FICO™

FICO® Score Trends: Real Estate 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

Unprecedented changes in the real estate market over the past few years have significantly impacted both the repayment risk of mortgages and the relationship of risk with the FICO® Score (odds-to-score ratios).

Consumers holding existing mortgages exhibited a broader score distribution and a dramatic upswing in delinquency rates since 2006–2007, although the rate of increase has slowed. Further delinquency may be seen as we continue to observe unemployment and underemployment at extremely high levels in many areas coupled with negative equity. As expected, regions most heavily impacted by the real estate crisis exhibited the greatest degradation in score distribution and delinquency rates, differing greatly from the national population.

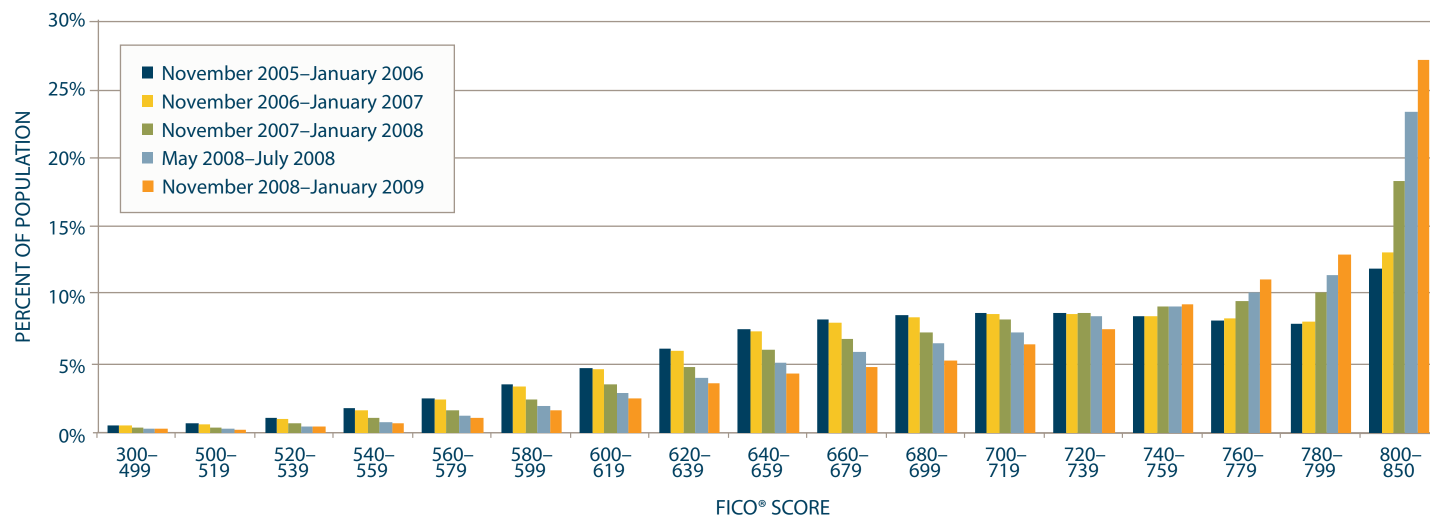
» Acquisitions

Real estate lenders have tightened credit policy guidelines—such as setting lower LTVs and requiring higher minimum FICO® Scores—resulting in a reduction in the volume of consumers able to obtain a new mortgage, an upward shift in the FICO Score distribution, and a lower delinquency rate.

Figure 1 shows that score distributions of approved mortgage applicants are shifting higher. Further highlighting that shift, the percentage of consumers able to open a new mortgage with a score

Figure 1: Score Distribution of New Accounts—Real Estate

Interval Score Distribution



below 660, as shown in Figure 2, continues to decline in late 2008/early 2009 to just 19.7% of all newly-booked mortgages, dropping from 23.1% just six months prior (mid-2008) and by more than half from a high of 37.1% in 2005. This trend is expected to continue.

Figure 2: Percent of Consumers with a Newly Opened Mortgage and FICO® Score < 600

November '05–January '06	November '06–January '07	November '07–January '08	May '08–July '08	November '08–January '09
37.1	35.9	28.1	23.1	19.7

Figure 3 shows that tightened lending criteria has lead to a generally cleaner pool of loans booked in the most recent research periods, with a steady decline in the default rate of newly-opened mortgages when compared with those opened in late 2006. In fact, performance of those loans booked from October '08–October '09 was better than loans booked in 2005, with a 12-month default rate of 1.8% compared to 2.3%.

