Product sheet

FICO® Resilience Index

FICO® Resilience Index can help financial institutions more precisely predict a borrower's resilience during periods of economic disruptions or volatility. This allows financial institutions to discover and manage potential latent risk within groups of consumers bearing similar FICO® Scores, without cutting off access to credit for resilient consumers. FICO Resilience Index leverages traditional consumer credit data and is designed to rank-order consumers by their sensitivity to a future economic downturn, offering a simple, powerful complement to the FICO Score for an array of use cases.

Lenders can benefit by using FICO® Resilience Index to:

- Better prepare for cyclical downturns
- Assess loan portfolio vulnerability more accurately
- Refine credit marketing and origination strategies
- Improve stress testing outcomes
- Better estimate loss allowances
- Integrate easily with existing FICO® Score processes

New analytics to capture consumer credit risk linked to unexpected economic stress

In the face of severe financial stress, such as that brought about by an economic downturn, lenders seeking to reduce credit risk exposure often resort to tactics executed at the portfolio level, such as raising credit score cutoffs for new loans or dramatically reducing credit limits on existing accounts.

While they can be effective in reducing overall exposure, such tactics can hurt profitable relationships with current customers and seriously curtail new account growth. What if lenders were able to factor consumer-level risk adjustments into such decisions rather than using coarser levers? What if lenders could tune their portfolio throughout economic cycles so they don't have to rely on dramatic measures when a downturn materializes?

Higher-resilience consumers tend to have:

- Fewer credit inquiries in the last year
- Fewer active accounts
- Lower total revolving balances
- More experience managing credit

FICO® Resilience Index is designed to rank-order consumers with respect to their resilience or sensitivity to an economic downturn. Even within a narrow FICO® Score band — for example, near the common FICO Score cutoff of 680 — a range of so-called "stress sensitivity" can be observed.

FICO® Resilience Index can provide insights, such as which 680s are more likely to go seriously delinquent when economic stress is exerted on a consumer population — giving lenders a new tool to use and potentially avoid taking broad measures that unnecessarily impact consumers who are less sensitive or more "resilient."

Figure 1 on the next page shows how FICO® Resilience Index would have differentiated consumer credit risk within narrow FICO® Score bands for bankcard accounts open and active as of October 2007, at the start of the Great Recession. Based on a large randomized national sample, the October 2009 performance results showed that

