Fair Isaac Risk Scores

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Understanding FICO Scores

LandSafe®
Real Estate Closing Services

Predictive Variables

Once consumers are classified according to their performance, Fair Isaac evaluates the raw data in the consumer's credit files as of the scoring date. Individual pieces of information that describe the credit file are evaluated to isolate those pieces of information that are predictive of future good or bad credit performance. These pieces of information are called predictive variables.

The predictive variables, or characteristics, include the same types of characteristics that a mortgage underwriter would evaluate. Over 100 predictive variables are evaluated during the development (or redevelopment) of each of the Fair Isaac Corporation (FICO) credit bureau scorecards. The scoring systems residing with each repository contain approximately 33 variables found to be the most predictive in combination.

Credit risk scores are based on five (5) main categories of credit information. These are, in order from most to least important:

1. Payment History
2. Outstanding Debt
3. Length of Credit History
4. New Credit
5. Types of Credit in Use

Familiarity with the variables of a credit bureau report will help a person find the crucial data. The following pages contain a comprehensive list of the predictive variables used to determine a consumer's risk.

1. Payment History

APPROXIMATELY 35% OF THE SCORE IS BASED ON THIS CATEGORY

Payment information on many types of accounts. These will include credit cards (e.g., Visa, MasterCard, and American Express), retail accounts (e.g., department store credit cards), installment loans (loans with regular payments, such as car loans), finance company accounts and mortgage loans.

Public record and collection items. Reports events such as bankruptcies, judgments, suits, liens, wage attachments and collection items. These are considered quite serious, although older items will count less than more recent ones.

Details on late or missed payments and public record and collection items. Specifically how late they were, how much was owed, how recently they occurred and how many there are. A 30-day late payment is not as risky as a 90-day late payment, in and of itself. But recency and frequency count too. A 30-day late payment made just a month ago will count more than a 90-day late payment from five years ago.

Note: Closing an account on which there was a previously missed payment does not make the late payment disappear from a credit report.

Accounts showing no late payments. A good track record on most credit accounts will increase the credit score.

2. Amounts Owed

APPROXIMATELY 30% OF THE SCORE IS BASED ON THIS CATEGORY

The amount owed on all accounts. Even if credit cards are paid off in full every month, the credit report may show a balance on those cards. The total balance on the last statement is generally the amount that will show in the credit report.

The amount owed on all accounts and on different types of accounts. In addition to the overall amount owed, the score considers the amount owed on specific types of accounts, such as credit cards and installment loans.

A balance on certain types of accounts. In some cases, having a very small balance without missing a payment shows that a person has managed credit responsibly, and may be slightly better than no balance at all. On the other hand, closing unused credit accounts that show zero balances and that are in good standing will not generally raise the score.

How many accounts have balances. A large number can indicate higher risk of overextension.

How much of the total credit line is being used on credit cards and other 1"revolving credit" accounts. Someone close to "maxing out" on many credit cards may have trouble making payments in the future.

How much of installment loan accounts is still owed, compared with the original loan amounts. For example, if a person borrowed $10,000 to buy a car and paid back $2,000, he or she would owe (with interest) more than 80% of the original loan. Paying down installment loans is a good sign that a person is able and willing to manage and repay debt

3. Length of Credit History

APPROXIMATELY 15% OF THE SCORE IS BASED ON THIS CATEGORY

How long the credit accounts have been established, in general. The score considers both the age of the oldest account and an average age of all accounts.

How long specific credit accounts have been established.

How long it has been since certain accounts were used.

4. New Credit

APPROXIMATELY 10% OF THE SCORE IS BASED ON THIS CATEGORY

Number of new accounts. The score looks at how many new accounts there are by type of account.

How long it has been since a new account was opened. Again, the score looks at this by type of account.

How many recent requests for credit have been made, as indicated by inquiries to the credit reporting agencies. If a consumer orders a copy of his/her credit report through a credit reporting agency — such as to check it for accuracy — the score is not impacted. This is considered a "consumer-initiated inquiry," not an indication that new credit is being considered. Also, the score is not impacted when a creditor requests a credit report to "pre-approve" a credit offer or to review an account held with them.

Length of time since credit report inquiries were made by creditors.

