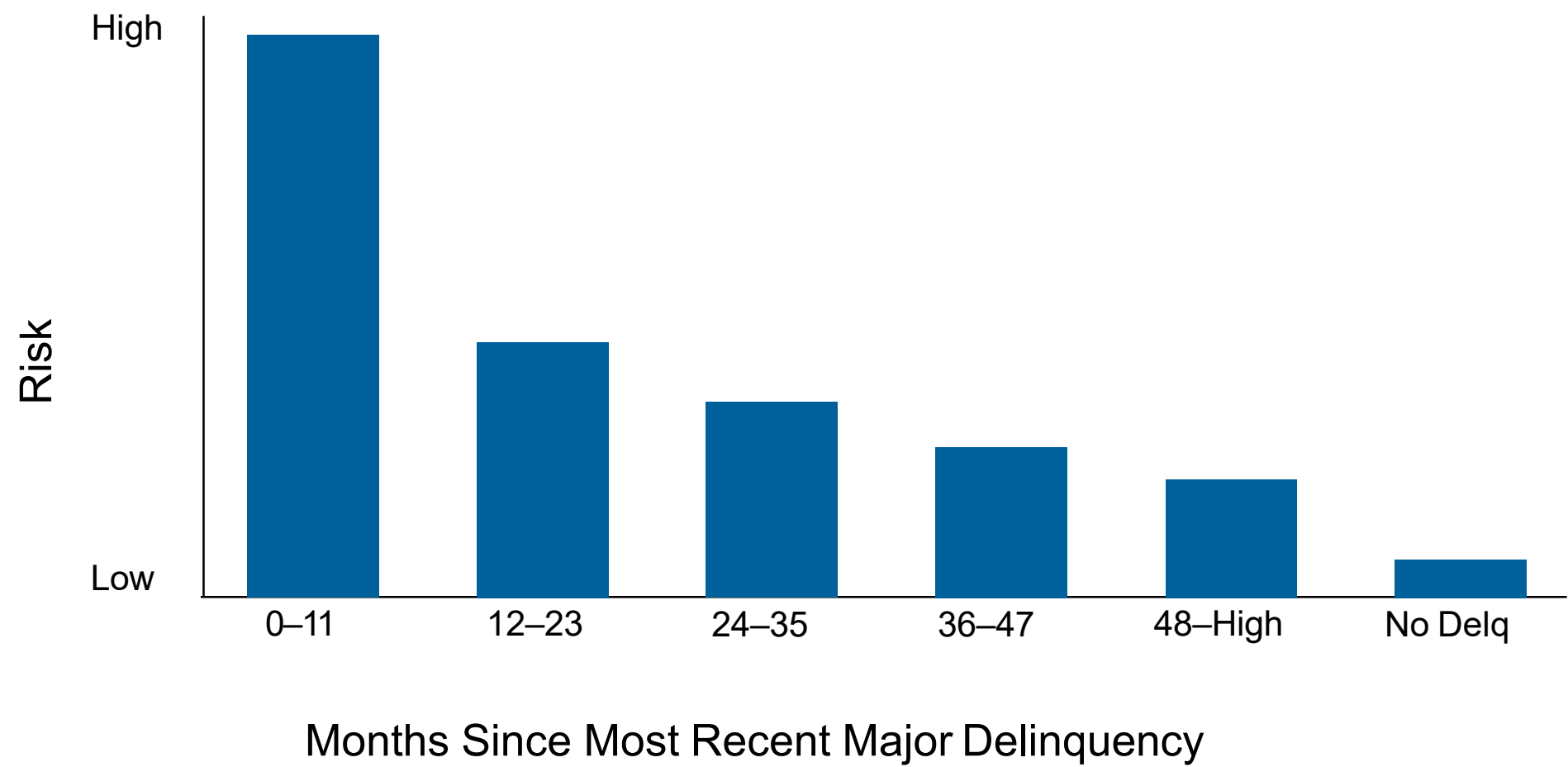
Key Factors

- **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?



