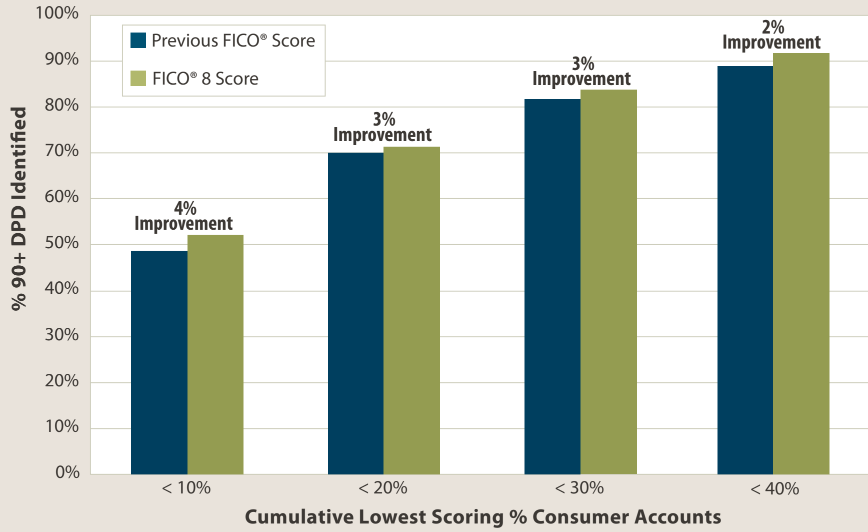
FICO® 8 Score for Mortgage Underwriters and Servicers

scoring

Raising the bar on an industry standard

The latest release of the FICO® Score provides improved risk evaluation where mortgage lenders need it most, with minimal system changes. FICO Scores are now better than ever—with a 5% to 15% lift in predictive power for credit shoppers and those with prior blemished credit histories ("nonprime"). The FICO® 8 Score incorporates new, patent-pending technology that addresses two key concerns of lenders—protection from authorized user abuse with continued support of regulatory compliance. The score also includes adjustments to better address consumers with limited credit experience.

FICO® 8 Score vs. Previous FICO® Score
Existing Prime Mortgage Accounts



DPD = Days Past Due
Analysis conducted by FICO

In the lowest-scoring 10% of existing mortgage accounts, the FICO® 8 Score identified 51% of future "bad" accounts in the development sample, compared to 49% of "bad" accounts with the current FICO Score—a 4% improvement with the new score.

When the FICO® Score was introduced almost two decades ago, it fueled a revolution across industries, including mortgage lending. Now FICO is raising the bar on an industry standard.

FICO® 8 Scores, now available at all three major US credit reporting agencies, offer powerful new features, including upgraded scorecard segmentation, refined risk performance classifications, and minimized minor collection and public record infractions. These were made as "seamless" changes to the FICO design blueprint, while retaining the same reason codes and other factors that ensure lenders an easy transition to the new score.

Using FICO® 8 Scores instead of a previous version should enable you to improve risk management decisions across the credit lifecycle:

- Increase new account bookings at same/ better risk
- Reduce delinquency and loss while booking same volume
- Refine risk-based pricing
- Assign more targeted customer management actions
- Improve customer satisfaction
- Reduce loss reserves
- Reduce exposure to fraudulent abuse of authorized user trade lines

» Increased power—where you need it

To develop the latest FICO® Score, FICO analysts used state-of-the-art analytic capabilities and predictive technologies, along with extensive industry expertise. As a result, the FICO 8 Score boosts predictive strength by more than double the typical improvements seen in prior updates. The largest increases of 5%–15% occur among important consumer segments:

- **New accounts**—including new prime mortgage and HELOC
- **Nonprime**—existing customers who pose higher risk as reflected in prior serious delinquency or derogatory credit histories and may be candidates for loan remediation

In addition, the FICO® 8 Score more appropriately addresses new-to-credit consumers—those with only a few accounts (thin files) and those with only a few years of credit history (young files).