If a person has good recent credit history, following past payment problems. Reestablishing credit and making payments on time after a period of late payment behavior will help to raise a score over time.

5. Types of Credit in Use

APPROXIMATELY 10% OF THE SCORE IS BASED ON THIS CATEGORY

Number of new accounts. The score looks at how many new accounts there are by type of account, the kinds of credit accounts included in the file and how many of each. The score also looks at the total number of accounts. The way credit profiles define how many is too many will vary.

Inquiries

An inquiry is a notation on the credit report that shows that a lender asked to view a consumer's report. It states who asked for the copy and when they received it.

Careful study has shown that inquiries are an indicator of credit risk. The more inquiries that appear on a borrower's credit file, the more likely a borrower may be to not pay his or her bills as agreed. However, inquiries have a relatively small impact on the credit score.

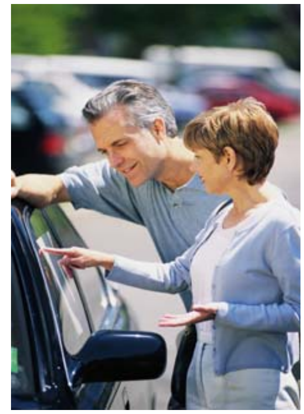
Inquiries fall into two categories as describe below:

Consumer Inquiries	Fair Isaac risk scoring software only considers inquiries initiated by the consumer for business purposes. Examples of this type of inquiry include: ▪ Mortgage applications ▪ Credit card applications ▪ Loan applications (automobile or otherwise) When a consumer requests a copy of his/her credit report, it is not considered in the score.
Other Inquiries	Inquiries initiated by others, which are not considered in a score, include: ▪ Employment inquiries ▪ Promotional inquiries: made by creditors who wish to make the consumer an offer of credit, which the consumer did not request ▪ Account management inquiries: made by companies with which the consumer already has credit

Fair Isaac's risk scoring software takes the appropriate steps to make sure a score is not lowered because of multiple inquiries that might occur as a result of shopping for the best terms in an auto or home loan (see De-dupe Logic on next page).

De-Dupe Logic

The purpose of the de-dupe logic is to group "like" inquiries so that consumers can shop for one type of product and have numerous reports pulled without penalizing their credit score.



For example, a consumer may spend the weekend shopping for a car. If he/she visits three different dealerships, each dealership may pull a credit report to pre-qualify him/her. Since this is normal practice, Fair Isaac has developed this logic to accommodate this practice and prevent the consumer's score from being negatively impacted.

Credit risk score models observe inquiries over a 12-month period. Provided the inquiries are coded correctly, auto and mortgage-related inquiries that occur 30 days prior to scoring have no effect on the score. This 30-day period is referred to as the 30-day buffer. Outside this 30-day buffer, auto and mortgage-related inquiries that occur within any 14-day period are treated as a single inquiry under the 14-day de-dupe logic.

Here is an example of how De-dupe Logic works:

< < < < < < < < < < < < < < < < < 12-month period < < < < < < < < < < < < < < <				Score Date 12/20/99
#	**Inquiry Type**	**Logic Applied**	**Days from Score Date**	**Date of Inquiry**
1	Mortgage	Impacts consumer's score	0	12/20/99
2	Mortgage	Falls within the **30-day buffer**—inquiry ignored	8	12/12/99
3	Mortgage	Falls within the **30-day buffer**—inquiry ignored	9	12/11/99
4	Mortgage	Falls within the **30-day buffer**—inquiry ignored	17	12/03/99
5	Mortgage	Counted as an inquiry—outside of 30-day buffer	56	10/26/99
6	Mortgage	Falls within **14 days** of #5—inquiry ignored	65	10/17/99
7	Dept Store	Counted as an inquiry—not mortgage or auto	68	10/14/99

30-Day Buffer	Auto and mortgage-related inquiries that occur 30 days prior to scoring have no effect on the score
14-Day De-dupe	Auto and mortgage-related inquiries that occur within any 14-day period are treated as a single inquiry under the 14-day de-dupe.

Absence of a Credit Score

Not every credit file qualifies to receive a credit score. There are minimum scoring requirements to ensure that scores are delivered as accurate as possible.