Payment History

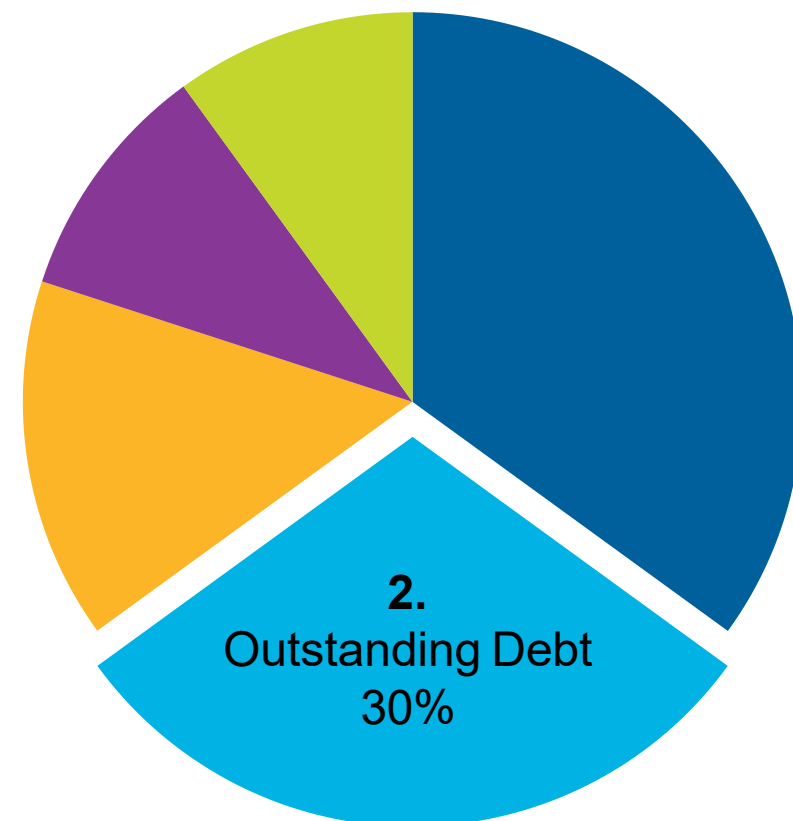
Example



2. Outstanding Debt

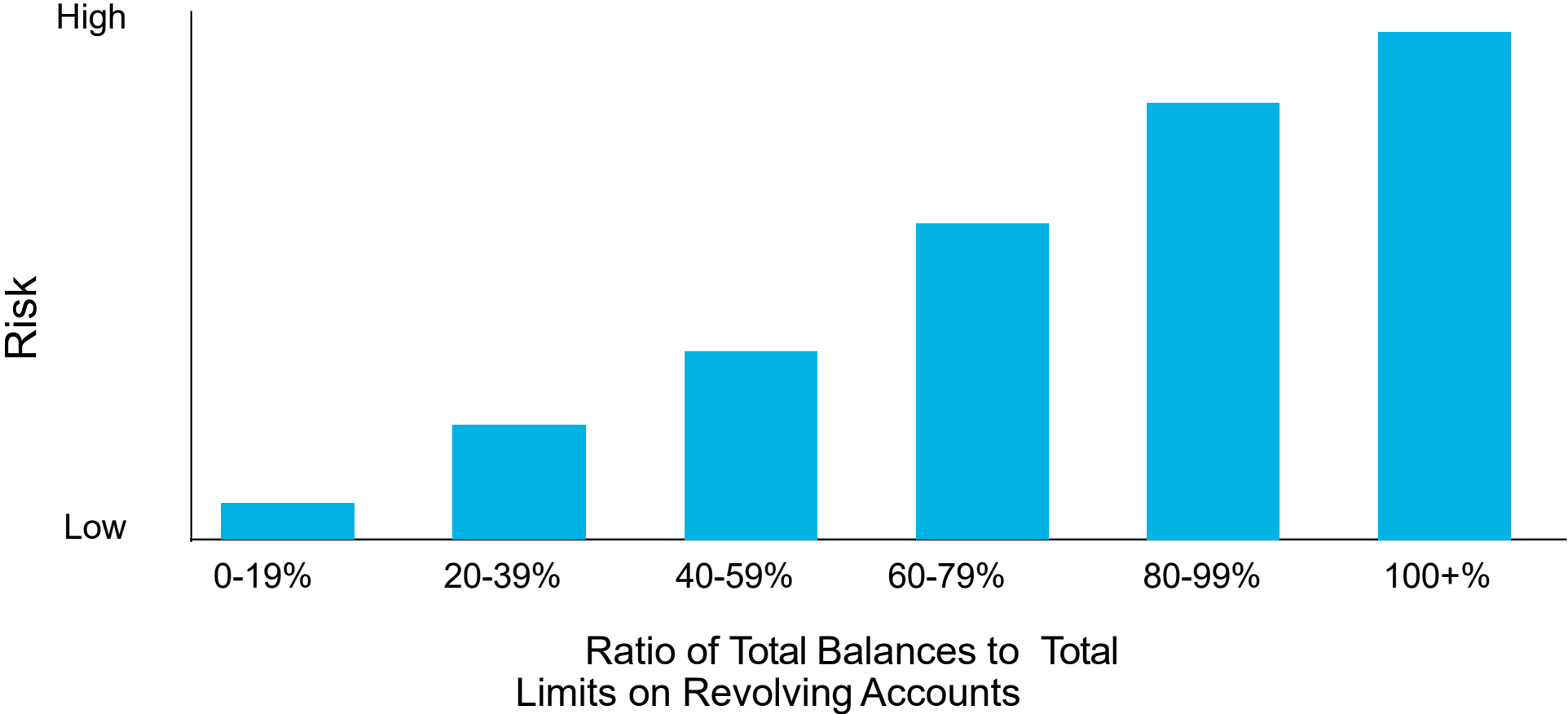
Key Factors

- 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

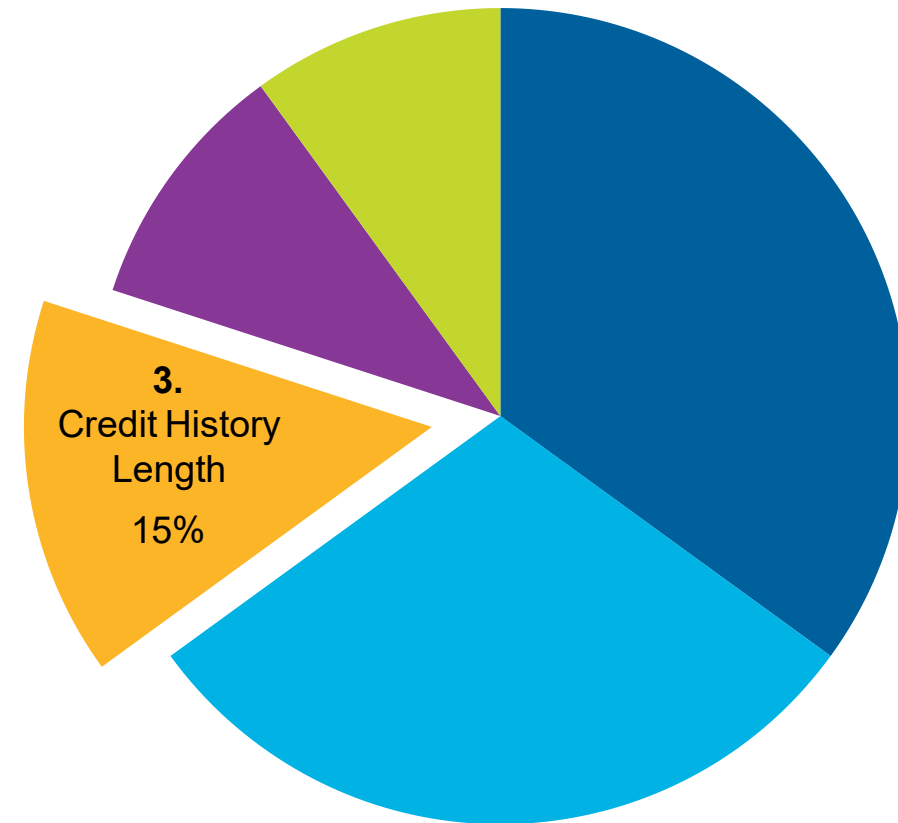
Example



3. Credit History Length

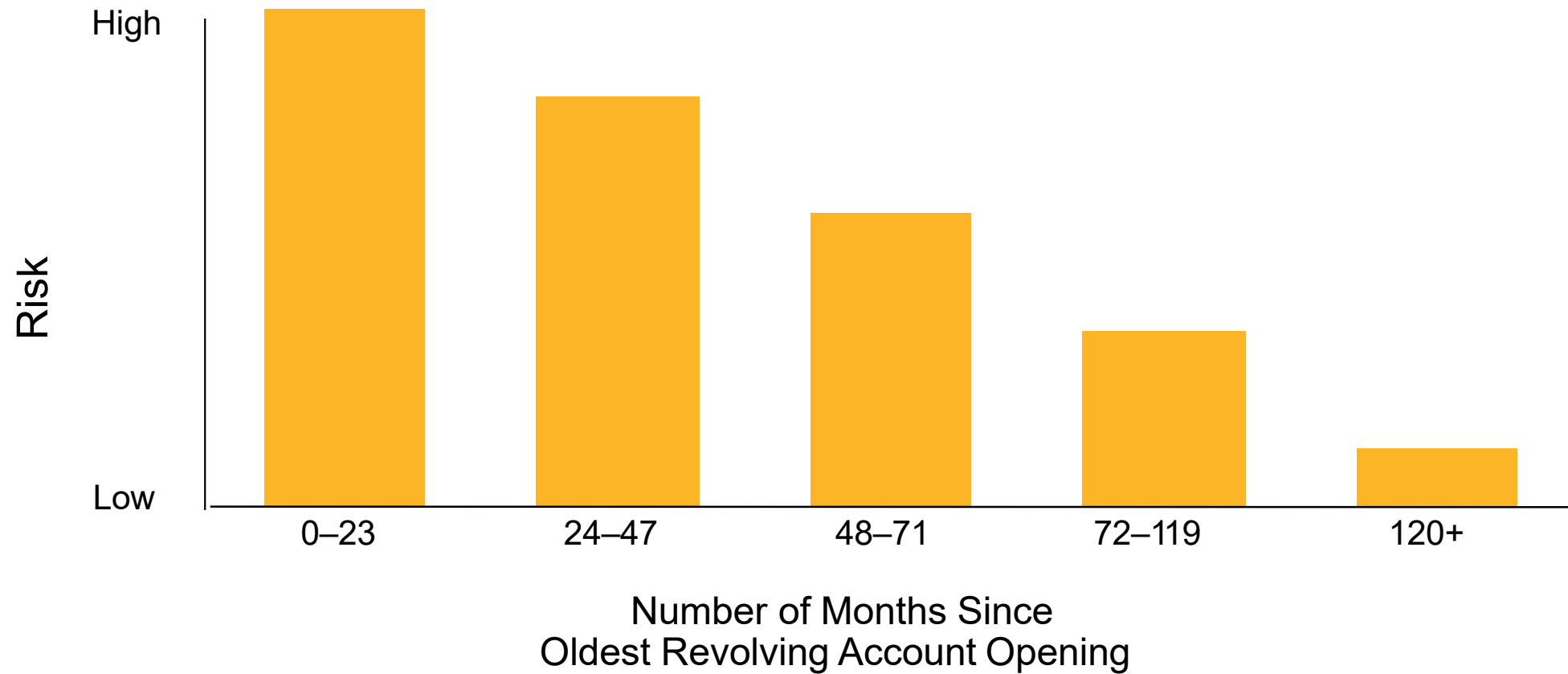
Key Factors

