Opportunity for Financial Gains in Loan Originations

Reasons to upgrade to FICO® 8 Auto Score

The auto industry is facing critical challenges as it trends towards recovery. To be successful, auto lenders need to approve the best customers and set the right terms at origination, thus minimizing both exposure and collection & recovery costs, while maintaining portfolio value. The newest FICO® Score version for the auto industry, the FICO® 8 Auto Score, demonstrates how increased risk assessment performance can help auto lenders reduce loss and increase profits.

» The FICO® 8 Auto Score Benefits and Features

The FICO® 8 Auto Score delivers the same predictive benefits as the FICO® 8 Score including:

- Upgraded scorecard segmentation, including two additional scorecards with predictive variables tailored to auto risk.
- Refined risk performance classifications.
- Mitigation of authorized user abuse with continued support of regulatory requirements.
- Minimized minor collection and public record infractions.

As demonstrated by the results in this study, an upgrade to FICO® 8 Auto Score substantially assists auto lenders with critical business decisions and lending strategies. ***With an uplift in predictability of up to 9%, FICO® 8 Auto Score*** is a powerful tool for account originations.

Financial Benefit of a FICO® 8 Auto Score Adoption

By implementing FICO® 8 Auto Score on auto loan originations, a lender would gain the following financial benefits:

Prime Account Loss Avoidance: At a score cutoff of 720, the financial benefit is **$5.5 MM** or **$5.50 per account.**

Non-Prime Account Loss Avoidance: At a score cutoff of 620, the financial benefit is **$5.4MM** or **$10.80 per account.**

» FICO® 8 Auto Score for Risk Identification in Auto Originations

There are specific areas where the FICO® 8 Auto Score can provide focused value for auto lending origination functions. Using the new score, an auto lender could increase profits by:

- **Approving More Applicants While Reducing Bad Rates:** Auto lenders are challenged to identify more qualified applicants while reducing their current bad rate. The new FICO® 8 Auto Score can help lenders improve profitability and portfolio value with more accurate risk assessment of the applicants' likelihood to default which is increasingly more important in automated environments.

Gain a predictive boost to your auto portfolio risk assessment with the FICO® 8 Auto Score offering improved lift of up to 9% over the prior FICO® Auto Score.

- **Setting Loan Terms:** The FICO® 8 Auto Score allows auto lenders to make better decisions with respect to establishing loan-to-value ratios and term length for new and used auto financing.
  - **Interest Rate:** With the FICO® 8 Auto Score's enhanced risk prediction, auto lenders are better able to assign the appropriate, most profitable interest rate for each new customer, fostering a competitive advantage and better capture at the dealer.
  - **Loan Amount:** By using the FICO® 8 Auto Score, in conjunction with FICO® Credit Capacity Index™ (CCI), an auto lender can accurately assess both risk and capacity levels of each applicant to set loan size.

» Results from recent consumer data

To illustrate the new FICO® 8 Auto Scores' improved predictability in auto originations, FICO conducted an analysis on recent consumer credit data that shows the increased predictive power of FICO® 8 Auto Score to reduce auto portfolio risk. This document provides the results of this analysis for account origination activities.

The considerable sample is a national representation of slightly over 15 million consumers. The study evaluated auto origination performance to provide a comprehensive view of the performance benefits from FICO® 8 Auto Score. The performance window for the study spanned a 24-month period from April 2006 to April 2008.

At a time when accurate identification of risk at origination is a major focus of all auto lenders, the FICO® 8 Auto Score proves to be a significant help in identifying those accounts most at risk as well as those representing lower risk. During the study, the predictive strength of the new and prior model version was compared by plotting the percentage of accounts that went 60+ days past due or longer after scoring ("bads") relative to the percentage of total accounts for that population segment.

For the same population volume cutoff, there were more "bads" scoring lower and pushed below a given cutoff with FICO® 8 Auto Score. These higher risk accounts may not have been originated at appropriate loan amounts or appropriately priced to offset risk or loss mitigation treatment. Some higher risk accounts would not have been approved. Likewise, better performing customers are now pushed to higher scores above the cutoff and may have been eligible for special incentive programs.

