

*Algorithmic Credit Scoring and FICO's Role in Developing Accurate, Unbiased, and Fair Credit Scoring Models*

Published September 2021

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**Summary**

- The FICO® Score considers only neutral, objective factors predictive of credit performance based on a consumer's credit bureau file, and the model is free of both proxy bias and prediction bias, resulting in a "credit score that is both objective and more accurate."
- The introduction of the FICO Score to consumer lending markets helped expand access to credit to more consumers by reducing the risks that subjective biases in manual underwriting could adversely affect a lending decision.
- Comparing the FICO Score to emerging Machine Learning (ML) advances, in the context of credit scoring, many current ML techniques surface opacity and unfair lending concerns which are not present in the FICO Score.

**Key highlights**

- Since the release of the first FICO Score in 1989, FICO has, "further **expanded consumer credit access by increasing model accuracy** through the extraction of new insights from traditional Credit Reporting Agency (CRA) data and consideration of the evolution in data trends and changes in consumer loan products."
- "FICO, as the developer of a generally applicable consumer credit score has built **a score that is based on neutral objective factors** that are predictive of consumer credit performance, does not contain any variables that proxy for protected groups, and is **not biased against protected groups** whose score distribution skews lower than the overall population."
- FICO's "testing confirmed that – comparing persons with the same likelihood of repayment/default – **the model was not scoring individuals in these protected groups lower** than individuals in the population as a whole."
- "FICO places a very high importance on the **transparency, explainability, and palatability** of the FICO Score, consistent with laws applicable to credit decisions and credit scoring and with FICO's commitment to educating consumers about their credit scores."
- "FICO's use of ML to identify predictive variables during model design is an appropriate approach in the credit scoring context. This **"human-in-the-loop" approach captures some of the benefits of machine learning without the fair lending and lack of transparency risks** presented by some newer ML models for credit scoring."
- "FICO **fully supports using reliable alternative data** in the credit scoring context when traditional scorecard modeling techniques are used and has developed FICO® Score XD and UltraFICO® Score which consider alternative data sources to help expand credit access to consumers who cannot be scored using traditional CRA data alone."

**Authors**

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