FICO® Score Trends: US Credit Risk 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

With timely insight, lenders can take strategic actions with knowledge of market trends. FICO's latest research on score trends and consumer repayment behavior, described in this fact sheet, provides the industry's most up-to-date understanding of risk levels by score, delinquency patterns, shifts in repayment behavior by loan type, and more.

The research is based on FICO's analysis of a representative national sample of 60 million consumer credit observations, using data samples from October 2005 to October 2009. These trend updates are provided semi-annually to assist FICO clients in understanding market trends.

» Re-Evaluating Scores on New Account Openings

FICO analysts have found that loans opened in its most recent research period show a change in score distribution over prior years. The percentage of consumers booking new loans or credit with scores less than 700 is declining, as displayed in Figure 1.

For example, in 2005–2006, more than 48% of consumers who booked new loans had a FICO® Score less than 700. In 2008–2009, that percentage dropped to less than 42% of the newly booked population. Specific industries experienced even greater declines, with a nearly 50% drop in mortgage loans to consumers scoring under 700.

Figure 1

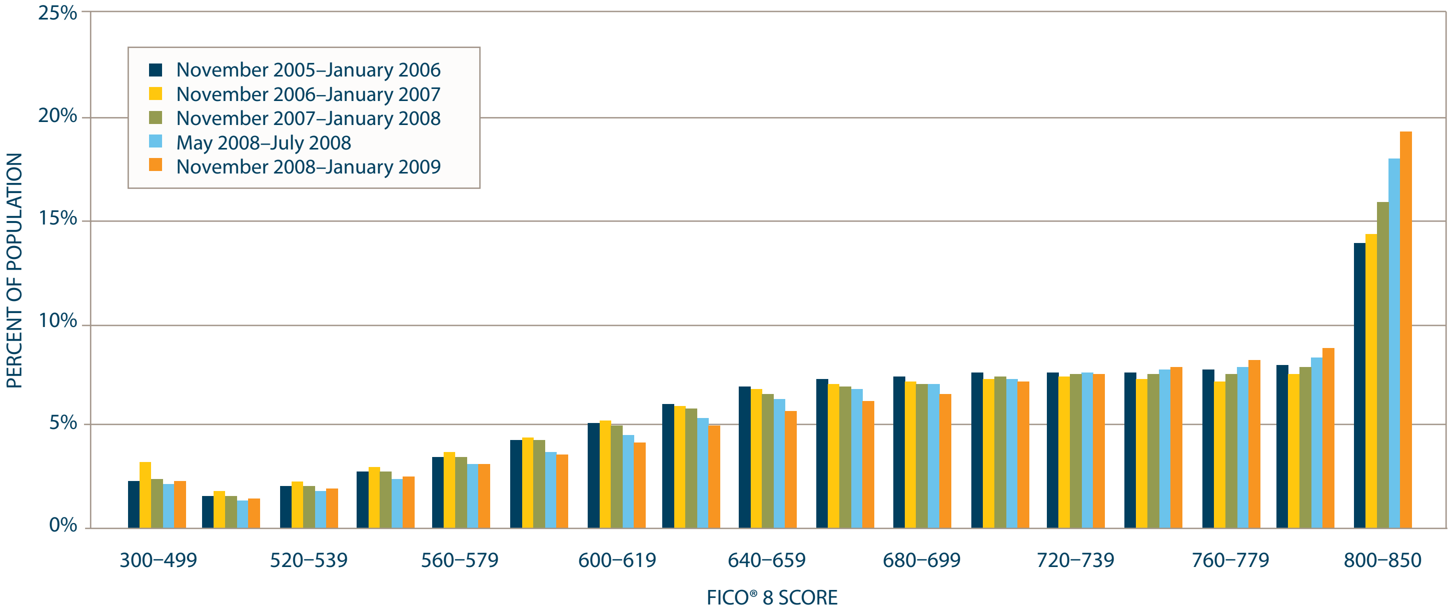
Percent of consumers with scores <700	2005–2006	2008–2009
All	48.3	41.8
Auto	53.0	44.0
Bankcard	50.6	38.4
Mortgage	45.7	25.0

These research results demonstrate that lenders are tightening criteria for new loans and are "cherry picking" the kinds of borrowers with whom they will extend credit. Overall, a significant decline in the percentage of consumers with newly-opened loans is resulting in a substantial upward shift in the FICO® Score distribution for this population. Figure 2 shows how this trend grows more evident at progressively higher score ranges.

Figure 2: FICO® Score Distribution

All Industries—New Accounts

Interval Score Distribution



» Changing Distributions Affecting Odds-to-Score Ratios

This extreme shift in distribution of newly booked accounts has a profound effect on the odds-to-score relationship as well.

