FICO® NextGen Risk Scores

scoring

Take advantage of a break-through in risk assessment

FICO® NextGen scores are designed to give lenders improved credit risk assessment over FICO® scores in marketing, originations and account management. FICO research indicates that in a variety of industries, credit grantors can lower bad rates between 10% and 25%, or increase approval rates up to 5% or more by using FICO® NextGen Scores. This can translate to increased profits of up to $10 per new account scored, and even more in some industries.

Improvements translate to bottom-line benefits

	FICO® scores	FICO® NextGen scores	% change
% Above cutoff	68.0%	71.0%	4.4%
	% of Approved		
Goods	87.5%	87.5%	0 %
Bads (90+ days or worse)	2.7%	2.4%	-11.1%
Charge-off or worse	2.2%	1.9%	-13.6%
Bankrupts	1.5%	1.3%	-13.3%

FICO research suggests that a bankcard issuer using FICO® NextGen risk scores in lieu of FICO® risk scores—at a score cutoff around 680—could increase the number of accounts scoring above the score cutoff, while still decreasing the bad rate by up to 11% and the number of charge-offs and bankrupts by up to 13%. Assuming $175 revenue per "good" account over 18 months and a $3,500 loss for each charge-off or bankrupt account, the bankcard issuer could see increased profits of more than $9 per account scored.

» "Best-in-class" risk assessment

FICO has undertaken a major challenge, and succeeded. With its FICO® NextGen score, FICO has taken the predictive power of the industry-standard score to an entirely new level.

Using the latest advances in predictive technology, deep analyst insight and capitalizing on extensive consumer credit reporting agency (CRA) data, FICO developed an entirely new design blueprint for our next-generation credit reporting agency risk scores. The result is sharper evaluation across the entire risk spectrum. FICO® NextGen scores are available for improved predictive power.

» Improvements you can measure

FICO® NextGen risk scores offer more refined risk assessment for multiple portfolio types and population segments, compared with other credit reporting agency risk scores. We tested and compared these scores to our classic FICO® risk scores on millions of credit records, and found improvements for:

- **Overall performance across all industries.** The FICO® NextGen risk scores showed a 20%–25% improvement over the classic risk scores in the number of future "bad" accounts scoring below a given score cutoff.
- **Subprime market.** Among a subprime population—credit files with prior serious delinquencies or charge-offs—a lender using the FICO® NextGen risk scores in lieu of the classic risk scores could increase the number of approved loans by 6%–10%, while still lowering losses.
- **Heavy credit users.** Among the lowest-scoring 10% of consumers with revolving bank-card balances of $3,000 or more, the FICO® NextGen risk scores identified 23% more future bad payers than the classic scores.
- **Multiple portfolio types.** By switching from classic FICO® scores to FICO® NextGen risk scores, a decrease in bad rates of up to 20% is possible for lenders in various industries, including bankcard, auto, mortgage, retail and personal finance.

» Next-generation designed blueprint

Our analytic staff's unparalleled expertise in analyzing CRA data has resulted in the most powerful credit reporting agency risk scores on the market.

FICO analytic experts used automated search technologies and data analysis techniques to tease out subtle, previously undetected, risk patterns in the CRA data.

The primary design innovations are:

1. Multi-dimensional "mini-models" that capture key interactions in the data.
FICO researchers expanded their use of interaction modeling, adding many multi-dimensional predictive variables—or mini-models—to the FICO® NextGen score risk models. There are now more than 80 predictive variables behind the FICO® NextGen scores—nearly twice the number used for the classic FICO® risk scores. The FICO® NextGen score mini-models evaluate the relationship between credit events to reveal more of the risk pattern in a consumer's behavior. For example, a mini-model can examine both the presence of recently opened trade lines and the delinquency history on these new accounts to yield more predictive value.

2. Expanded segmentation of consumers across a broader risk spectrum.
The FICO® NextGen score risk models divide consumers into more segments. There are now 18 separate scoring models, versus 10 for the classic risk scores. The FICO® NextGen score model moves well beyond the segmentation scheme used in the classic risk scores to analyze the degree of delinquency history along with more conventional segmentation variables.

In other words, FICO® NextGen score separately evaluates consumers according to those with very clean credit histories, those with mild forms of prior delinquency and those with more severe derogatory information. This expanded segmentation enables the use of predictive variables that tease out subtle differences in risk profiles for each segment.

3. Differentiation between degrees of future payment performance.
In developing any score, the performance outcome classification is crucial—in this case, the definition of "satisfactory" and "unsatisfactory" credit obligations. This determines what kind of future performance the scores will actually assess.

For our classic risk scores, consumers are classified as "good" or "bad" payers based on their worst delinquency or derogatory status on any credit obligation in the two years after the scoring date. That is, a consumer who went seriously delinquent on 2 out of 10 accounts would be classified as "bad" and so would a consumer who went delinquent on all 10 trades.

In FICO® NextGen risk score development, consumers were classified by the degree of positive or negative performance across all credit obligations. For example, a consumer who went delinquent on 2 out of 10 trades would be classified differently than another who went delinquent on all 10 trades.

» Consistent scaling for easier adoption

To make our FICO® NextGen risk scores easier to adopt, we've calibrated the models to the same odds-to-score relationship observed with the classic risk scores. This means that for a given score range, expected odds for the FICO® NextGen risk scores should be similar to those for the classic FICO® scores. As with the classic risk scores, up to five score reason codes (four reason codes plus one Facta) will be delivered with every score.

FICO® NextGen scores are currently available through Equifax (Pinnacle℠ score), TransUnion (Risk Score, NextGen score), and Experian (the Experian/ FICO® Advanced Risk Model Score) and through the FICO® PreScore® Service and FICO® Score Delivery.

» NextGen score and Basel II compliance

FICO believes the FICO® NextGen score plays an important role in meeting regulatory compliance standards, including Basel II compliance. The FICO® NextGen score provides a standardized risk assessment measure that can be used in calculating probability of default. FICO's Professional Services staff can help you address Basel and regulatory compliance.

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