The FICO® 8 Score includes new features to sharpen lending decisions:

Upgraded scorecard segmentation

We have increased the number of scorecards, delivering sharper segmentation to reflect today's consumer credit trends. For instance, new scorecards for accounts with serious delinquencies and derogatory items provide more accurate risk assessment of consumers with previous credit problems, allowing for more aggressive treatment.

Refined risk performance classification

FICO scientists exhaustively researched alternative means to boost predictive power via alternative performance classifications (good vs. bad). The new score reflects a modified classification that considers the degree of "bad" behavior—for instance, a consumer record delinquent on two of eight trades is categorized differently from one that's delinquent on eight of eight trades.

Minimized minor infractions

Small collection account and public record items (originally under $100) will not be evaluated, ensuring consumers are not negatively impacted by relatively minor occurrences of these items.[1]

Protection from authorized user abuse

The FICO® 8 Score also includes a modification designed to help protect lenders from authorized user abuse.

Over the last few years, lenders have become increasingly concerned about exposure to possible fraud by consumers who deceptively boost their score by paying to be added as an authorized user on someone else's seasoned and good credit account (a practice sometimes referred to as "piggybacking"). Yet lenders also want the FICO® Score to continue to consider spousal authorized user trade lines to help support their compliance with federal regulations (specifically, ECOA Regulation B)[2].

In response to these needs, FICO scientists have invented an innovative way to include authorized user credit accounts in the calculation of FICO® 8 Scores, while materially reducing potential impacts to the score.

» The gain—without the pain

Lenders can obtain the benefits of FICO® 8 Scores with minimal system modifications. The new score offers the stability and consistent odds-to-score relationships across the credit reporting agencies that lenders have come to count on with FICO® Scores.

FICO® 8 Scores feature the same "look and feel" as FICO® Scores, including:

- The same 300–850® score range
- The same score reason codes
- The same minimum scoring requirements
- The same loan shopping inquiry treatment
- The same consistent score-to-risk alignment as prior versions

You gain improved performance—without the expense and the resource demands of a long implementation period.

» Realize benefits across your portfolio

The new FICO® Scores will give you improved prediction across the customer lifecycle:

Marketing: The quality of the applicants you attract can affect your bottom line for years to come. Using a refined risk tool to drive more targeted campaigns can result in significant cost savings and increased revenues.

Originations: The decisions you make at originations—whether to approve the account, for which products and at what price—affect more than 80% of the measurable risk over the lifetime of an account. Improved risk assessment through FICO® 8 Scores, when used with other underwriting guidelines (such as loan-to-value, debt-to-income or product terms), can help you approve more loans without increasing risk.

Customer management: Building a rewarding relationship is an ongoing project. Cross-selling. Early collection efforts or loan remediation. Loyalty programs. All these are areas in which FICO® Scores can help improve revenues, reduce delinquencies and build quality relationships.

» Working with lenders to educate consumers

Consumers who understand how to use credit responsibly make for stronger, more stable portfolios for individual lenders and the industry. That's why FICO works proactively to help consumers become more credit-savvy. Our myFICO.com website has educational articles and other programs designed to give consumers the information they need.

Setting the risk industry standard

- US and Canadian businesses have used more than 100 billion FICO® Scores to make smarter decisions about customers and prospects
- 91 of the largest 100 US financial institutions use FICO Scores
- More than 80% of the largest Canadian lenders use FICO Scores
- 75%+ of US residential mortgage originations use FICO Scores
- 95% of US adults over 17 can receive accurate, objective risk assessment when lenders combine the FICO Score and the FICO® Expansion® Score

» Improving model performance

The FICO® 8 Score reflects our 20-year commitment to keeping pace with changes in lender reporting practices, new products and marketing approaches, and consumer behavior and economic conditions, as reflected in credit bureau information. Our analysts continuously work to identify key predictive elements that significantly enhance the FICO® Score.

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

[1] *For 3rd party collection accounts only; does not pertain to a lender's own collection activity.*

[2] *Lenders are encouraged to work with their Legal and Compliance departments to understand what steps are required to evaluate spousal authorized user information to ensure ECOA Regulation B compliance when using the FICO® 8 Score.*

[3] *Relative to current FICO Scores on development data.*

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