Figure 1: Total Auto Loan Originations
Bad Rate Comparison

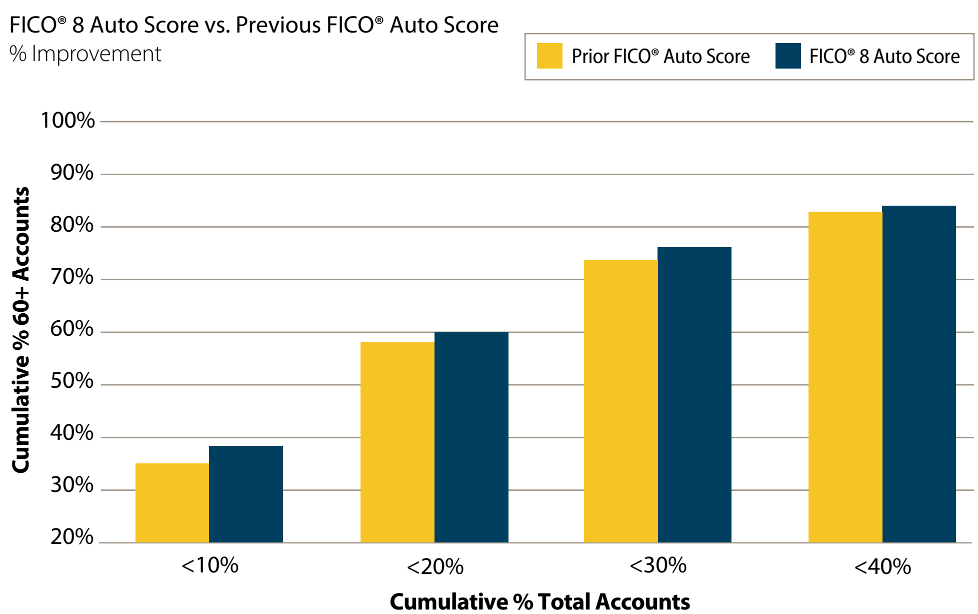


Figure 1, above, demonstrates how the FICO® 8 Auto Score outperforms the previous FICO® Auto Score version for auto loan originations. At the same volume cutoff, there would be more "bads" below the cutoff such that the population above the cutoff represents less risk. The percentage improvement is calculated as both the overall improvement in the credit quality of the population scoring ***above*** the cutoff, and the increase in the number of "bads" identified ***below*** the cutoff.

Based on the study data, if the cutoff was set at 30% of the population, using the previous score, this strategy would have captured 72% of the bad population. With the new score, using the same cutoff, this strategy would have captured 75% of the bad population. Therefore the new score reduced the bad rate by 300 basis points without any affect on the approved volume.

Alternatively, the new score can permit a higher approval rate by setting the volume cutoff lower than before and capturing the same volume of bad accounts as previously selected.

» Auto Originations—Prime Accounts

Figure 2, below, compares the performance of the FICO® 8 Auto Score to the prior FICO® Auto Score version for less risky prime auto loans which are identified as those without any serious delinquency on record at the time of scoring. Lenders typically offer customers in good standing additional financing options including qualifying for manufacturer's financing and more flexible terms of payment because these customers represent greatest profit potential.

The bars represent the proportion of the prime auto loan population that experienced a major delinquency 24 months after the scoring date. The FICO® 8 Auto Score identified more "bads" below the cutoffs at the various population percentages compared to the prior version. The result is that there are fewer "bads" and more "goods" selected above the score cutoff. Using the FICO® 8 Auto Score results in more applicants qualifying for positive treatments, such as a more favorable interest rate or for manufacturers' rebates or offers.