There are several reasons why a credit score might not appear on a credit report, including:

- The consumer has not had any activity on open accounts in the past six months
- The consumer has insufficient credit history to calculate a score--new credit or not enough established credit. Generally, two years of credit history is needed to obtain a score.
- The parameters of the file are too large--the file contains more than 100 trade lines and inquiries combined
- Incomplete data was entered to access a report (e.g., generation code or middle initial required by credit bureau to provide file and score)
- The consumer has been reported to the credit bureaus as having died.
- The consumer reported being a victim of fraud
- The consumer has an additional unmerged credit file with any of the three credit reporting agencies
- Incomplete residence history was entered to access a credit report (2-year minimum required)

Reason Codes/Risk Factor

There are many factors that are considered when a credit score is calculated. Risk factors represent the areas in which the consumer lost the highest number of points on the total score.

Risk factors are listed in the order of significance on the credit report. Up to four "reason codes" will be reported on a credit report. These reason codes indicate the areas where a consumer could improve their score over time. It's important to note that in cases of 'good' scores, the consumer may not need or want to take any action.

The numbers on the following chart represent the reason codes, as received from a bureau, and describes generally what each code means. The reason explanations tie to the information found on the Notice of Action Taken form published by the Federal Reserve Board, who has oversight responsibility for ECOA.

RISK FACTOR REASON CODES

Equifax	TU	TRW		
Beacon	**Empirica**	**Alpha**	**Num**	**REASON**
01	01	A	01	Amount owed on account is too high
02	02	B	02	Delinquency on accounts
03	N/A	C	03	Too few bank revolving accounts
04	N/A	D	04	Too many bank or national revolving accounts
05	05	E	05	Too many accounts with balances
06	06	F	06	Consumer finance accounts
07	07	G	07	Account payment history too new to rate
08	08	H	08	Too many inquiries in the last 12 months
09	09	J	09	Too many accounts opened in last 12 months
10	10	K	10	Proportion of balances to credit limits too high on bank revolving or other revolving accounts
11	11	L	11	Amount owed on revolving accounts too high
12	12	M	12	Length of revolving credit history is too short
13	13	N	13	Time since delinquency too recent or unknown
14	14	O	14	Length of credit history too short
15	15	P	15	Lack of recent bank revolving information
16	16	Q	16	Lack of recent revolving account information
17	17	R	17	No recent non-mortgage balance information
18	18	S	18	Number of accounts with delinquencies
19	27	T	19	Too few accounts currently paid as agreed
20	20	V	20	Time since derogatory public record or collection
21	21	W	21	Amount past due on accounts
22	22	X	22	Serious delinquency, derogatory public record or collection filed
23	N/A	N/A	N/A	Too many bank or national revolving accts with balances
24	24	U	24	No recent revolving balances
33	03	I	33	Proportion of loan balances to loan amounts is too high
32	4	Y	32	Lack of recent installment loan information
N/A	19	N/A	N/A	Date of last inquiry too recent
30	30	Z	30	Time since most recent account opening is too short
26*	N/A	N/A	26*	Number of revolving accounts
N/A	26*	N/A	N/A	Number of bank revolving or other revolving accounts
N/A	N/A	N/A	N/A	Number of retail accounts
28	28	N/A	28*	Number of established accounts
N/A	29	N/A	N/A	No recent bankcard balances
31	N/A	N/A	31*	Too few accounts with recent payment information
N/A	N/A	N/A	N/A	Payments due on accounts (for BEACON-BK only)
32	N/A	N/A	32	No recent installment loan information
33	N/A	N/A	33	Proportion of current loan balance original loan amount
34	N/A	N/A	34	Amount owed on delinquent accounts
35	N/A	N/A	35	Number of inquiries within the last 6 months
36	N/A	N/A	36	Length of time open installment loans have been established
37	N/A	N/A	37	Number of finance company accounts established relative to length of the finance history
38	N/A	N/A	38	Serious delinquency and public record or collection filed
39	N/A	N/A	39	Serious delinquency
40	N/A	N/A	40	Adverse public record or collection data

** Applicable to industry options only (e.g., mortgage banking, auto lending, etc.)*

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