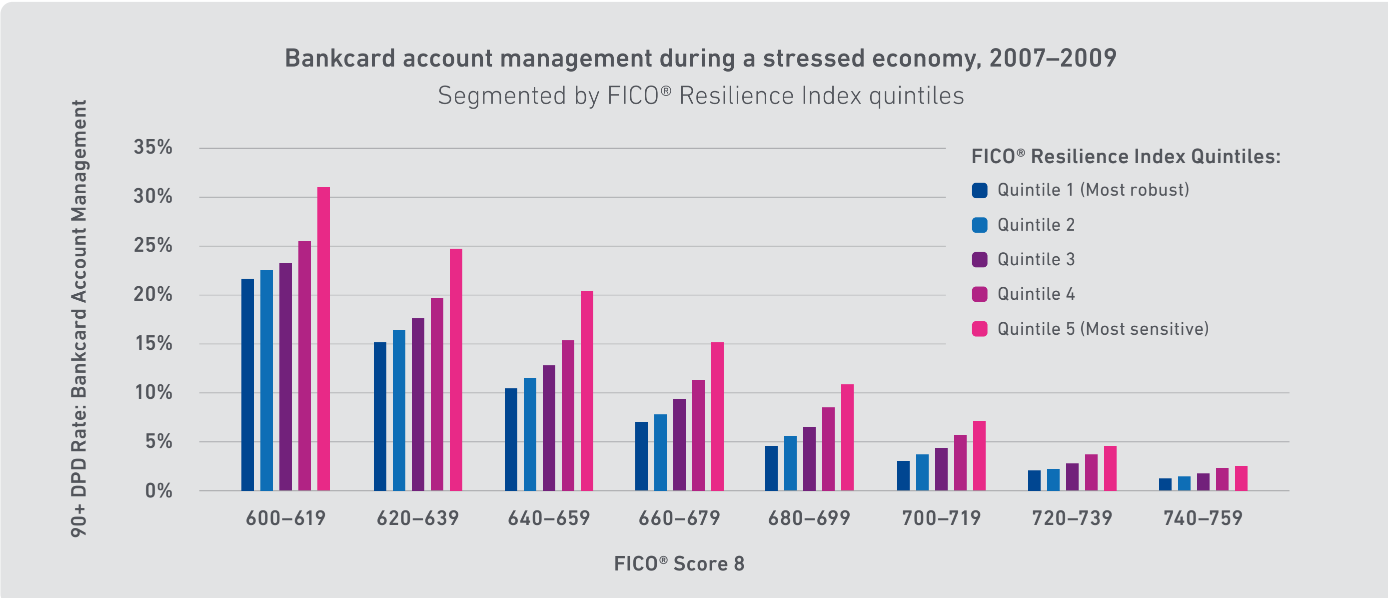

Figure 1: FICO® Resilience Index provides strong additional credit risk rank-ordering in recessionary environments. During unstressed periods, serious delinquency rates within FICO® Score bands are expected to be relatively homogeneous.

consumers with the highest 20% of FICO Resilience Index values (least resilient quintile) had significantly higher 90+ days past due rates compared to consumers in the lowest 20% FICO Resilience Index value range (most resilient quintile). A lender with FICO Resilience Index in their analytic arsenal might have continued to offer periodic credit line increases to consumers in the lower quintiles while maintaining or proactively reducing credit limits for those in the top quintile, avoiding losses and reducing volatility.

Paired with the FICO® Score for better decisions, better portfolio management

FICO® Resilience Index can be used by lenders as another input in credit decisions and account strategies across the credit life cycle. It can be delivered with a credit file, along with the FICO® Score. It's scaled from 1 to 99 — with lower values representing greater resilience to economic stress — and delivered with up to five reason codes that help lenders better understand FICO Resilience Index output as well as support adverse action communication, if necessary. Some lenders may use FICO Resilience Index in conjunction with the FICO Score, i.e., in a dual score matrix or as an additional decision key. Other lenders may choose to use FICO Resilience Index to generate an adjusted FICO Score — with adjustment factors tuned to the lender's view of macroeconomic forecasts.

FICO® Resilience Index Version 1.0 is most effective for account management and may be used selectively for account origination, particularly personal installment loans and mortgage lending.

FICO® Resilience Index is also conducive to portfolio stress testing and can be used as an element to better understand and estimate the impact of increased economic stress on portfolio performance. As lenders better understand FICO Resilience Index relevant to their own portfolio, this metric can be used to fine-tune portfolio structure over time to be more resilient in the face of impending economic stress.