- 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

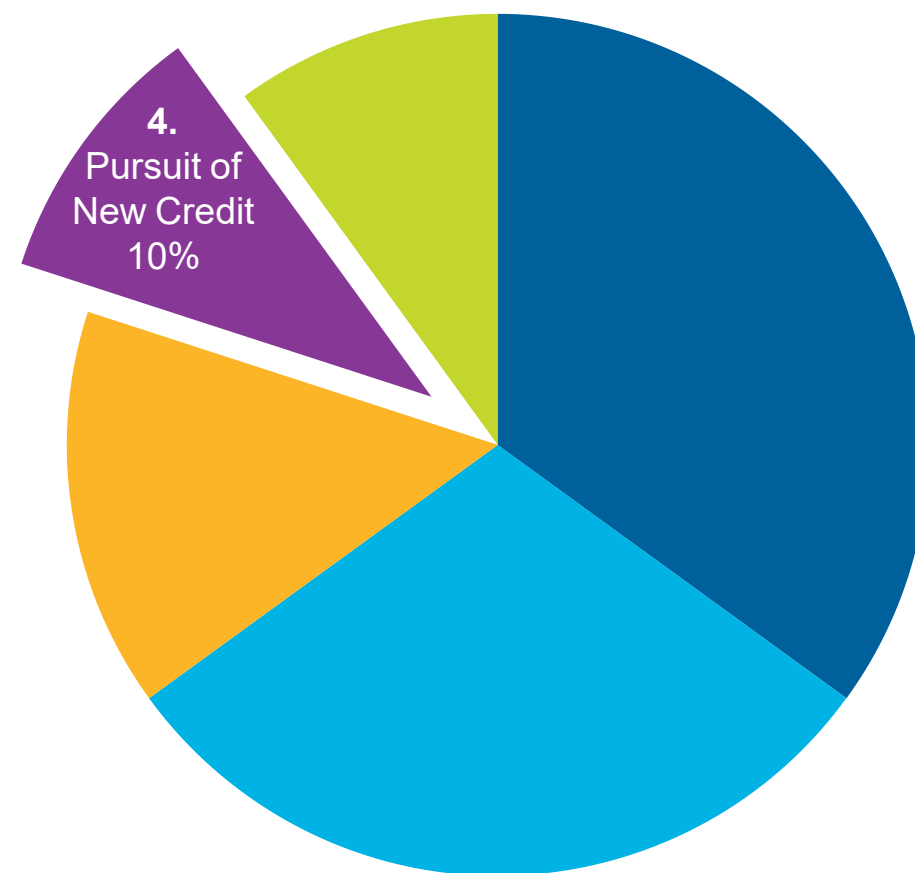
Example



4. Pursuit of New Credit

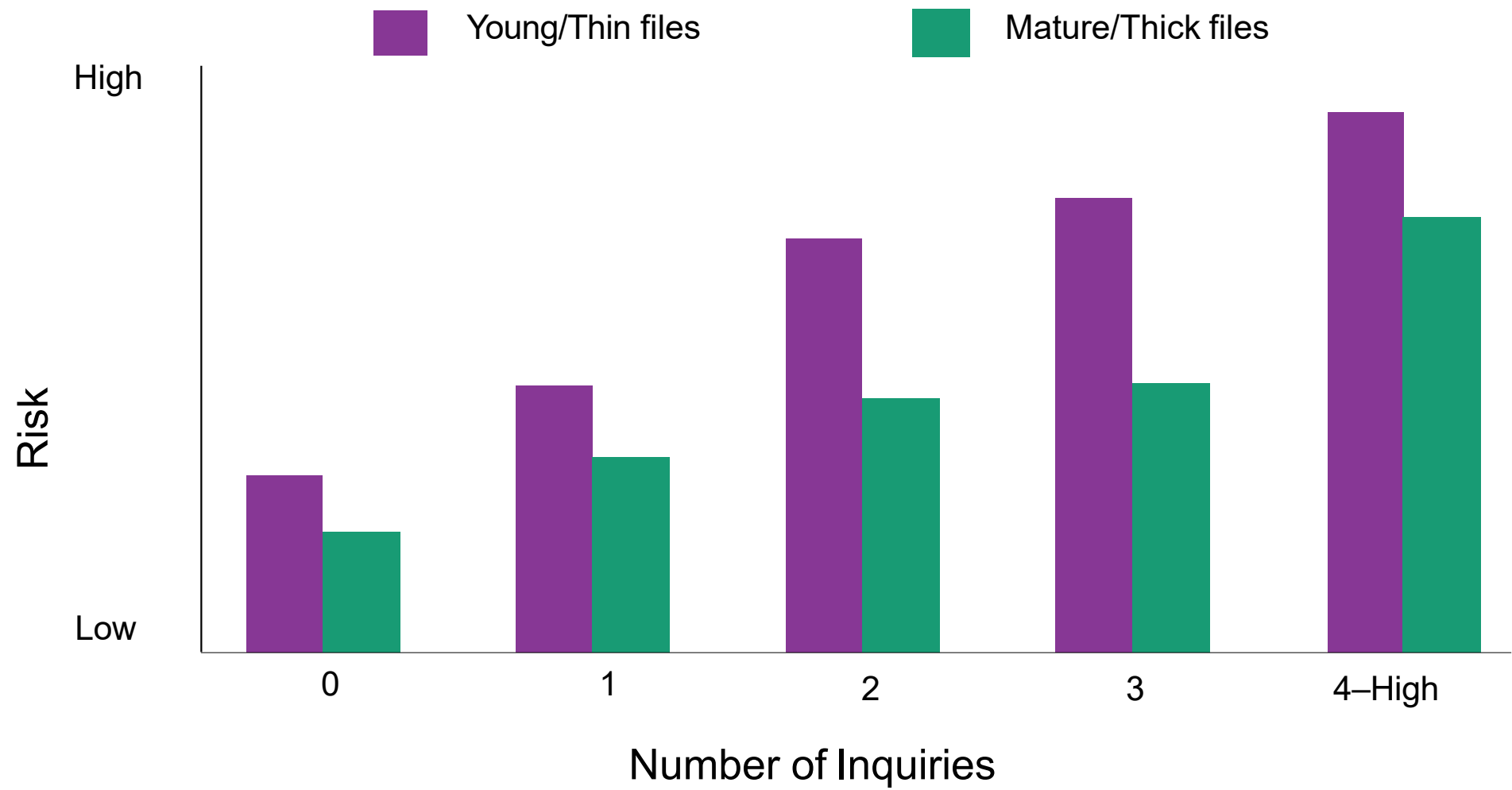
Key Factors

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



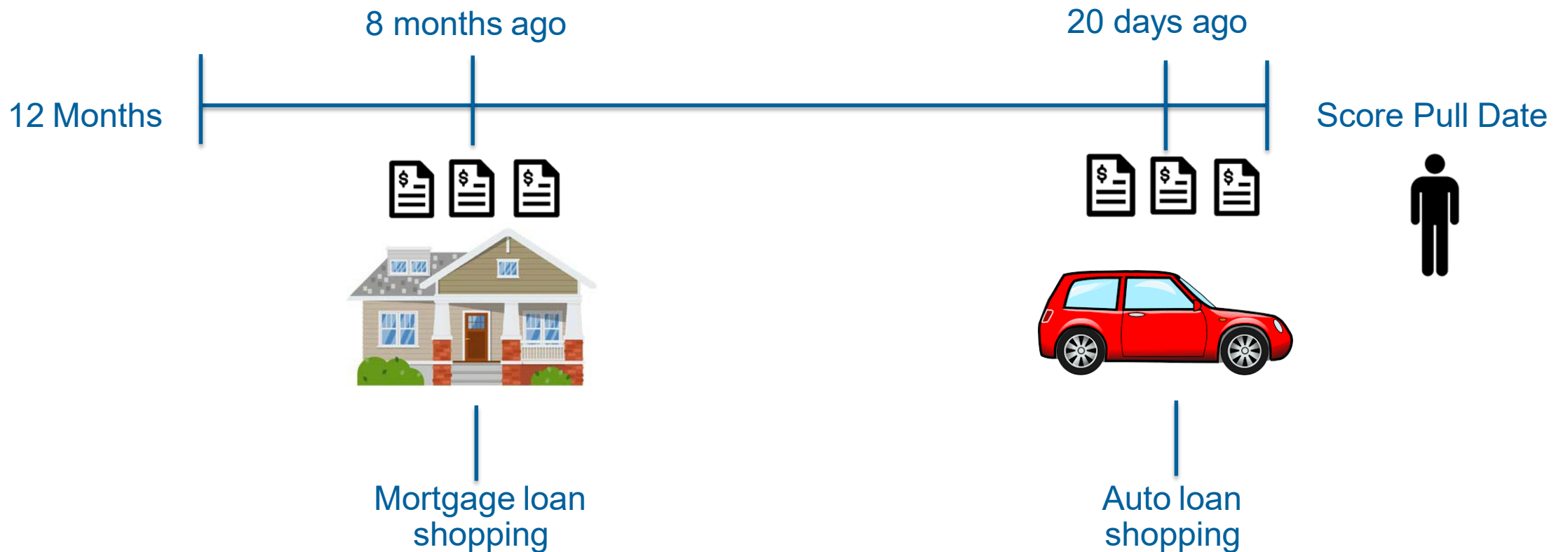
Pursuit of New Credit

Example



Inquiry De-Dupe Logic

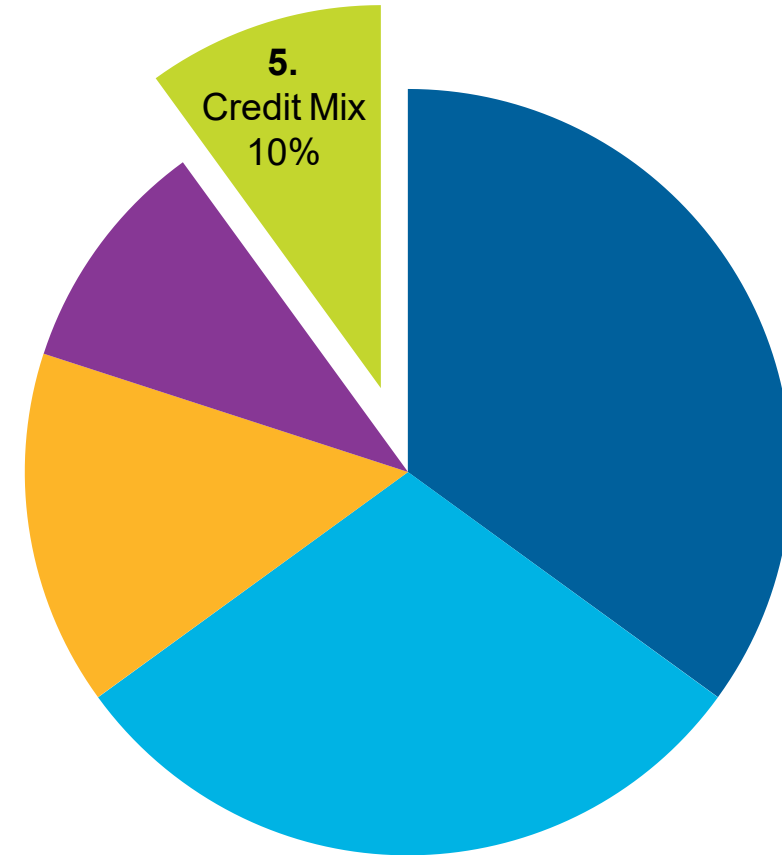
- The FICO® Score models observe inquiries over a 12-month period.
- Auto- and mortgage-related inquiries that occur within the prior 30 days to scoring have no effect on the score. Outside this 30-day period, auto- and mortgage-related inquiries that occur within any 45-day period are treated as a single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



