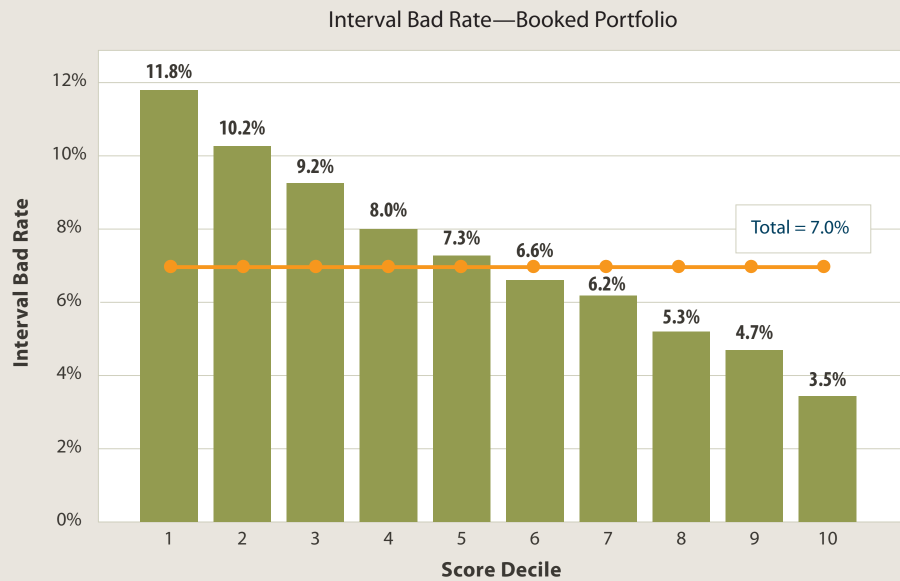
credit scoring

FICO Expansion® Score

Quantify risk for consumers with little or no credit information

Russia's consumer lenders can now more safely increase portfolio growth with the introduction of the FICO Expansion® Score. The new score gives lenders the ability to assess the credit risk of millions of consumers with little or no credit information on file. Available online and in batch through NBKI, the score rank-orders the risk of applicants for accept/decline decisions, as well as interest rate and fee determinations. The FICO Expansion Score—built on FICO's expertise in Russian model development, and over 50 years in scoring leadership worldwide—provides an affordable method to underwrite Russia's large population of consumers new to credit.

FIGURE 1: Strong score alignment with "bad" rates



The FICO Expansion Score provides strong rank-ordering of risk. The lowest scoring applicants, those in the lowest 10% of all scored applicants, tend to go "bad" (60+ days delinquent) three times as much as those applicants scoring in the highest 10% of all scored applicants.

Today, many Russian financial services institutions want to profitably increase portfolio growth while adding consistency to business decisions, leveraging as much information as possible, and improving compliance and customer service. For a portion of Russia's consumer credit market, lenders can address these objectives with current scoring technology—including the FICO® Score. However, lenders have not been able to adequately and safely serve 35% of Russian consumers—those who do not have past credit experience and are therefore unscorable with existing credit scoring models.

As a result, it has been difficult for lenders to assess the potential risk of applicants with little to no prior credit information. While custom predictive models could be used to score this population, many institutions do not have sufficient volumes, budgets, resources or time to justify custom model development.

» A new approach

The FICO Expansion® Score is designed to address this current market challenge. It provides lenders with cost-effective access to advanced analytics for assessing risk of consumers within this market segment. The FICO Expansion Score assesses credit risk by evaluating a consumer's credit application information, and consumer credit reporting agency data from NBKI. It rank-orders applicants by risk, providing a systematic method to approve or decline applicants, and assign appropriate risk-based interest rates and fees.

The FICO Expansion Score gives Russia's lenders a reliable means to take advantage of a large, under-served market. Also, the score provides additional competitive support by further automating decision processes and freeing resources. Lenders using the score in other

Supporting a Variety of Credit Decisions

The FICO Expansion® Score can be applied to improve the profitability of many decisions throughout the lifecycle:

In Originations:

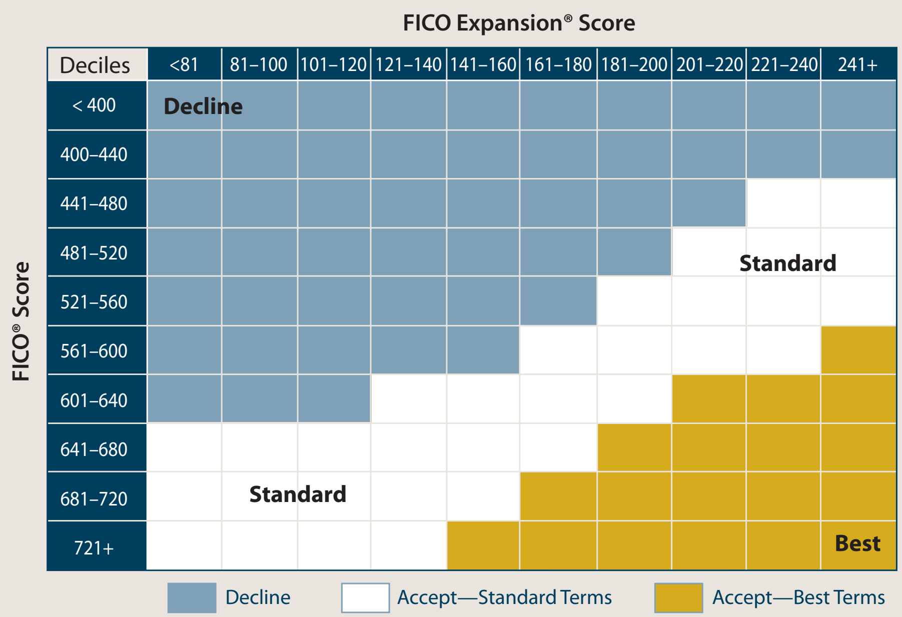
- Making accept or decline decisions on applicants.
- Determining interest rates, fees, credit limits or terms based on risk levels.

