FICO™

FICO® Score Trends: Auto Summary Report

Research highlights from the latest FICO® Score Trends Insight Report

"In a reset economy, it's critical that financial institutions closely and frequently monitor changing credit trends and borrowers' payment behavior. The findings in our latest research can help lenders respond more appropriately to the most current industry trends."

—Robert Duque-Ribeiro, Vice President and General Manager, FICO

Over the past few years, the Auto Industry has seen reduced volumes of new accounts, declining delinquency rates and higher score distributions—demonstrating that auto lenders are tightening criteria for new loans and applying more scrutiny to those consumers to whom they do grant credit.

Performance of existing auto loans was slightly better in the most recent period, although there may be additional increases in delinquency when evaluating the April 2010 period. This expectation stems from two main points: 1) seasonality and 2) impact of the "cash for clunkers" initiative. We have also identified different risk patterns by region; based on this, Auto Finance companies may be able to identify opportunities to expand into some regions while proceeding more cautiously in others.

» Acquisitions

During the period analyzed, the Auto Industry saw reduced volumes of new accounts, declining delinquency rates and higher score distributions—demonstrating that auto lenders are also tightening criteria for new loans and applying more scrutiny to those consumers to whom they do grant credit.

The Auto Industry saw a 28.6% decline in loans originated (from 3.5% of consumers opening a new auto loan between November 05–January 06 compared to only 2.5% from November 08–January 09), although recent industry projections speculate that auto lending volumes will increase over the next several periods.

Consumers who qualified for new auto loans have much higher scores than seen in previous years:

- October 05: 61.3% scoring 660 or better.
- October 08: 69.1% scoring 660 or better.

Delinquency rates on new auto loans in the most recent period declined significantly, dropping below new auto loan delinquency rates for 2005. Figure 1 shows the 12-month 60+ delinquency rates from 2005 forward.

Figure 1: 12-Month Delinquency Rates, 60+ Days Delinquent or Worse

Auto Finance—New Accounts

October 05–October 06	October 06–October 07	October 07–October 08	April 08–April 09	October 08–October 09
2.8%	3.2%	3.3%	3.0%	2.3%

FICO® Score shifts for the FICO® 8 Auto Score 60+ days delinquent are trending positive, as compared to the 12-month Score Shift for the prior period. As shown in Figure 2, below, odds shifts are as high as 20 points for this observed time period.

Figure 2: Odds Shift—Auto Finance, FICO® 8 Auto Score

Acquisitions (New Accounts)—60+ days delinquent, national view

			12-Month Score Shift	
Current Score Interval	Interval Odds	Bad Rate	Current Period October 2008–October 2009 vs. April 2008–April 2009	Prior Period April 2008–April 2009 vs. October 2007–October 2008
600–619	25.7	3.8	20	-4
620–639	31.8	3.0	18	-6
640–659	42.8	2.3	15	-7
660–679	55.9	1.8	13	-8
680–699	72.6	1.4	11	-9
700–719	82.9	1.2	9	-11
720–739	136.7	0.7	7	-12
740–759	162.0	0.6	5	-13
760–779	217.5	0.5	3	-14
780–799	361.6	0.3	1	-15
Points-to-Double-the-Odds (PDO)			53.3	47.8

In the October 08–October 09 period, loans booked in the lower portion of the score range (less than 700) are clearly outperforming loans booked in the lower portion of the score range from the prior period as seen in Figure 3. This improved performance (higher odds ratio) in the lower part of the score distribution is reflective of the tightened lending standards and additional scrutiny auto lenders have placed on lower-scoring auto loan applications in the past year. This is in contrast to the trends observed between 2005 and early 2008 where the quality of loans was declining across the full score range as seen in Figure 4.

