

# FICO® Custom Score

Expertise and services for empirically developed models

## With a FICO® Custom Score, lenders can tailor analytic performance to:

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Refine risk-based pricing and assign more targeted account management actions
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Reduce loss reserves through sophisticated and precise insight into true risk exposure for your market
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Protect your customer base by being current and relevant to the most recent and regional credit behaviour
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Leverage FICO experts and services in data and analytics to profit from a data-driven, customised solution

The lending market is saturated with financial institutions vying for the same customers as a path to growth. In order to gain competitive advantage, forward-looking lenders seek to diversify the segments they target and differentiate product offers. A FICO® Custom Score brings lenders increased predictive power while retaining the consistency and integrity that lenders expect from the world’s leading credit risk score. Providing a higher level of predictiveness over broad-based bureau or expert, off-the-shelf scoring solutions, a FICO® Custom Score allows you to leverage additional credit data sources and considerations to more precisely distinguish good and bad risks based on your specific lending objectives — helping drive more profitable decisions.

## Align the FICO® Score to your risk environment and regional specifications

FICO’s credit bureau scores are distinguished by highly sophisticated scorecard segmentation, innovative credit data characteristics, and a familiar scale known to consumers and regulators around the world. By building on the core technologies and analytic methodologies that define a FICO® Score, including the scaling, predictive characteristics, and segmented model structure, the FICO analytic delivery team creates a new customised score specific to a lending environment.

As a service engagement, empirically developed models are tailored to proprietary product portfolios, customer bases, and in-country credit bureau data. These custom models are built after extensive data analysis and generally provide a higher degree of performance. FICO will not only build the data-driven score models to match your criteria using broad-based or unique data, but will also validate and maintain the models over time, ensuring that the score continues to perform in predicting and rank-ordering the credit risk of any consumer or SME, depending on the type of empirical score being developed.

**FICO® Custom Score renders more predictive power to benefit lenders & bureaux**

**For Lenders**

- Speed approval/decline decisions for new applicants – consumer or business owner
- Refine allocation of credit limits and loan amounts
- Approve/decline requests for credit limit increases
- Establish deposit amounts and payment methods for utility accounts
- Set other risk-based pricing and terms of business consistently
- Ensure that the score provides the single most accurate prediction of risk based purely on regional data

**For Credit Bureaux**

- Launch a new value-added service with FICO for additional revenue and long-term relationships
- Keep ahead of the competition with technological advances
- Meet the rising demand of bureau clients for a customised risk score
- Leverage the data you aggregate to offer new high-impact services
- Help clients comply with regional laws in the use of any particular data element which may be excluded in some countries

Each solution is designed with a comprehensive yet flexible range of characteristics wrapped in preconfigured software that can be implemented within credit bureaux systems or directly into the lender’s environment.

**Consistent scaling**

A FICO® Custom Score provides the consistent scaling and risk alignment necessary to preserve clarity in interpretation. The models are designed so that the risk associated with all score bands is the same as the general FICO® Score – for example, your interpretation of a 680 score will remain the same. A FICO® Custom Score simply redistributes borrowers or applicants along the consistent FICO® Score scale, based on specific criteria and datasets. This consistency in scaling and interpretation eases adoption and incorporation into existing strategies, policies, and business processes.

Align the FICO® Score to your risk environment. For example:

- Severity of negative behaviour (e.g., 60 days late versus charge-off)
- Duration of performance window (e.g., 12 versus 24 months)
- New or existing trade line performance (e.g., auto loans versus credit card)
- Regional specification: make adjustments to capitalize on differences in regions to better map lending footprint

**Regulatory compliance**

A key benefit of working with FICO is having a partner that understands the regulatory compliance pressure you face, and designs models that are both effective and verifiable from a regulatory standpoint. A FICO® Custom Score incorporates advanced development

methods, and can be used to help you comply with sound practices in model risk governance and management. FICO provides you with the validation materials you should need for compliance purposes. The costs of ensuring ongoing compliance in building, maintaining, and validating risk models can be significant, especially in a rapidly shifting regulatory environment. FICO can help you meet your responsibility in this area by using our team of experts to reduce internal effort and expense.

**Economic forecasting**

A FICO® Custom Score can be further modified to enable the incorporation of economic data. This increases the utility of the model for forecasting purposes and allows a better understanding of how different economic scenarios may change the risk parameters of your portfolio. FICO helps to lower your stress when stress testing any portfolio in the United States, North America, or globally.

**Better prediction on your terms**

In addition to defining the features that make a FICO® Custom Score most relevant to the specific lending environment, the lender is able to define design parameters that best address their specific business objectives and operational environment. Programming and accommodating new reason codes associated with an enhanced model can often be problematic.

FICO can work with you to evaluate the introduction of new data elements that may require new reason codes. In the case of alternative credit bureau data, FICO can help you evaluate the trade-offs between additional data costs and enhanced prediction so that you leverage the right data sources when and where it makes the most sense.

## Flexibility in distribution

A FICO® Custom Score is accessible in a variety of ways to meet operational needs. It can take the form of an executable program installed on premise within the current technology environment or through a scoring engine such as FICO® Blaze Advisor® decision rules management system. FICO can also work with you to develop and install your own FICO® Custom Score at one or more credit bureaus. Third-party processors provide yet another means to install the enhanced models.