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





Reading and understanding the credit report, FICO® Score, and Reason Codes

“The Five InformationZones”

Sample Credit Report

1

PERSONAL IDENTIFYING INFORMATION

John Smith
123 Main St.
Anytown, GA 12345

Date of birth: 1-25-85
SSN: 888 88 8888

ACME, Service Technician
\$52,000

2

PUBLIC RECORD (LEGAL ITEMS)

None

3

COLLECTION ITEMS

7-2018 Collection \$500

4

TRADE LINE (ACCOUNT) INFORMATION

Industry	Date Reported	Date Opened	High Credit	Balance	Status	Historical Rating
Bankcard	10-18	3-17	\$5,000	\$1,479	Current	30, 13 mths ago
Auto Loan	10-18	7-15	\$8,000	\$1,548	Current	
Retail	7-15	6-06	\$1,000	\$253	Current	

5

INQUIRIES

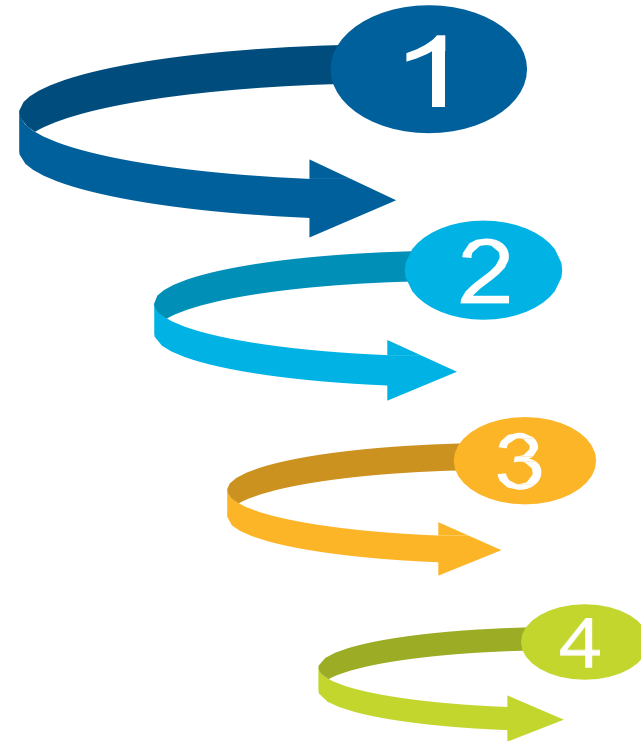
Date	Industry
7-01-18	Cell Phone
6-15-17	Card Issuer

Credit Report Example with Reason Codes

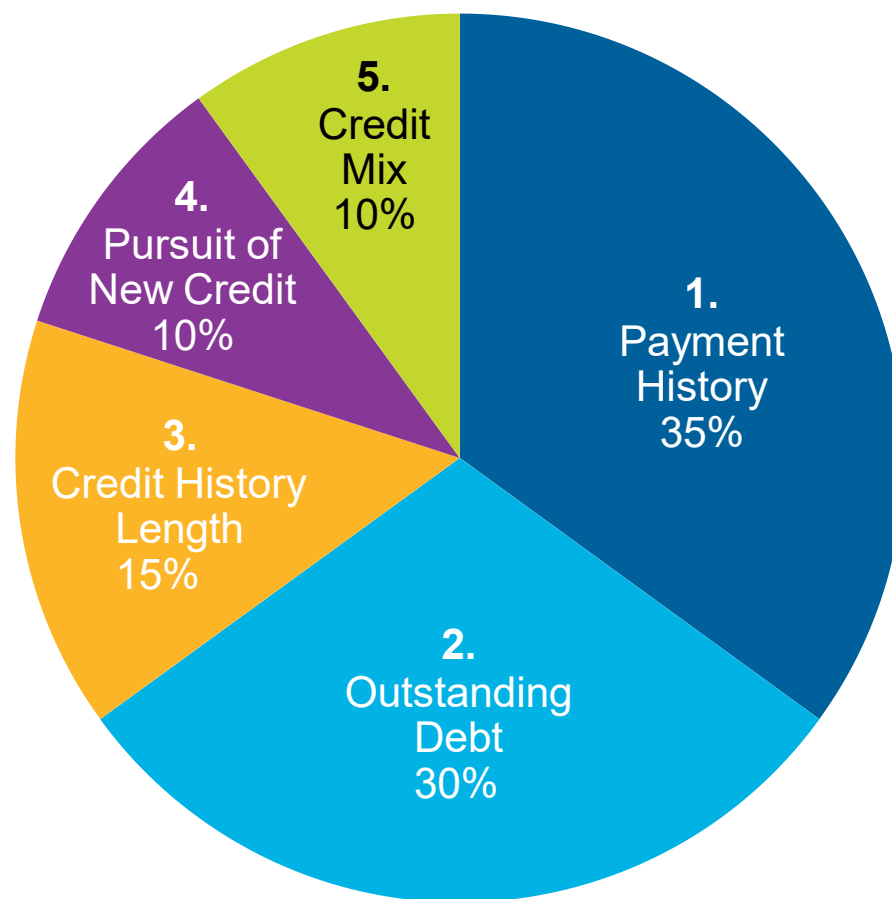


FICO® Score Reason Codes (Score Factors)

- Delivered with a consumer's FICO® Score
- Up to four reasons returned (plus a 5th related to inquiries, if necessary)
- Selection and order based upon difference from maximum points
- Reasons returned on-line and in account management runs



Five Categories of FICO® Score Predictive Characteristics



Example: Partial FICO® Score Model (Not Actual FICO® Score Numbers)

Category	Characteristic	Attributes	Points
Payment History	Number of months since the most recent serious delinquency	No serious delinquency	75
		0 – 5	10
		6 – 11	15
		12 – 23	25
		24+	55
Outstanding Debt	Overall utilization on revolving trades	No revolving trades	30
		0	55
		1 – 6	65
		7 – 19	50
		20 – 49	45
		50 – 89	25
		90 or more	15
Credit History Length	Number of months in file	Below 12	12
		12 – 23	35
		24 – 47	60
		48 or more	75





Category	Characteristic	Attributes	Points
Pursuit of New Credit	Number of inquiries in last 6 mos.	0	70
		1	60
		2	45
		3	25
		4+	20
Credit Mix	Number of bankcard trade lines	0	15
		1	25
		2	55
		3	60
		4+	50

Example Partial FICO® Score Reason Computation (Not Actual FICO® Score Numbers)

