Introduction to Credit and FICO® Scores

Gigi Ligons
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
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.
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.

<table>
<thead>
<tr>
<th>Product</th>
<th>Equifax</th>
<th>TransUnion</th>
<th>Experian</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FICO® Base Score</strong></td>
<td>• FICO® Score 9</td>
<td>• FICO® Score 9</td>
<td>• FICO® Score 9</td>
</tr>
<tr>
<td></td>
<td>• FICO® Score 8</td>
<td>• FICO® Score 8</td>
<td>• FICO® Score 8</td>
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<tr>
<td></td>
<td>• FICO® Score 5</td>
<td>• FICO® Score 4</td>
<td>• FICO® Score 3</td>
</tr>
<tr>
<td></td>
<td>• FICO® Score 4</td>
<td>• FICO® Score 98</td>
<td>• FICO® Score 2</td>
</tr>
<tr>
<td><strong>FICO® Industry Scores</strong></td>
<td>• FICO® Auto Score</td>
<td>• FICO® Auto Score</td>
<td>• FICO® Auto Score</td>
</tr>
<tr>
<td>(For each version)</td>
<td>• FICO® Bankcard Score</td>
<td>• FICO® Bankcard Score</td>
<td>• FICO® Bankcard Score</td>
</tr>
</tbody>
</table>

- 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**

<table>
<thead>
<tr>
<th>Considered</th>
<th>Not Considered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade lines (accounts)</td>
<td>Age</td>
</tr>
<tr>
<td>Credit inquiries</td>
<td>Address</td>
</tr>
<tr>
<td>Collections</td>
<td>Employment</td>
</tr>
<tr>
<td>Public Records</td>
<td>Income</td>
</tr>
<tr>
<td></td>
<td>Gender</td>
</tr>
</tbody>
</table>
The 5 Key Categories of FICO® Score Predictive Characteristics
Five Categories of FICO® Score Predictive Characteristics

1. Payment History 35%
2. Outstanding Debt 30%
3. Credit History Length 15%
4. Pursuit of New Credit 10%
5. Credit Mix 10%

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

<table>
<thead>
<tr>
<th>Months Since Most Recent Major Delinquency</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–11</td>
<td>High</td>
</tr>
<tr>
<td>12–23</td>
<td>Low</td>
</tr>
<tr>
<td>24–35</td>
<td></td>
</tr>
<tr>
<td>36–47</td>
<td></td>
</tr>
<tr>
<td>48–High</td>
<td></td>
</tr>
<tr>
<td>No Delq</td>
<td></td>
</tr>
</tbody>
</table>

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

Risk

High

0-19%  20-39%  40-59%  60-79%  80-99%  100+%  

Low

Ratio of Total Balances to Total Limits on Revolving Accounts
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

![Bar chart showing risk levels based on number of months since oldest revolving account opening.

- **High**
  - 0–23
  - 24–47
  - 48–71
  - 72–119
  - 120+

- **Low**

Number of Months Since Oldest Revolving Account Opening

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

Risk

High

Low

Number of Inquiries

0 1 2 3 4–High

Young/Thin files

Mature/Thick files

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
### Sample Credit Report

#### PERSONAL IDENTIFYING INFORMATION

<table>
<thead>
<tr>
<th>Name</th>
<th>Address</th>
<th>Date of Birth</th>
<th>Social Security Number</th>
<th>Occupation</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Smith</td>
<td>123 Main St. Anytown, GA</td>
<td>1-25-85</td>
<td>88888 8888</td>
<td>ACME, Service Technician</td>
<td>$52,000</td>
</tr>
</tbody>
</table>

#### PUBLIC RECORD (LEGAL ITEMS)

- None

#### COLLECTION ITEMS

- 7-2018 Collection $500

#### TRADE LINE (ACCOUNT) INFORMATION

<table>
<thead>
<tr>
<th>Industry</th>
<th>Date Reported</th>
<th>Date Opened</th>
<th>High Credit</th>
<th>Balance</th>
<th>Status</th>
<th>Historical Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankcard</td>
<td>10-18</td>
<td>3-17</td>
<td>$5,000</td>
<td>$1,479</td>
<td>Current</td>
<td>30, 13 mths ago</td>
</tr>
<tr>
<td>Auto Loan</td>
<td>10-18</td>
<td>7-15</td>
<td>$8,000</td>
<td>$1,548</td>
<td>Current</td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>7-15</td>
<td>6-06</td>
<td>$1,000</td>
<td>$253</td>
<td>Current</td>
<td></td>
</tr>
</tbody>
</table>

#### INQUIRIES

<table>
<thead>
<tr>
<th>Date</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-01-18</td>
<td>Cell Phone</td>
</tr>
<tr>
<td>6-15-17</td>
<td>Card Issuer</td>
</tr>
</tbody>
</table>
Credit Report Example with Reason Codes

FICO® Score: 585

11 Amount owed on revolving accounts is too high
18 Number of accounts with delinquency
19 Too few accounts currently paid as agreed
14 Length of time accounts have been established

Name: John Smith
Date of Birth: May 1, 1985
SSN: xxx-xx-xxxx
Current Address: 6100 5th Ave
Dayton, OH 45439

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Company</th>
<th>Account No.</th>
<th>Balance</th>
<th>Neg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installment</td>
<td>Ford Cred</td>
<td>BFM915X</td>
<td>$23,000</td>
<td>No</td>
</tr>
<tr>
<td>Revolving</td>
<td>Citicorp</td>
<td>42718888888</td>
<td>$325</td>
<td>No</td>
</tr>
</tbody>
</table>
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