## Improved prediction across the customer lifecycle

FICO® Custom Score can be refined to boost prediction and improve risk management at any decision point:

- Pre-screen — The quality of the applicants you attract can affect the bottom line for years to come. Using a refined risk tool to target desirable prospects can result in significant cost savings and increased revenues. Note that localised regulations could restrict the use of a score for pre-screening.
- Originations — Origination decisions, whether to approve an account, for which product, and at what price, affect more than 80% of the measurable risk over the life of the account. Improved risk assessment through a FICO® Custom Score can help you approve customers without increasing risk or conversely reduce risk at the same approval levels.
- Customer management — Building a rewarding relationship is an ongoing process. FICO® Custom Score can help improve risk exposures at all

phases — cross-selling, credit line management, early collection efforts, loyalty programs, and authorizations — leading to higher revenues and high-quality relationships.

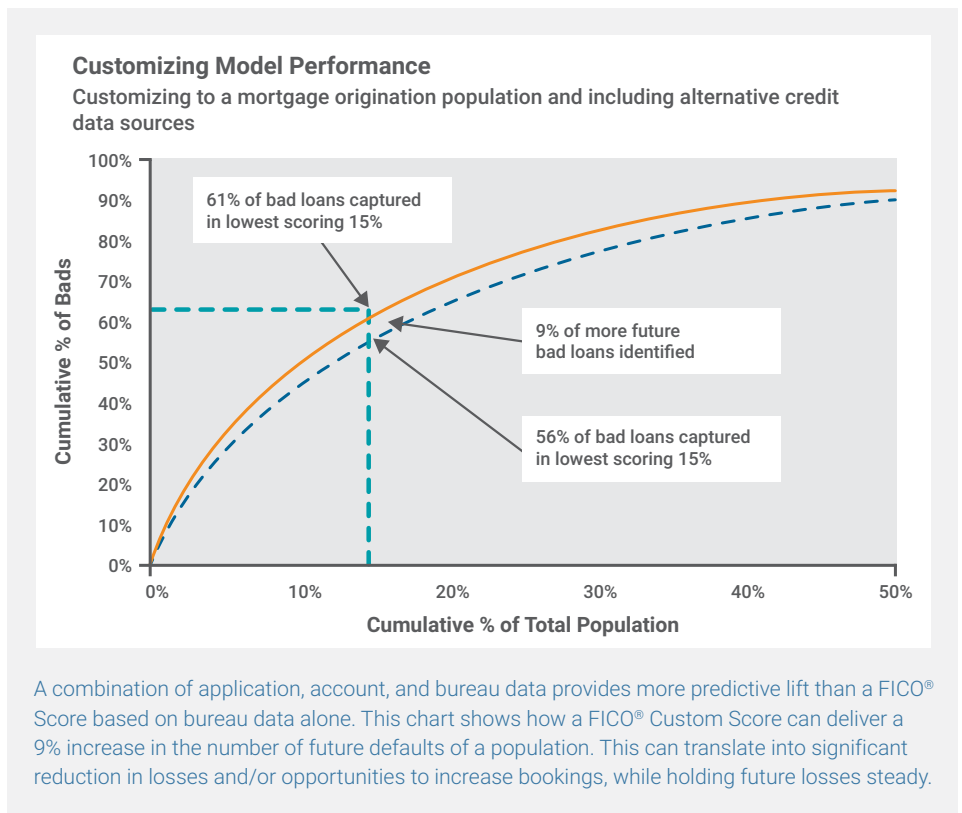
- By business line — an empirical development project could focus on any trade line, such as auto or credit card, or on a specific population, such as micro-financers, students, or mid-sized companies.

## Data-built to specifications

Custom models can be developed by combining a mash-up of traditional credit data provided by the credit bureaus, the lender, and the application process. Extensive analysis is undertaken to ensure the data is suitable for development purposes before

detailed analysis is completed to create the most appropriate design for the market. This analysis includes defining the scorable population, creating the outcome definition, and undertaking segmentation investigation to determine the optimal model suite. FICO then generates its suite of variables before completing the model development. During the development process, the models are tested on an independent sample to ensure they are robust and not over-fitted to the development sample.

Appropriate historical data is needed in order to map data to the FICO® Score interface and validate the final model. FICO can assist in data extraction and analysis from the outset of the process to detect possible issues in the raw data upfront to minimize delays in implementation.



## In summary

Over the past 60 years, FICO has brought credit scoring to countries around the world, helping make lending decisions non-biased and more accurate. The FICO® Score is the standard measure of US consumer credit risk, and is used in more than 25 countries. More than 10 billion FICO® Scores are purchased each year by lenders.

The introduction of broad-based credit scores has transformed credit in many countries, making access to credit open and fair to all citizens, while protecting the financial stability of the lender with a view into their credit risk exposure. A FICO® Custom Score and its services takes lending to a new level.

Credit bureaus can remove impediments to credit expansion by empowering creditors to make more precise, compliant originations and account management decisions quickly and at a low cost.

## Associated products

**FICO® Score for International Markets** — the standard for objective and profitable credit risk assessment — can be deployed in countries where robust credit reporting agency data is available. This FICO® Score delivers a highly predictive and consistent risk calculation by intelligently interpreting the data aggregated by credit reporting agencies in each market.

**FICO® Score X Data** is the alternative-data credit scoring solution available for markets outside of the US. Developed

specifically for each country, the new score empowers lenders financial inclusion efforts by helping consumers with “thin files” and consumers with no credit history to get access to credit.

**FICO® Collections Score** is an assessment of a consumer’s likelihood of going further into delinquency.

**FICO® SME Score** is a credit risk assessment tool that provides credit grantors with an effective rank-ordering system of risk for micro-financers, start-ups, small business lending, and leasing.

Find out more about how your organization can benefit from credit-bureaux based scoring solutions and analytics by emailing us at [globalscoreservice@fico.com](mailto:globalscoreservice@fico.com).