Figure 3 below compares the level of risk for customers scoring in the 700–719 range at two different time periods. Looking at "All", or all industries, we see that in 2005–2006, one in every 96.8 new loan consumers went "bad" (severe delinquency of more than 90 days past due). In 2008–2009, the risk ratio increased: one in every 51.9 consumers went "bad."

Figure 3

Odds for FICO® Score 700–719	2005–2006	2008–2009
All	96.8	51.9
Auto	222.8	103.9
Bankcard	82.0	42.3
Mortgage	311.3	103.8

» Changing Risk Levels at Score Ranges on Existing Accounts

In addition, with risk levels changing for scores on new loans, the study revealed that existing loans scoring in the 700–709 range have become much riskier across all industries. For example, comparing two observation periods—October 2007 to April 2008 and April 2009 to October 2009—the odds-to-score ratio across all industries dropped (therefore showing greater risk) from one in every 53.7 accounts going "bad," to one in every 32.5 accounts going "bad." The mortgage industry experienced a drop from one in every 119.8 accounts to one in every 44.1 accounts going bad. Lenders are taking action by reducing lines of credit and becoming more aggressive in collections and recovery.

» Consumer Delinquencies Possibly Slowing … But More Accounts Per Consumer Going Delinquent

The number of consumers going delinquent on an account has been steadily rising since October 2007 (measured by 6 month 90 days + delinquency rates). However, recent research showed that across all industries delinquency rates have either slightly improved since April 2009, or in the case of mortgage loans, the rate of increase in delinquencies has dropped sharply. However, with only one six-month time period showing this trait, speculation of a continuing trend isn't possible until the next research period's data is known.

Those with delinquencies becoming delinquent on more accounts

The study also showed that the population of consumers who have serious delinquencies (90+ days past due) are going delinquent on a greater number of trade lines. Figure 4 below shows that while the percentage of consumers with at least one 90+ day delinquent account on file in the past six months has leveled, the percentage of all accounts at least 90 days delinquent in the past six months has risen by 0.3 percentage points. This indicates that while overall credit delinquencies are more stable (the number of consumers having trouble has not increased in the last six months), those consumers who are experiencing difficulties paying debt obligations are seemingly becoming more risky.

Figure 4

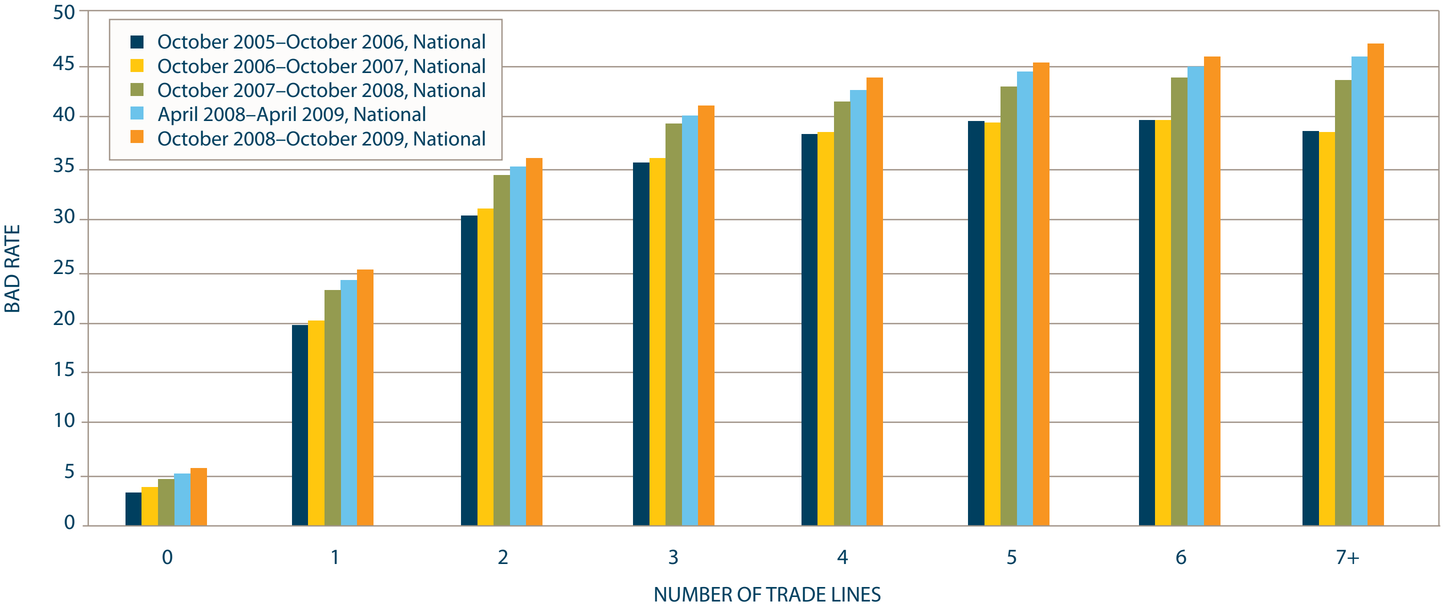
	Oct 05	Oct 06	Oct 07	Apr 08	Oct 08	Apr 09	Oct 09
All Industry Accounts—Consumer Level Delinquency (90+ days) Percent of all consumers with one or more accounts reaching 90 day or worse delinquency in the past 6 months	8.1%	7.9%	8.6%	9.8%	9.4%	10.3%	10.3%
	Oct 05	Oct 06	Oct 07	Apr 08	Oct 08	Apr 09	Oct 09
All Industries—Account Level Delinquency Percent of all accounts with a 90 day or worse delinquency in the past 6 months	3.6%	3.1%	3.7%	4.4%	4.3%	5.1%	5.4%