Figure 3: Alignment Plot Over Time—Auto Finance

Acquisitions (New Accounts)—April 08–April 09 vs. October 08–October 09, *60+/Any Derog*

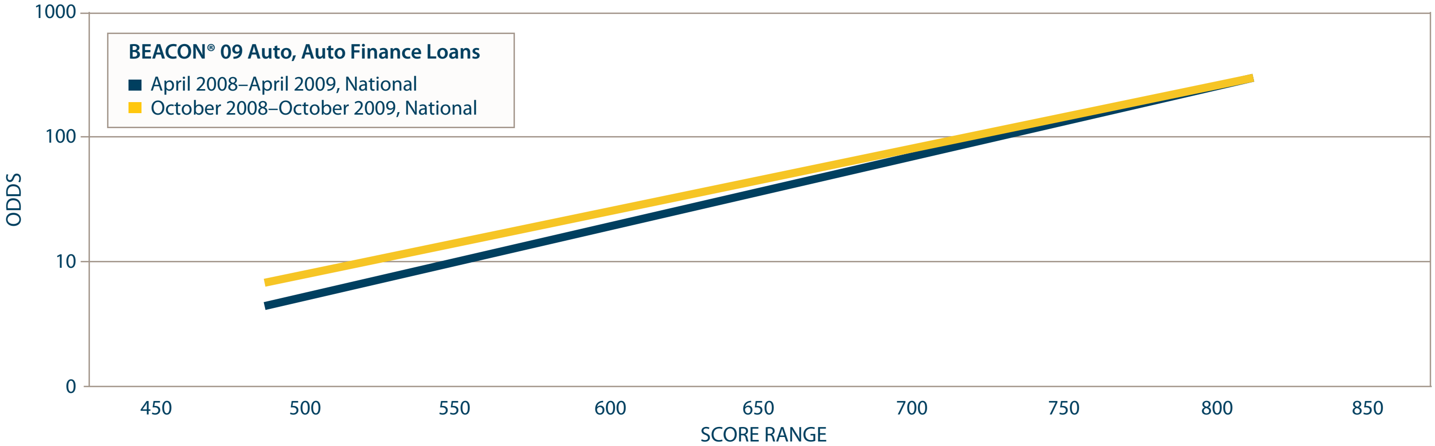
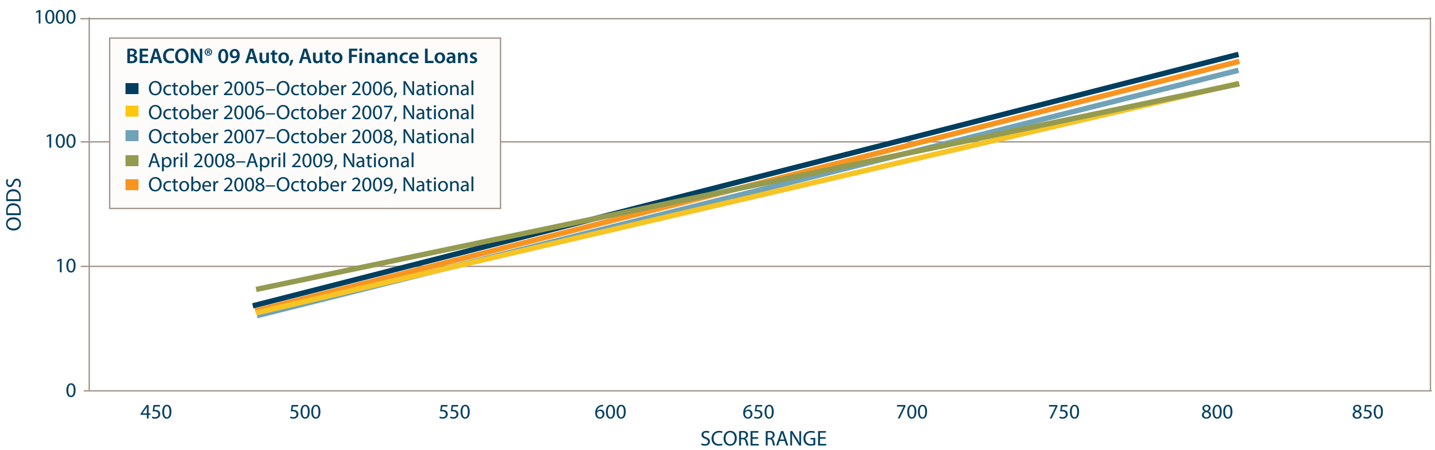


Figure 4: Alignment Plot Over Time—Auto Finance

Acquisitions (New Accounts), *60+/Any Derog*



» Customer Management

We have observed a slight decline in delinquency rates in the most recent period at the consumer level, as expressed in Figure 5, although the rate is still higher year over year.