Category	Characteristic	Attributes	Points		Category	Characteristic	Attributes	Points	
Payment History	Number of months since the most recent serious delinquency	No serious delinquency	75*	0	Pursuit of New Credit	Number of inquiries in last 6 mos.	0	70*	#2
		0 – 5	10				1	60	
		6 – 11	15				2	45	
		12 – 23	25				3	25	
		24+	55				4+	20	
Outstanding Debt	Overall utilization on revolving trades	No revolving trades	30		Credit Mix	Number of bankcard trade lines	0	15	#4
		0	55				1	25	
		1 – 6	65*				2	55	
		7 – 19	50	#3			3	60*	
		20 – 49	45	20			4+	50	
Credit History Length	Number of months in file	50 – 89	25						
		90 or more	15						
		Below 12	12	#1					
		12 – 23	35	40					
		24 – 47	60						
		48 or more	75*						

Boxed numbers represent the maximum points possible (*) minus the actual points received

How It All Connects

 CONSUMERS	 LENDERS	 CREDIT BUREAUS	 FICO
<ul style="list-style-type: none"> •Apply to lenders for new credit and loans •Pay bills on time; avoid bankruptcy, and collections •Utilize available credit •Access own FICO® Scores and credit reports 	<ul style="list-style-type: none"> •Grant new credit and loans to consumers •Report consumer’s credit activity and payment history to the credit bureaus •Access consumers credit reports and FICO® Scores from the credit bureaus to evaluate your credit risk •Provide consumers, like yours, free access to the same FICO® Scores they use in lending decisions, through the FICO® Score Open Access program 	<ul style="list-style-type: none"> •Create and update consumers credit report with public record and lender-provided information •Generate FICO® Scores based on data from consumers credit reports •Make consumer credit reports and FICO® Scores available to lenders 	<ul style="list-style-type: none"> •Creates FICO® Score algorithms— used to generate FICO® Scores—and provides them to the credit bureaus •Educates and consults with lenders, regulators, consumers and other entities regarding FICO® Scores •Enables consumers to access your FICO® Scores through myFICO.com, FICO® Score Open Access and other authorized distributors



FICO® Score Open Access for Credit & Financial Counseling

FICO® Score Open Access for Credit and Financial Counseling

Enables FICO® Scores purchased for counseling or financial education services to be provided to your clients*



FICO® Score

Two Score Factors

Client Educational Content

* Without additional score fees charged by FICO

Program Materials

One Webpage has all the program materials you need

Counselor reference materials

Guide to help you get started quickly

Questions and Answers document

FICO® Score Summary Report Generator

FICO® Score Summary Report Generator – Share Valuable Information With Your Customers

▼ Counselor Input Page

FICO® Score Open Access Program for Credit and Financial Counseling

FICO® Score Summary Report Generator

(FICO® Scores provided through Equifax, Experian or TransUnion)

Use this workbook to create a valuable, customized FICO® Score Summary report for each of your customers.
Effective July 1, 2018 - Previous versions are obsolete and must be replaced.

Program Requirements:

You must comply with the terms and conditions of your FICO Program License Agreement and with applicable CRA agreement terms and conditions.

You must authenticate your customer and receive written customer approval prior to pulling your customer's FICO® Score data from the bureau credit report and entering the information below.

STEP 1: Select applicable Consumer Reporting Agency (TransUnion, Experian, Equifax):

Click drop-down box to select your CRA --> **TransUnion**

NOTE: This report generator is valid only for FICO® Scores based on data you receive from Equifax, Experian or TransUnion. You must choose a CRA in Step 1 above to allow the report generator to pull the applicable values.

STEP 2: Enter the following Data from the Customer's Credit Score Report

Customer's Name	Jane Smith
Enter 3 digit FICO® Score (see Note below)	620
Enter Date of Score Pull	6/25/2018
Enter 1st Reason Code (leave blank if no code received)	18
Enter 2nd Reason Code (leave blank if no code received)	20
Click drop-down box to select your Score version -->	FICO® Score 8

Note: If an exclusion code is received instead of a Score then enter the code, preceded by EX, in the "Enter 3 digit FICO® Score" box and in the "Enter 1st Reason Code" box. For example, EX2 in both boxes for TransUnion exclusion code 2. If the score name received is not in the list, please see our "FICO Score Name Mapping" tab to cross reference.

STEP 3: Enter your information

Counseling Provider Business Name	XYZ Counseling Inc.
Counseling Provider Representative Name	John Counselor

STEP 4: Click on the tab labeled "(CLIENT PRINT OUT)" for English or "(IMPRESION PARA CLIENTE)" for Spanish to display the FICO® Score display page with valuable FICO® Score information.

STEP 5: Print a copy of the FICO® Score display page for your customer. Confirm authorized distribution methods with your compliance office if customer is not physically handed a copy.

[Click here and log in to Members page for additional Open Access for C&FC program guidance and information.](#)

[Click here for general FICO® Score information and additional FAQs \(www.ficoscore.com/education\)](#)

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▼ Output for Customer

FICO® Score Open Access Program for Credit and Financial Counseling

This FICO® Score Summary is provided for the exclusive use of:



Provided on:	Jane Smith
Your FICO® Score was pulled on:	6/26/2018
FICO® Score version:	6/25/2018
FICO® Score is based on data from:	FICO® Score 8
Your FICO® Score Rating:	TransUnion
	Fair

Key Factors Affecting Your FICO® Score

1) Number of accounts with delinquency

Missed and late payments, including the number of late payments, how late they were, and how recently they occurred, are important to FICO® Scores. Your score was impacted because your credit report shows one or more accounts with missed payments or some other serious derogatory indicator, such as a bankruptcy, on your credit report.

Keep in mind

It's important to pay bills on time. Generally, people who remain current on payments appear less risky to lenders.

2) Time since derogatory public record or collection is too short

FICO® Scores consider the recency of a derogatory public record (such as a bankruptcy or tax lien) or collection on a person's credit report as a powerful predictor of future payment risk. Your score was impacted by the length of time since a public record or collection.

Keep in mind

Most public records and collections stay on a person's report for no more than seven years – though bankruptcies may remain for up to 10 years. However, as the item ages, its impact will gradually decrease.

Additional Information

What is a FICO® Score?

A FICO® Score is a three-digit number calculated from the credit information on your credit report at a particular point in time. FICO® Scores summarize information in your credit report into a single number that lenders can use to assess your credit risk quickly, consistently, objectively and fairly. Lenders use FICO® Scores to estimate your credit risk – how likely you are to pay your credit obligations as agreed. And it helps you obtain credit based on your actual borrowing and repayment history, without consideration of prohibited types of information such as race or religion.

How can I learn more about FICO® Scores?