Figure 3: 12-Month 60+ Delinquency Rate on Newly-Opened Mortgages over Time

October '05–October '06	October '06–October '07	October '07–October '08	April '08–April '09	October '08–October '09
2.3%	3.4%	2.5%	2.1%	1.8%

» Customer Management

The October '09 analysis of consumers with an existing mortgage revealed a broader score distribution and a significant rise in 60+ days delinquency rates since the 2006–2007 study period. It also showed that the rise in six-month delinquency rates on mortgages was slowest in the most recent period, increasing by just 0.1 percentage points from 6.1% in April '09 to 6.2% in October '09 (a total increase just under 2%) as shown in Figure 4. This is the smallest increase seen in the past few years. However, as Figure 4 also shows, the delinquency rate continued to be much higher than seen just one year prior, up more than 33% (4.8% in October '08 to 6.2% in October '09).

Regions most heavily impacted by the real estate crisis exhibited the greatest degradation in score distribution and delinquency rates. Further delinquency may be seen as we continue to observe unemployment and underemployment at extremely high levels in many areas coupled with negative equity.

Figure 4: Delinquency Rates—Real Estate—60+ Days Past Due

Existing Accounts—6-month performance

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

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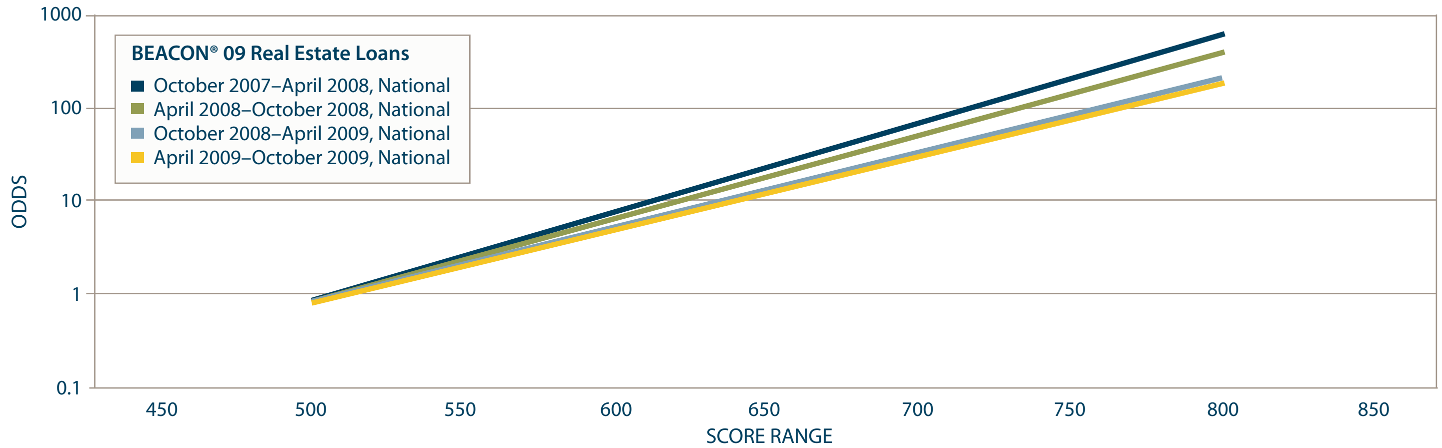
Figure 5 shows that odds-to-score ratio may be stabilizing for real estate loans. Reviewing the last four 6-month odds-to-score relationship findings, we see that the April '09–October '09 period shows only a minor shift compared to the prior period (October '08–April '09). Prior periods showed more major shifts.