Evaluation of the Alignment Plot for Auto Finance (Figure 6) demonstrates a consistent rank-ordering of risk over the past two periods, with only a slight decline in the odds-ratio in the most recent period.

Score Distributions of the population with an auto loan show clear movement towards lower scores, occurring gradually over the past four years. There were 4.5% fewer auto consumers with a score above 650 in October 09 compared to October 05 (61.1% at October 09 and 65.6 at October 05). Compared to just 6 months earlier, there are 0.4% fewer scoring above 650 (61.5% at April 09). Figure 7 shows the progression of the score distribution for consumers with an open auto loan at the time of scoring.

Figure 5: Delinquency Rates—Auto Industry Delinquency Rates—60+ Days Delinquent

Existing Accounts—6-month performance

May 05–October 05	May 06–October 06	May 07–October 07	November 07–April 08	May 08–October 08	November 08–April 09	May 09–October 09
4.1%	4.0%	4.4%	5.0%	5.0%	5.7%	5.5%

Figure 6: Alignment Plot Over Time—Auto Finance

Customer Management (Existing Accounts), *60+/Any Derog*

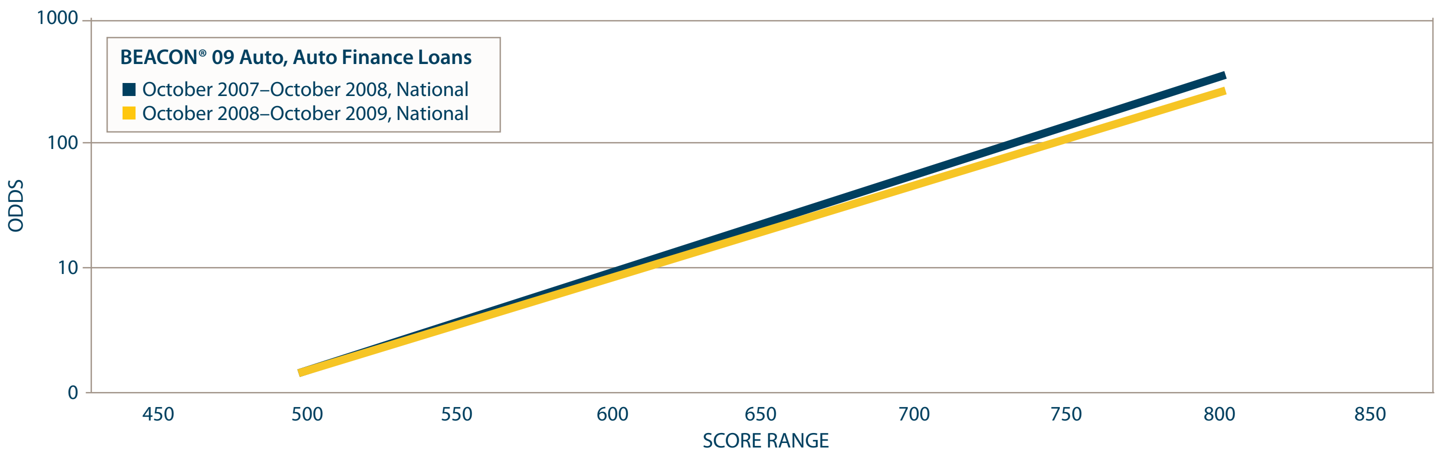
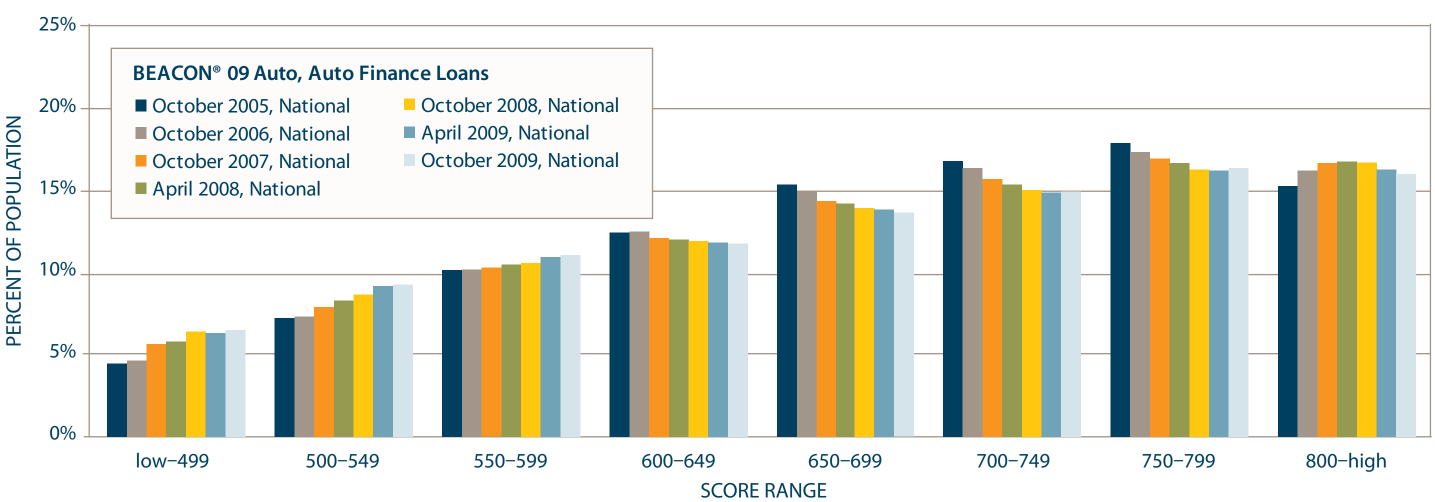