Your financial counselor can provide additional FICO® Score information, or you can visit our website for more FAQs and information at: www.ficoscore.com/education

FICO® Score Disclaimer:

The FICO® Score we provide may be different from other credit scores. FICO® Scores and educational content intended only for your personal educational review purposes. Lenders may use various inputs like a FICO® Score, other credit scores and other information in credit decisions. The credit file used to create your FICO® Score is continually updated, and your FICO® Score above may not reflect the most current data on your credit file. To request a copy of your credit report please visit: <http://www.annualcreditreport.com>

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FICO® Score Summary Report Generator – Share Valuable Information With Your Customers

Programa FICO® Score Open Access para asesoramiento financiero y de crédito

Este resumen de FICO® Score se proporciona para el uso exclusivo de:
proporcionado el:

Jane Smith
6/26/2018



Su FICO® Score se extrajo el:
Versión del FICO® Score:
El FICO® Score se basa en datos de:
Su Valoración FICO® Score:

6/25/2018
FICO® Score 8
TransUnion
Razonable

Factores clave que afectan su FICO® Score

1) Número de cuentas con morosidad

La falta o el atraso en los pagos, incluidos el número de pagos atrasados, cuán tarde se efectuaron y cuán recientes fueron son datos importantes para los FICO® Scores. Su puntaje se vio afectado porque el informe de crédito contiene una o más cuentas con pagos atrasados.

Tenga en cuenta

Tenga en cuenta: Es importante pagar las facturas a tiempo. Generalmente, las personas que mantienen los pagos al día representan un riesgo menor para los prestamistas.

2) Tiempo que ha estado en la corte por deudas

Los FICO® Scores tienen en cuenta cualquier información que los prestamistas reportan (como una anotación de crédito) o cualquier información que los prestamistas reportan (como una anotación de crédito) o cualquier información que los prestamistas reportan (como una anotación de crédito).

Tenga en cuenta

Tenga en cuenta: La mayoría de los registros públicos o las cobranzas permanecen en el informe de crédito de la persona por un período máximo de siete años, aunque las bancarrotas pueden llegar a permanecer hasta 10 años. Sin embargo, a medida que pasa el tiempo, su impacto disminuirá paulatinamente.

Información adicional

¿Qué es un FICO® Score?

Un FICO® Score es un número de tres dígitos que se calcula a partir de la información de crédito de su informe de crédito en un momento determinado. Los FICO® Scores resumen información en su informe de crédito en un único número que los prestamistas pueden usar para evaluar su riesgo de crédito de manera rápida, coherente, objetiva y justa. Los prestamistas utilizan los FICO® Scores para calcular su riesgo de crédito (qué probabilidades hay de que usted pague sus obligaciones de crédito según lo acordado). Y lo ayudan a obtener crédito según su historial real de préstamos y pagos, sin tener en cuenta información prohibida como etnia o religión.

¿Cómo puedo obtener más información sobre los FICO® Scores?

Su asesor financiero puede proporcionar información adicional sobre el FICO® Score, o puede visitar nuestro sitio web para obtener más información y preguntas más frecuentes en: www.ficoscore.com/info

Descargo de responsabilidad de FICO® Score:

El FICO® Score que proporcionamos puede ser diferente de otros puntajes de crédito. Los FICO® Scores y el contenido educativo están destinados solamente para fines de revisión educativa personal. Los prestamistas pueden usar varias fuentes de información, como un FICO® Score, otros puntajes de crédito y otro tipo de información, en las decisiones sobre créditos. El archivo de crédito usado para crear su FICO® Score se actualiza continuamente y es posible que su FICO® Score anterior no refleje los datos más actuales de su archivo de crédito. Para solicitar una copia de su informe de crédito, visite: <http://www.annualcreditreport.com>. Fair Isaac y la persona u organización que proporciona este informe no son organizaciones de "reparación de crédito" tal y como se define en la ley federal o estatal, incluida la Credit Repair Organizations Act (CROA, Ley de Organizaciones de Reparación de Crédito). FICO y "The score lenders use" son marcas comerciales registradas de Fair Isaac Corporation en Estados Unidos y en otros países. Fair Isaac no garantiza la exactitud de la información de entrada por parte del asesor.

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In Spanish

Comprehensive Reference Materials

- Basic Facts about FICO® Scores – in Spanish and English
- Understanding Your Credit educational video series – with Spanish subtitles
 - Understanding your credit report
 - What goes into FICO® Scores
 - How lenders use FICO® Scores
 - What is a FICO® Score
 - Managing your FICO® Score
 - What credit score matter
- Two educational documents – in Spanish and English
 - Understanding FICO® Scores
 - Frequently Asked Questions about FICO® Scores
- Additional FICO® Score information can be found on:
 - <http://ficoscore.com/education/>
 - <http://ficoscore.com/info/>
- E-Learning Course





Establishing a credit history and a healthy FICO® Score

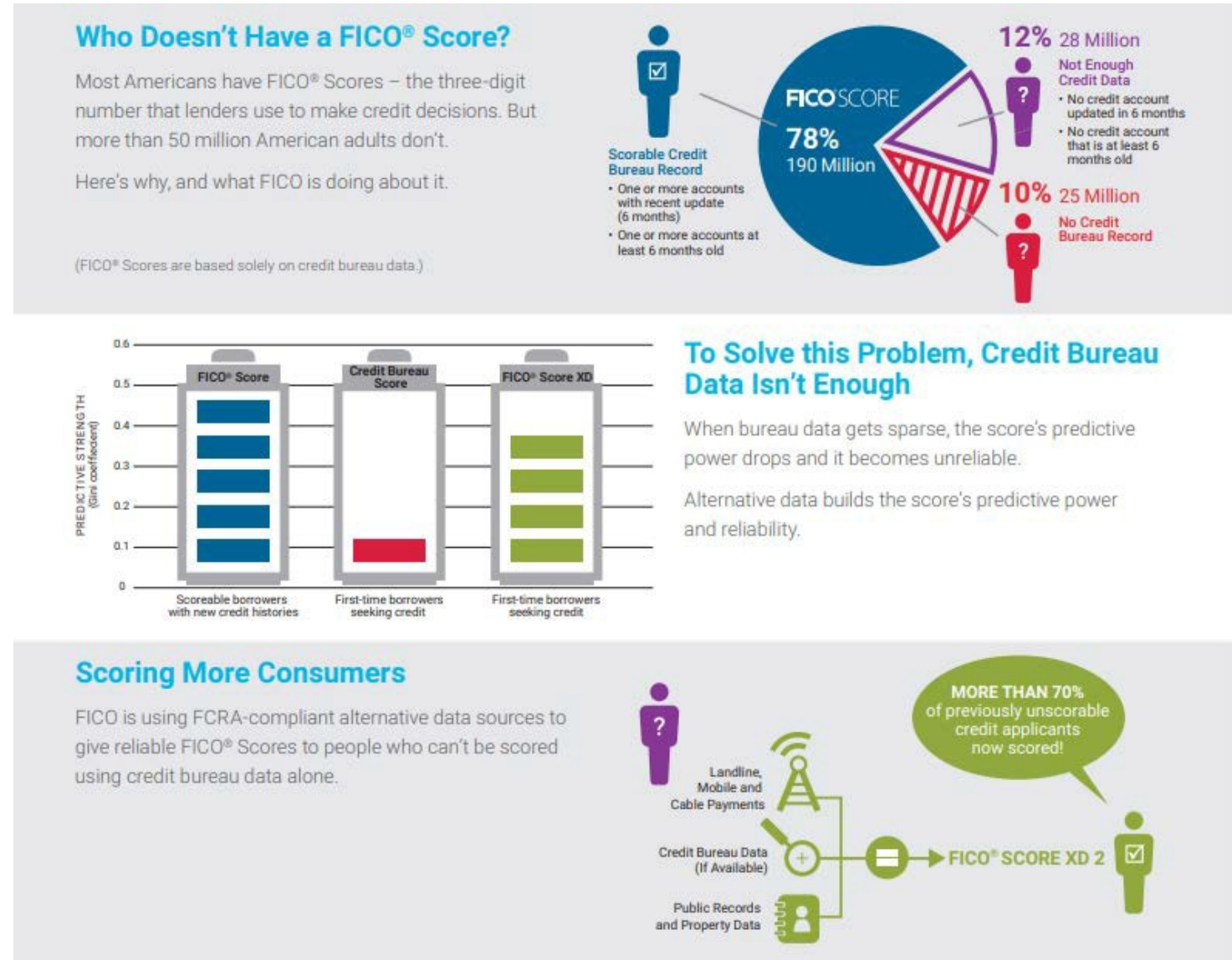
50 Million American adults do not have a FICO® Score

