

FICO® Score and Model Risk Management Methodology

Leading the way in helping lenders meet regulatory requirements

Under FICO's model risk management methodology, the FICO® Score is a reliable tool to help lenders confidently make credit underwriting decisions, value exposures, and determine capital and reserve adequacy.

FICO continues to lead the predictive analytics market by using best practices in the development and validation of credit risk models, as prescribed by regulatory agencies. The FICO® Score employs leading model governance and development controls so models are aligned with today's applicable regulations and guidelines.

Lenders are increasing the amount of time and money spent every year to ensure compliance with a growing number of regulations, in addition to their ongoing audits and exams. Demonstrating to examiners that credit risk scoring models were built according to federal guidelines, and are being used in accordance with regulations, can be an expensive task. Using the FICO® Score not only helps lenders achieve regulatory compliance, but gives them confidence that the models were built according to strict policies and procedures, including support of safety and soundness guidelines.

FICO's Model Risk Management Methodology encompasses governance and control mechanisms, plus documented and audited processes for the development of the FICO® Score with oversight from FICO's senior management. This means that internal policies and procedures are consistent with the risk management principles and supervisory expectations consistent with regulatory guidance provided by the Office of the Comptroller of the Currency and the Federal Reserve Board.

Why FICO's Model Risk Management Methodology Is Important

Regulatory Compliance

FICO® Scores help keep lenders aligned with key regulations and limit the potential for adverse consequences (bad loans, fines, reputation) from decisions based on incorrect model outputs. As required by the regulatory bodies, the FICO Score models have been developed to achieve precision, accuracy, robustness, stability and reliability. The models assist in meeting fair lending criteria by providing empirically derived, demonstrably and statistically sound models. And as such, FICO Scores are proven to rank order consumer credit risk, throughout the entire credit lifecycle—marketing, prescreening, underwriting and account management.

Key Features of FICO's Model Risk Management Methodology

Meets Fair Lending Criteria	FICO® Scores are empirically derived and demonstrably statistically sound. FICO Scores are developed with depersonalized data and use no prohibited factors. The score algorithm is developed using data-driven analysis and is not based on social policy which can be influenced by judgment. When used as a tool to assist creditors in making credit decisions, FICO Scores can serve as an effective management tool to address fair lending criteria.
Understood by Regulators	Today FICO works with regulators, as well as many lenders, demonstrating how the FICO® Score risk models are structured and applied for optimal results, how they perform over time and how to interpret their results.
Exceeds Federal Standards	FICO stands behind the FICO® Score to fully meet the same standards our clients must comply with—including but not limited to United States' Office of the Comptroller of the Currency's (OCC 2011-12) and Federal Reserve's (SR 11-7) Model Management Guidelines for development and validation of the models. As part of this compliance, FICO is a leader in providing lenders with the best model validation techniques and consultation services.
Current with Regulatory Changes	FICO is a trusted partner of the lending industry who understands regulatory compliance pressures faced by lenders, and designs models that can be effective and verifiable from a regulatory standpoint. Through FICO's monitoring of regulatory developments and dialog with federal agency staff, FICO stays abreast of the changing regulatory landscape and provides scoring products that will assist lenders in meeting heightened model management compliance requirements. The FICO® Score may be updated as required from time to time to assist lenders when changes to existing or new regulations are introduced or when new bills are enacted.
Transparent	FICO model development follows the same model risk management framework as is expected of lenders for their own in-house models. FICO provides documentation, such as the "FICO® Score Risk Management" Package and other support materials to guide lenders in their use and limitations of the models.
Focused on Maximized Performance	The FICO® Score was first developed in the 1980s, and since that time FICO's model governance policies have called for updates to enhance performance of the models. FICO strives to make these updates as easy as possible for lenders to implement, including minimizing changes to reason codes, score range and more.
Proven Track Record for Innovation	As it has done for over 50 years, FICO conducts independent research into data, utilizing best practices in innovative modeling techniques to solve the most challenging and complex risk analysis issues in a responsible and regulatory compliant fashion.
Supports Greater Consumer Education	To address industry concerns for greater education of consumers, FICO provides many resources to both lenders and consumers in the form of documentation, training, consumer education (ScoreInfo.org) and free access to the scores for consumers (FICO® Score Open Access).

Sound Model Management and Governance Policies

FICO® Scores, as part of a sound model management and governance program, can help lenders separate risky and less risky assets for capital requirements or insurance assessment. Lenders may receive greater insights into valuing their exposure and understanding the level of credit quality in their various portfolios. These insights may then be used to set up appropriate underwriting policies and determine more accurate valuation of exposures and capital reserve levels.

Rely Upon the Industry Leader

FICO will continue leading the predictive analytics industry in meeting or exceeding industry standards. Ongoing innovation in the FICO® Score continues to affirm FICO's position as the leader not only in credit scoring innovation, but also in providing impactful solutions that address the most challenging industry-wide issues in credit risk management.



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