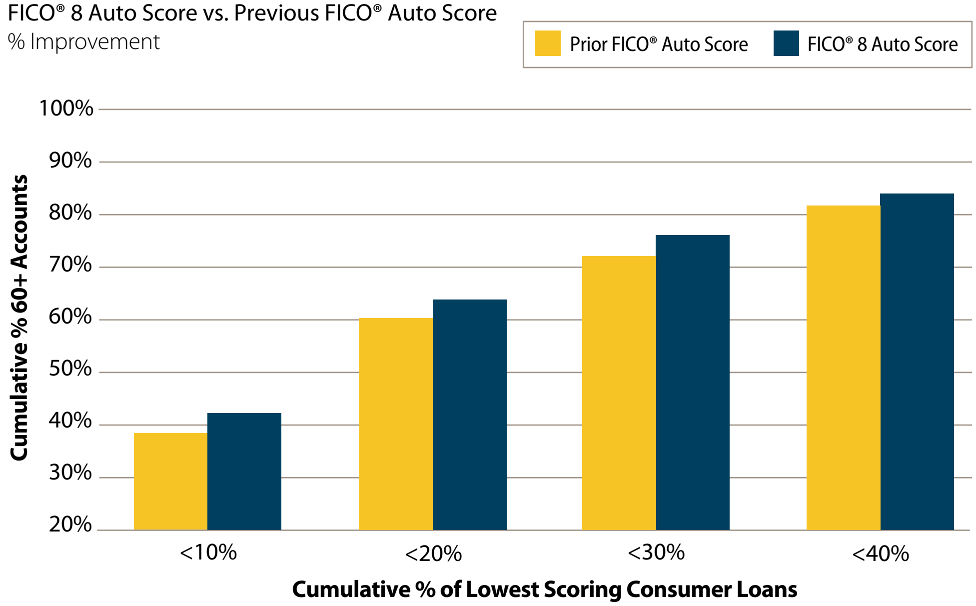
General assumptions for all examples are:

- The American Financial Services Association (AFSA) reports that each repossession represents approximately an $8,000 loss to the auto lender.
- "Bad" is defined as 60 days past due or worse.
- Loss avoidance applies to only 70% of the new "bads" detected by FICO® 8 Auto Score as a conservative estimate, assuming additional analytics are also used in evaluation.

Figure 2: Prime Originations

Bad Rate Comparison

FICO® 8 Auto Score vs. Previous FICO® Auto Score
% Improvement



The example below outlines the benefits the auto lender would have realized, had the FICO® 8 Auto Score been in use during the examined period. Assumptions for this example are as follows:

- 1MM applicants.
- Prime is defined as NO serious derogatory information, 90 days past due or worse, on credit file at time of scoring.