The LISC Client:

- 45% without a FICO® Score
- Median score of 582
- Median income \$8,000
- Considering walking away from credit

What FICO's Doing:

- Alternative data resources
 - FICO® Score XD
- UltraFICO™ Score
- Education & Information

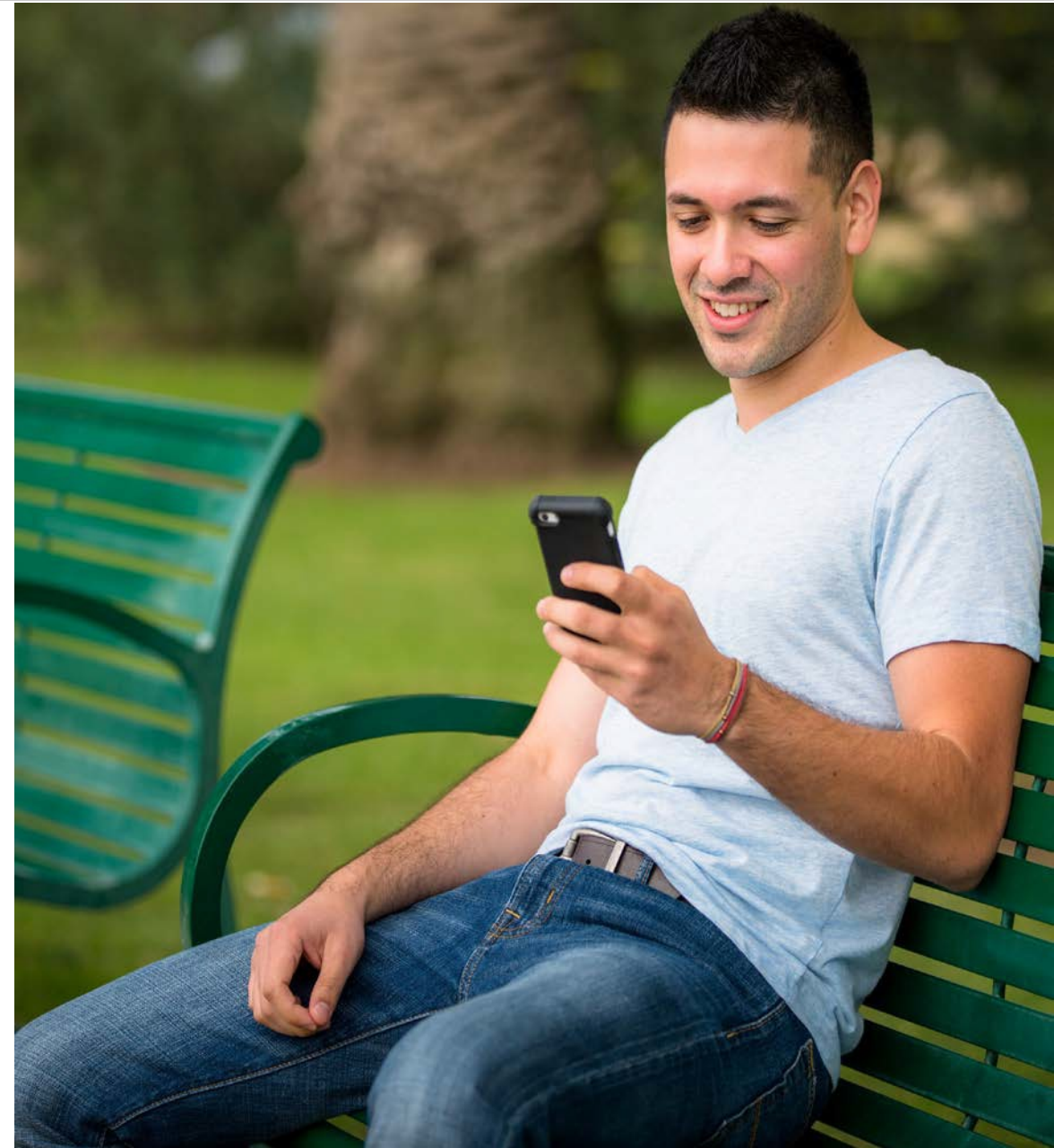


Establishing credit history

- Apply for and open a credit card
- Open a secured credit card, if necessary, provided the issuer reports to the consumer reporting agencies

LISC Twin Accounts

- Established by financial coaches in Chicago as a safe way for clients to build credit & savings
- 12-month product has resulted in a positive outcomes for many
- Making payments on the due date earns a one to one match



Minimum Scoring Criteria



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

Establishing a healthy FICO® Score

What to do

- Encourage your clients to always pay bills on time (set up payment reminders)
- Avoid collections
- Keep balances low
- Don't borrow when they don't need to
- Check their credit report for accuracy
- Have credit and manage it responsibly

What to avoid

- Late payments
- Accounts going to collections
- High balances, high debt
- Applying for credit not needed
- Closing unused credit cards



Credit Myths

- Canceling credit cards boosts a FICO® Score
- Consumers can pay someone to fix or repair their credit
- Paying cash for everything can help a credit rating
- The best way to improve a FICO® Score is to pay off all accounts and close them
- Good credit is tied to how much money a consumer has in the bank
- Moving credit card balances around will help hide debt
- Paying debts will make a credit report instantly pristine
- Paying off old collections will improve a FICO® Score*
- Checking your own credit report and score harms a FICO® Score
- Credit counseling destroys a FICO® Score
- Once a delinquent loan balance is paid off, the item is removed from a credit report

*Differs by score version

Questions



Thank You!

Gigi Ligons
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LSC

10/24 How Lenders Make Decisions

11/7 Financial Technology (FinTech)



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Thank you!

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