FICO™

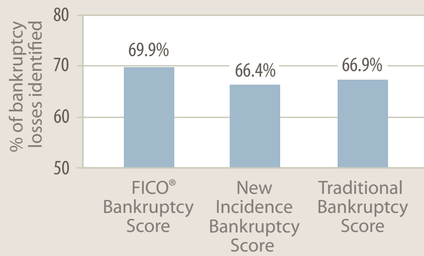
scoring

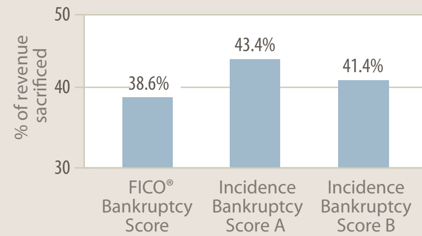
FICO® Bankruptcy Score comparison

Outperforms other bankruptcy approaches in comparison test

The FICO® Bankruptcy Score is a credit reporting agency-based bankruptcy score that identifies which account segments are likely to generate the highest bankruptcy losses relative to revenues. The Bankruptcy Score better identifies future bankrupts, and protects profits by simultaneously reducing loss exposure while limiting impact to future revenue.

Prevent more bankruptcy losses and sacrifice less revenue





Among the worst-scoring 15% of accounts, the Bankruptcy Score identified the highest percentage of potential bankruptcy losses—roughly 5% more than other bankruptcy scores. Among the worst-scoring 15% of accounts, the Bankruptcy Score impacted good revenue streams the least, eliminating nearly 7% less revenue than the traditional score and 11% less than the newer incidence score.

As consumer bankruptcy continues to erode profits, lenders counter its effects by using bankruptcy scores in their approval and account management strategies. Yet, how can lenders determine which bankruptcy tool will most positively affect their bottom line?

The FICO® Bankruptcy Score, available at TransUnion and Experian, focuses its predictive power on distinguishing high-risk bankrupts from customers likely to generate revenues. It is the first tool to measure risk through a "bankruptcy loss ratio," considering potential bankruptcy losses in relation to future revenue potential, since both affect profitability.

FICO research shows that many of the predictive patterns associated with bankruptcy are also common among high-credit users. Before the Bankruptcy Score, bankruptcy scores rank-ordered accounts solely by the likelihood of future bankruptcy occurrence. Decisions made based on these scores are likely to eliminate too much future revenue potential along with bankruptcy losses. This could undermine portfolio profitability.

» Competitive study

To evaluate the results that can be achieved using the Bankruptcy Score, TransUnion conducted research to compare the Bankruptcy Score's performance to incidence-based bankruptcy scores. The study was conducted on a data sample of more than 10,000 bank card accounts, examining account performance in the 18 months following scoring.

Profit Challenge #1: How do I reduce bankruptcy losses with minimal impact to revenues?

The study compared bankruptcy prediction and revenue impact for each bankruptcy score, looking at the worst-scoring 15% of accounts. The Bankruptcy Score not only identified the highest percentage of future bankruptcy losses but also had the least impact on revenue streams from accounts that remained in good standing. The Bankruptcy Score captured roughly 5% more bankruptcy losses than the other scores, but impacted nearly 7% less revenue than the traditional bankruptcy score and 11% less than the newer incidence-based bankruptcy score. Considering both losses avoided and revenue saved, using the Bankruptcy Score could have resulted in more profit than either of the incidence scores. The study also evaluated how many accounts would need to be closed in order to prevent 70% of all bankruptcy losses, with minimal revenue impact. The Bankruptcy Score again outperformed the other scores. To achieve the desired 70% reduction, only 15% of all accounts would be targeted for closure according to the Bankruptcy Score, versus the 20% targeted by the other scores.

These results show the Bankruptcy Score's strength in bankruptcy prediction and revenue conservation, helping lenders reduce overall bankruptcy losses in both approval and account management strategies.

Profit Challenge #2: How do I target my balance-building programs to customers with the greatest revenue potential, yet minimize risk of bankruptcy losses?

In the study, the Bankruptcy Score better separated high-revenue generators from future bankrupts. Among the best-scoring 40% of accounts, the Bankruptcy Score retained approximately more revenue from future good accounts than either incidence score. This occurred because the Bankruptcy Score identified more bankruptcy losses with less revenue among the worst-scoring accounts. As a result, there is more revenue from good accounts and less loss from bankruptcy among top scorers.

The Bankruptcy Score excelled in separating high-revenue generators from future bankrupts. Among the best-scoring 40% of accounts, the Bankruptcy Score outperformed the other scores by up to 250% in retaining revenue from future good accounts—the Bankruptcy Score identified more revenue and less loss among customers targeted for credit extensions.

» Bottom line: the FICO® Bankruptcy Score protects profits

As these research results demonstrate, the Bankruptcy Score is a powerful tool for guiding account management strategies. Lenders that use bankruptcy scores focused solely on bankruptcy incidence will often eliminate significant future revenue when attempting to reduce bankruptcy losses. When using the Bankruptcy Score, however, lenders can more confidently reward more profitable accounts with positive actions that encourage account utilization. The Bankruptcy Score helps lenders reduce bankruptcy losses while minimizing impact to revenue, thereby successfully protecting overall profitability.

» The Bankruptcy Score and Basel II compliance

FICO believes that the Bankruptcy Score plays an important role in meeting regulatory compliance standards, including Basel II compliance. The Bankruptcy Score provides a standardized risk assessment measure that can be used in calculating probability of default. FICO's Professional Services staff can help you address Basel and regulatory compliance, as well as ways to help your enterprise attain best-practice credit risk management.

FICO

For more information	US toll-free	International	email	web
	+1 888 342 6336	+44 (0) 207 940 8718	info@fico.com	www.fico.com

1448PS 05/09 PDF