Figure 5: Alignment Plot over Time—Real Estate

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



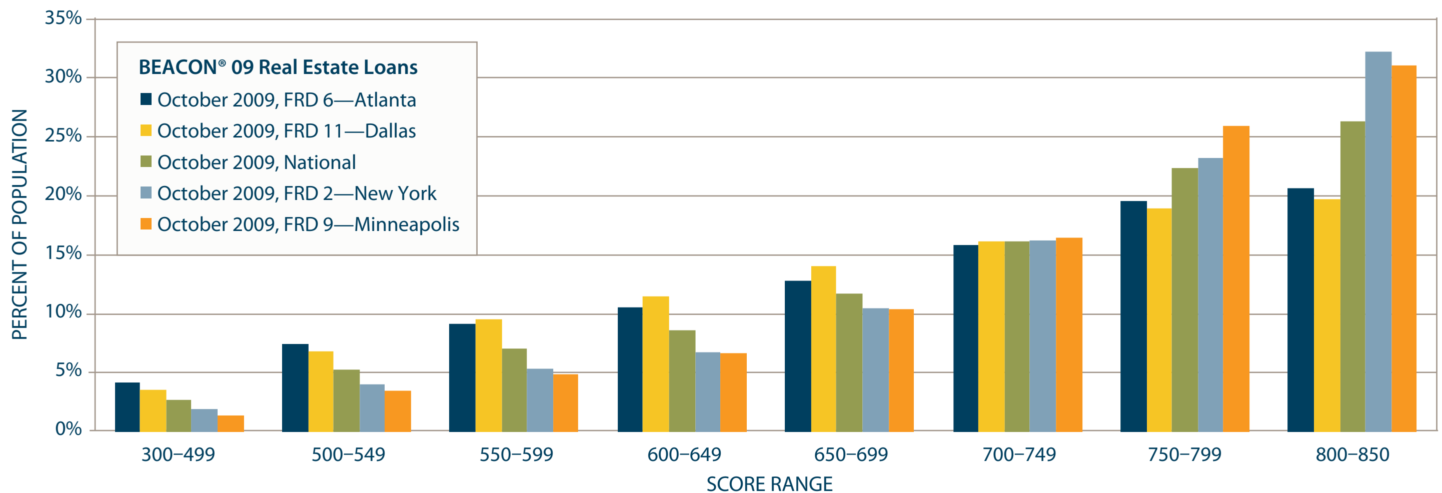
» Regional Variations

The analysis also identified how regional performance differed from the national population. Over the past few years, regions with heavy real estate speculation saw dramatic increases in risk. Now, this trend appears to be easing; those areas most heavily hit by the real estate crisis are seeing less change. Larger shifts are being observed in regions more directly impacted by unemployment such as Federal Reserve District (FRD) 7—Chicago.

Figure 6 illustrates the variations between the FRD with the highest and lowest score distributions compared to the National distribution. FRD 6—Atlanta and FRD 11—Dallas continue to have the lowest score distributions. This demonstrates how risk levels for real estate are quite different by region, and how this contrast has become more pronounced as regions have been impacted differently by the real estate crisis. The odds-to-score relationship as characterized by the study's 6-month score shift analysis revealed that the regions with the largest shift were FRD 7—Chicago, FRD 1—Boston and FRD 10—Kansas City.

Figure 6: Score Distribution 2009—Real Estate Loans, Low and High FRD Distributions

(All Accounts) *Interval Score Distribution*



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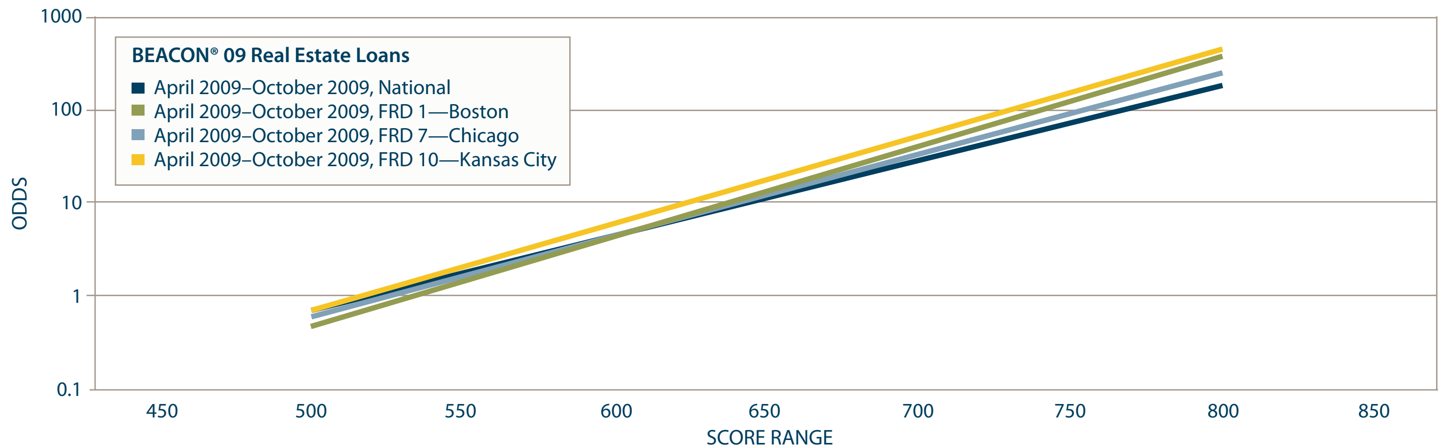
FRD 7—Chicago includes the Detroit MSA, an area with the highest unemployment rate reported by the Bureau of Labor statistics. It continues to see increasing levels of risk across the score range, and now has an odds-to-score relationship consistent with the National population (see Figure 7).

Figure 7 also shows that despite recent downward shifts in odds, FRD 10—Kansas City continues to exhibit better repayment odds by score than the National population. The graph also shows that FRD 1—Boston has better repayment odds than the National population in the upper half of the score distribution.

Figure 7: Alignment Plot—Real Estate, Regional Comparison

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



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 semiannually with up to 15,000 unique views of changing credit risk. For more information:

Visit: *www.fico.com/scoretrends*
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