Figure 5, below, also shows that over the last five years' performance windows, consumer delinquency rates on multiple trade lines have continued to increase.

Figure 5: FICO® Score Trends Service

Predictive Variable Distribution / Number of Trade Lines 90+ Ever

12 Months Performance, 90+ / Any Derog



» Atypical Shifts in Industry Risks

Historically, secured accounts such as auto and mortgage represented lower risk of default than unsecured accounts such as bankcards across the entire FICO® Score range. However, today we see that in the score ranges above 680, the risk of default on bankcards is lower than on mortgage loans. For example, in 2009, 0.3% of consumers with FICO scores of 760 or higher reached a 90-day or worse delinquency on mortgage loans in the following 12 months, compared to only 0.1% who reached this level on bankcards. This represents a significant change in how consumers perceive the liability of becoming delinquent on their mortgages.

Looking at odds-to-score ratios, Figure 6 demonstrates this shift where Mortgage now represents a greater risk than Bankcard for the FICO® Score range 700–709.

Figure 6

Odds to score for FICO® Score 700–709	October 2007–April 2008	April 2009–October 2009
Bankcard	96.5	56.2
Mortgage	119.8	44.1

The following graphs, Figures 7 and 8, also demonstrate this shift in risk for industry segments. In the first (2005–2006), Auto and Mortgage represent lower risk than Bankcard, having higher odds-to-score ratios. However, in the second graph (2008–2009), the risk for Mortgage has, for the first time, crossed Bankcard in terms of delinquency risk in the higher FICO® Score ranges.