Figure 7: Score Distribution Over Time—Auto Finance

Customer Management, *Interval Score Distribution*



» Regional Variations

The Auto Finance Industry also experienced regional shifts in risk and the relationship with FICO® scores. Figure 8 shows the 6-month 60+ odds ratios in the score interval 700–719 by Federal Reserve District (FRD) on Auto Finance performance:

Figure 8: Bad Rate Over Time—Auto Finance—Regional Comparison

Customer Management (Existing Accounts), BEACON® 09 700–719
6-month performance window, 60 days delinquent or worse

Odds Ratio by Region	April 08–October 08	April 09–October 09
FRD 1—Boston	166.4	142.7
FRD 2—New York	170.2	135.6
FRD 3—Philadelphia	168.6	169.8
FRD 4—Cleveland	162.6	133.6
FRD 5—Richmond	165.2	180.7
FRD 6—Atlanta	118.2	111.5
FRD 7—Chicago	155.3	128.2
FRD 8—St. Louis	158.0	128.3
FRD 9—Minneapolis	201.4	144.5
FRD 10—Kansas City	182.7	155.1
FRD 11—Dallas	156.2	127.4
FRD 12—San Francisco	139.3	107.5
National	136.6	118.0

» Stay Informed of Shifts in Credit Risk

Knowing credit shifts can greatly benefit lenders in helping them forestall losses and examine areas for new growth. With understandings around industry shifts, geographic differences and vintage portfolio behaviors, lenders can take strategic actions to responsibly manage and grow portfolios. Lending functions that may benefit from this knowledge include marketing for new customers, originations decisions, account management strategies and loan loss reserve assessments to improve capital position.

The information in this document was derived from the FICO® Score Trends Service, updated semi-annually with up to 15,000 unique views of changing credit risk. For more information:

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