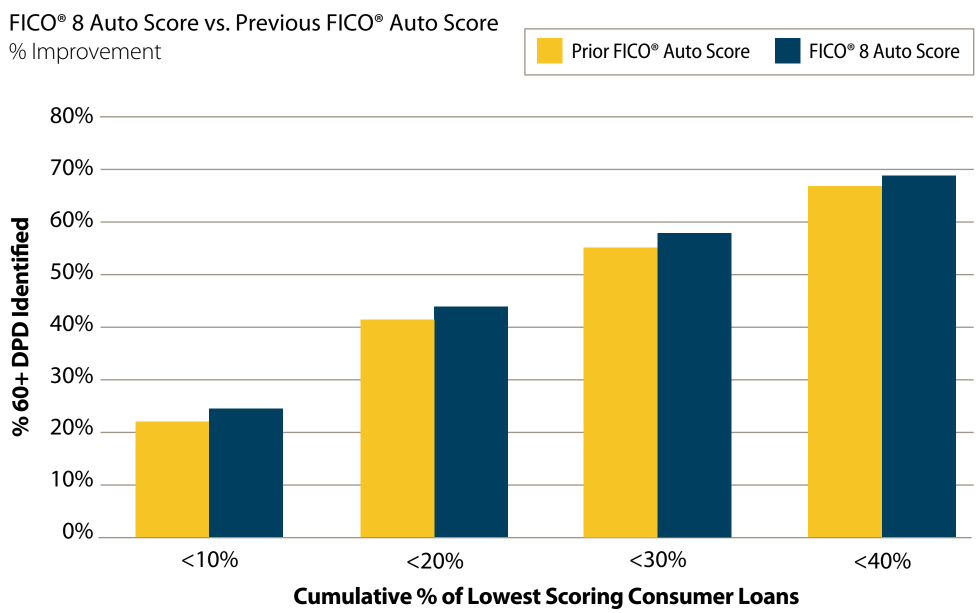
Prime Accounts

Approx. applicants falling below	Score cutoff	Bads below cutoff—FICO® 8 Auto Score	Bads below cutoff—prior FICO® Auto Score	% improvement	New bads below cutoff—FICO® 8 Auto Score	Loss avoidance
30%	720	18,270	17,283	5.7%	987	$5,527,200
40%	740	19,826	18,992	4.4%	834	$4,670,400

» Auto Originations—Non Prime Accounts

Figure 3, below, compares the 24-month performance of FICO® 8 Auto Score as of April 2008 to the prior FICO® Auto Score for more risky non-prime auto accounts, identified as those with a serious delinquency on record at the time of scoring. The figure data shows that the FICO® 8 Auto Score does a better job of identifying future "bads" than the prior version. Using the FICO® 8 Auto Score, these applicants could have been assigned more appropriate treatments such as a different interest rate, shorter payment terms, or a smaller loan amount.

Figure 3: Non-Prime Originations
Bad Rate Comparison



The example on the next page outlines the benefits the lender could have realized had FICO® 8 Auto Score had been in use during the examined period. Assumptions for this example are as follows:

- 500K applicants as less non-prime loans are being extended.
- Non-prime is defined as serious derogatory information, 90 days past due or worse, on credit file at time of scoring.

Non-Prime Accounts

Approx. applicants falling below	Score cutoff	Bads below cutoff—FICO® 8 Auto Score	Bads below cutoff—prior FICO® Auto Score	% improvement	New bads below cutoff—FICO® 8 Auto Score	Loss avoidance
40%	600	42,329	41,426	2.2%	903	$5,056,800
50%	620	47,822	46,857	2.1%	965	$5,404,000

» The FICO® 8 Auto Score —Benefits across the customer lifecycle

Through improved identification of good accounts, the FICO® 8 Auto Score allows your organization to:

- Accept more applicants and increase portfolio size without an increase in losses.
- Set interest rates more appropriately to increase profit.
- Set appropriate loan amounts based on bad rate to maximize loan amount and control for loss amount.
- Set proper loan terms by permitting accurately identified low risk accounts to receive longer terms.

In addition to originations, obtaining regularly refreshed FICO® 8 Auto Scores can help auto lenders better manage early collection efforts as well as marketing cross-sell opportunities and renewals. Thus, the FICO® 8 Auto Score helps auto lenders throughout the entire life-cycle of the loan.

The FICO® 8 Score

With the FICO® 8 Score now available at all three major US credit bureaus, FICO remains at the forefront of delivering quality analytics in response to the market's need for better measurements of credit risk. Adoption of the FICO® 8 Score is accelerating with thousands of banks and financial institutions using the new score. FICO 8 is quickly becoming the standard for lenders focused on reducing risk.

Streamlined Conversion

To streamline institutions' conversion to the FICO® 8 Score, the new model retains the same 300-850® scoring range, score reason codes, minimum scoring criteria and inquiry treatment as previous versions of the score. In addition, the FICO® 8 Score helps lenders protect against authorized-user account "piggybacking" by incorporating new patent-pending technology that materially reduces the potential score impact associated with the abuse of authorized user accounts. By considering authorized user accounts in score calculations, the FICO® 8 Score continues to support lenders' abilities to comply with federal regulations.

For more information on FICO® 8 Scores, contact FICO at 800-777-2066 or *cbhelpline@fico.com*

Global Standard for Measuring Risk

Since its introduction 20 years ago, the FICO® Score has become the global standard for measuring credit risk in the banking, mortgage, credit card, auto and retail industries. In its fifth generation, the FICO® Score is called the FICO® 8 Score. Today, FICO® Scores are in use at more than 90 of the 100 largest US financial services institutions. To meet global demand, the FICO® Scores are available to lenders in 20 countries on 5 continents.

FICO™

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