Figure 7: 2005–2006 Odds-to-Score by Industry

FICO® Score Trends Service Alignment Plot

Customer Management 12 Months Performance, 90+ / Any Derog

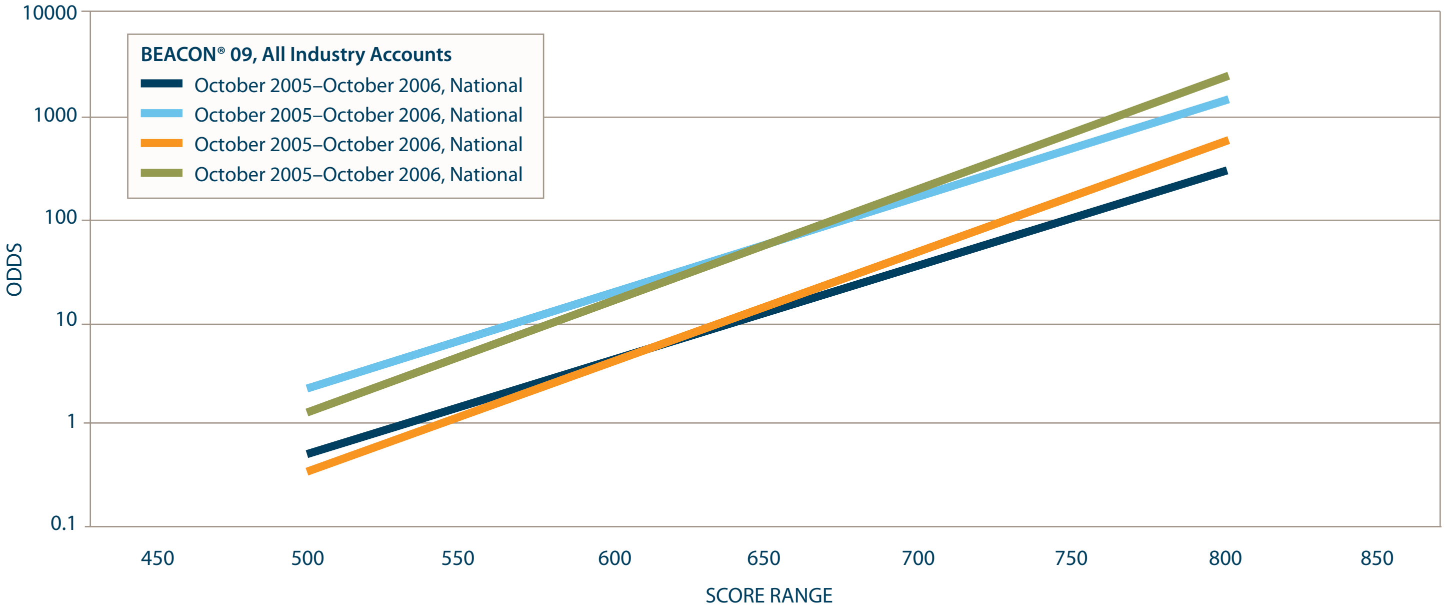
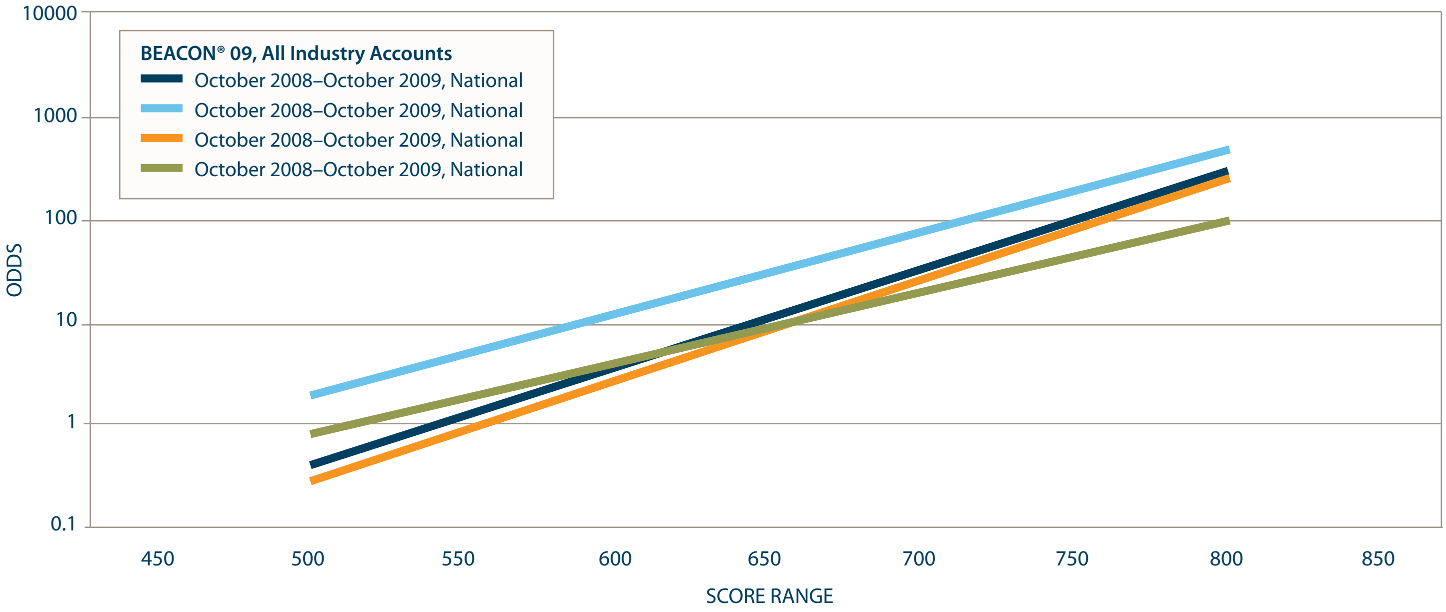


Figure 8: 2008–2009 Odds-to-Score by Industry

FICO® Score Trends Service Alignment Plot

Customer Management 12 Months Performance, 90+ / Any Derog



By region, the increase in risk of mortgage loans vs. bankcard reveals that the Pacific region showed the most dramatic increase, the Midwest showed the least dramatic increase, while the Northeast continues to show the least amount of risk.

» 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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