1. Payment History 35%
2. Outstanding Debt 30%
3. Credit History Length 15%
4. Pursuit of New Credit 10%
5. Credit Mix 10%
<table>
<thead>
<tr>
<th>Category</th>
<th>Characteristic</th>
<th>Attributes</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment History</strong></td>
<td>Number of months since the most recent serious delinquency</td>
<td>No serious delinquency</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0 – 5</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6 – 11</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12 – 23</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>24+</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>55</td>
</tr>
<tr>
<td><strong>Outstanding Debt</strong></td>
<td>Overall utilization on revolving trades</td>
<td>No revolving trades</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 – 6</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7 – 19</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20 – 49</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td></td>
<td>50 – 89</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td></td>
<td>90 or more</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>15</td>
</tr>
<tr>
<td><strong>Credit History Length</strong></td>
<td>Number of months in file</td>
<td>Below 12</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12 – 23</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td></td>
<td>24 – 47</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td></td>
<td>48 or more</td>
<td>75</td>
</tr>
</tbody>
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<tr>
<th>Category</th>
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<th>Attributes</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pursuit of New Credit</strong></td>
<td>Number of inquiries in last 6 mos.</td>
<td>0</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4+</td>
<td>20</td>
</tr>
<tr>
<td><strong>Credit Mix</strong></td>
<td>Number of bankcard trade lines</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>3</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4+</td>
<td>50</td>
</tr>
</tbody>
</table>
## Example Partial FICO® Score Reason Computation (Not Actual FICO® Score Numbers)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment History</strong></td>
<td>Number of months since the most recent serious delinquency</td>
<td>No serious delinquency</td>
<td>75*</td>
</tr>
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<td></td>
<td></td>
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<td><strong>Outstanding Debt</strong></td>
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<td>30</td>
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<td></td>
<td></td>
<td>0</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 – 6</td>
<td>65*</td>
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<td></td>
<td></td>
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<td>50</td>
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<th>Attributes</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pursuit of New Credit</strong></td>
<td>Number of inquiries in last 6 mos.</td>
<td>No inquiries</td>
<td>70*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td></td>
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</tbody>
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<tr>
<th>Category</th>
<th>Characteristic</th>
<th>Attributes</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit Mix</strong></td>
<td>Number of bankcard trade lines</td>
<td>No bankcard trade lines</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4+</td>
<td>60*</td>
</tr>
</tbody>
</table>

Boxed numbers represent the maximum points possible (*) minus the actual points received.
### How It All Connects

<table>
<thead>
<tr>
<th>CONSUMERS</th>
<th>LENDERS</th>
<th>CREDIT BUREAUS</th>
<th>FICO</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Apply to lenders for new credit and loans</td>
<td>- Grant new credit and loans to consumers</td>
<td>- Create and update consumers credit report with public record and lender-provided information</td>
<td>- Creates FICO® Score algorithms—used to generate FICO® Scores—and provides them to the credit bureaus</td>
</tr>
<tr>
<td>- Pay bills on time; avoid bankruptcy, and collections</td>
<td>- Report consumer's credit activity and payment history to the credit bureaus</td>
<td>- Generate FICO® Scores based on data from consumers credit reports</td>
<td>- Educates and consults with lenders, regulators, consumers and other entities regarding FICO® Scores</td>
</tr>
<tr>
<td>- Utilize available credit</td>
<td>- Access consumers credit reports and FICO® Scores from the credit bureaus to evaluate your credit risk</td>
<td>- Make consumer credit reports and FICO® Scores available to lenders</td>
<td>- Enables consumers to access your FICO® Scores through myFICO.com, FICO® Score Open Access and other authorized distributors</td>
</tr>
<tr>
<td>- Access own FICO® Scores and credit reports</td>
<td>- Provide consumers, like yours, free access to the same FICO® Scores they use in lending decisions, through the FICO® Score Open Access program</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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 está en la Versión del FICO® Score
El FICO® Score se basa en datos de Su Valoración FICO® Score

6/25/2018 FICO® Score B
TransUnion
Receivable

Factores clave que afectan su FICO® Score

1. Número de cuentas con morosidad
   La falta al pagar a tiempo las facturas, incluyendo el número de páginas aparece en sus pagos, incluyendo el número de páginas moroso en sus pagos, incluyendo el número de páginas moroso, afectan el número de pagos atrasados y su tasa de morosidad.

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

2. Vida en cuenta
   Tiempo de crédito: es el número de años que ha tenido su cuenta en la fecha de la última actividad.

En contra cuenta: La mayoría de los registros públicos o las cobranzas permanecen en el informe de crédito de la persona por un período máximo de seis años, aunque los bancos pueden registrar hasta dos años. Sin embargo, a medida que pasan el tiempo, su impacto disminuye 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® Score se basan en su historial de pagos, su número de cuentas, la edad de su crédito, el balance de sus cuentas, la cantidad de crédito que hayas utilizado y otros factores.

¿Cómo puedo obtener más información sobre los FICO Scores?
Su asesor financiero puede proporcionarle información adicional sobre el FICO® Score, o puede visitar nuestro sitio web para obtener más información. Vaya a www.FICO.com para obtener más información sobre FICO® Score.

Este informe fue preparado por John Counselor en XYZ Counseling Inc.
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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!

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