In Account Management:

- Increasing or decreasing credit limits.
- Making overlimit authorization decisions.
- Cross-selling additional products.

Features	Benefits
Expert models based on FICO's experience with application model development in Russia and around the world	Offers lenders access to effective credit decisioning solutions without corresponding development costs Can help automate workflow and free up resources
Application data provided by lender is combined with inquiry data at NBKI	Increases the pool of credit-eligible consumers
Score range of 50-250, as distinguished from the FICO® Score range (300–850)	Provides another tool for determining risk for added flexibility
Can be utilized alone or in conjunction with the FICO® Score or other credit criteria or scoring solutions	Lenders can set strategies to match their own risk tolerance to match their current lending culture
Lender will receive score and up to four reason codes which are the same as the FICO® Score	Contributes to create a more consistent customer experience

FIGURE 2: Overlaying with the FICO® Score for more refined segmentation



*Note: Table is for illustrative purposes only and is not a specific strategy recommendation.

Using the FICO Expansion Score in conjunction with the FICO® Score enables lenders to develop more refined cut-off score strategies leading to further risk reduction and increased portfolio profit.

markets have experienced a 25% to 50% reduction in manual review intervention of application.

» Strong, reliable performance

The FICO Expansion® Score provides strong rank-ordering of risk for previously unscorable consumers. As shown in Figure 1, results on unscorable consumers booked into a lender's portfolio show that with the FICO Expansion Score, the lender would have been able to identify more bad accounts—those going 60+ days past due or more—at lower score ranges. In fact, the bad rate would have been more than three times higher for the bottom scoring decile compared to the top scoring decile. Figure 1 shows that nearly 12% of consumers with scores in the lowest 10% (of all applicants scored) met the "bad" performance definition, versus just 3.5% of consumers who scored in the highest 10% (of all applicants scored).

» Supporting strategy development

In addition to providing risk assessment for unscorable consumers, the FICO Expansion Score can provide added insight when used in conjunction with the traditional FICO® Score. In fact, the two scores can be used together to help make even better informed credit decisions by leveraging both the credit bureau data and application data by simultaneously overlaying the scores. Figure 2 shows how the combination of two scores allows for potentially greater acceptances as well as the ability to further distinguish risk and tailor credit terms accordingly.

In this example strategy, a lender may want to accept some applicants with lower FICO® Scores—those it might have traditionally declined—based on applicants' higher FICO Expansion Scores. Conversely, a lender may decline some applicants with higher FICO Scores—in the 601–640 range—due to their lower FICO Expansion Score. The segmentation provided by the two scores offers the opportunity to develop more refined pricing and term strategies for accepted accounts, leading to reduced risk and greater profitability.

FIGURE 3: Overlaying scores for refining credit limit strategies

	FICO Expansion® Score		
FICO® Score	**High (good risk)**	**Medium (marginal risk)**	**Low (poor risk)**
Good Risk	Increase credit limit	Vary increase in credit limit by policy	Retain current credit limit
Marginal Risk	Increase credit limit	Vary increase in credit limit by policy	Reduce credit limit
Poor Risk	Retain current credit limit and track	Reduce credit limit if delinquent Increase collection effort	Reduce credit limit if delinquent Increase collection effort

*Note: Table is for illustrative purposes only and is not a specific strategy recommendation.

The FICO Expansion Score is highly beneficial for supporting annual account review decisions. This example shows how it can be used in conjunction with the FICO® Score to help lenders segment accounts to improve credit limit decisions.

» Account management decision support

The FICO Expansion® Score can also provide strong support for account management decisions. For example, strategies based on the model may be designed for marketing to existing customers, or for collections when credit limits are exceeded. The objective is to encourage credit usage on good performing accounts while lessening risk exposure on marginal and poor performing accounts.

One particularly beneficial use of the FICO Expansion Score is in developing credit limit strategies incorporated with an annual credit card account review. Whenever such a strategy calls for a decrease in a previously established credit limit, other factors may impact the action. Credit grantors should consider the effect of adverse action on accounts not in default in the terms of the contract, and balance the amount of the decrease against the frequency of delinquency. Figure 3 presents an example of a credit limit evaluation strategy.

In this example, the credit grantor might consider the risk associated with one-cycle delinquencies in relation to their current evaluation method and FICO® Scores.

» Availability and adoption

FICO Expansion Scores are available to lenders through NBKI. Lenders can easily provide application data via the NBKI web site with each inquiry.

Please contact your NBKI or FICO representative for information to access FICO Expansion Scores.

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