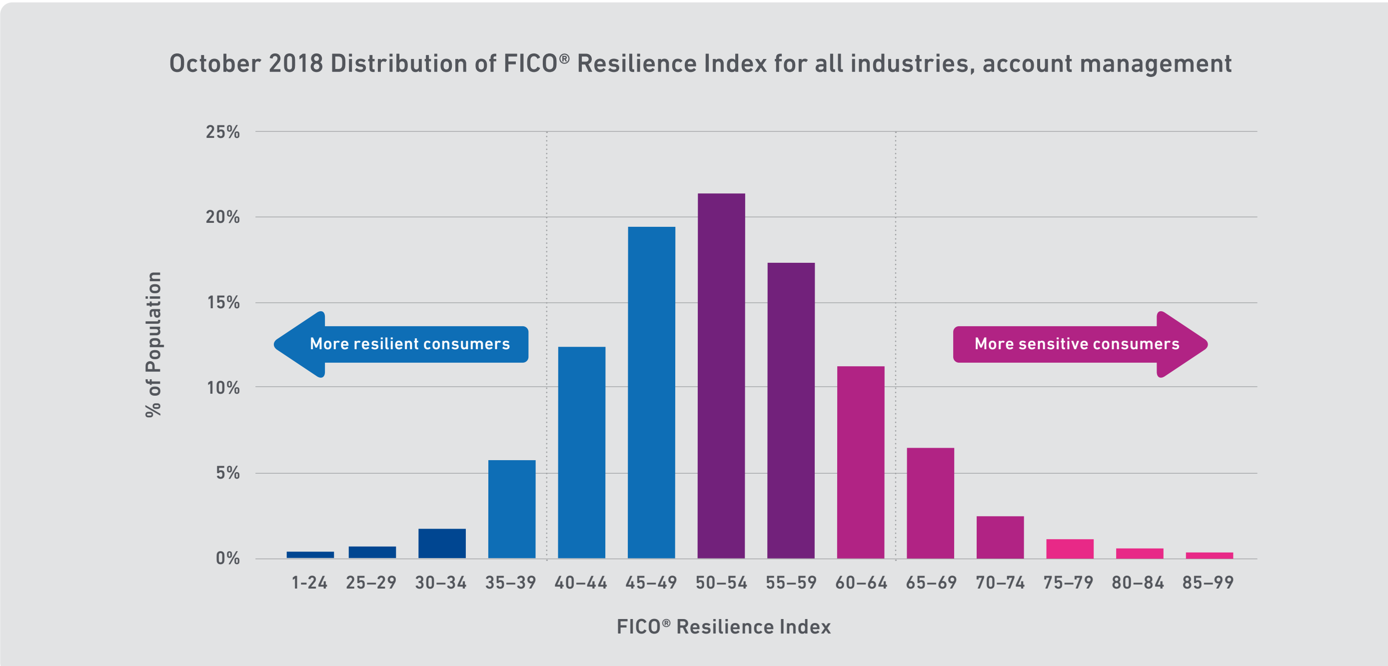

Figure 2: FICO® Resilience Index rank-orders consumers by their sensitivity to severe economic stress, with lower values representing greater resilience (or lower sensitivity).

A new view of loan asset health for lenders, investors and regulators

As investors in asset-backed securities begin to appreciate the additional risk insights FICO® Resilience Index can provide, lenders may find that more resilient portfolios are valued at a premium over portfolios with a less resilient mix of loans.

The performance differentials captured by Figure 3 on the next page sharply illustrate how identifying latent pools of risk in a portfolio can matter, particularly if a lender or investor seeks to model or prepare for adverse or severely adverse economic scenarios.

Building more resilient loan portfolios may additionally improve lender balance sheets before a downturn by lowering loss reserve requirements following more favorable stress testing outcomes.

Start building resilience today for tomorrow's economic uncertainty

No matter what factors lead to an economic or credit contraction, downturns can result in unemployment and other unexpected stressors, affecting consumers' ability or willingness to repay.

FICO® Resilience Index is available today and can be added to lenders' current FICO® Score processes as a simple extension to existing online and batch processes.

Management lenders can get started by validating the performance of FICO® Resilience Index for a portfolio active or originated during the Great Recession, or another period of observed economic stress in a target portfolio. With meaningful evidence in hand that FICO Resilience Index will predict differentiation in future economic downturns, financial institutions can begin to better prepare for and reduce the financial volatility associated with economic disruptions — by making FICO Resilience Index a key part of their resilience-building strategies.

	20% most resilient at FICO® Score* 680	20% most sensitive at FICO® Score* 680
Normal economy 90+ DPD Rate	4.3%	4.4%
Great Recession 90+ DPD Rate	6.3%	13.3%

*FICO® Score 9, All Industries, Account Management

Figure 3: FICO compared the average serious delinquency rate for consumers with a FICO® Score near 680 in a stable economy (2013–2015) compared to the steep downturn of 2007–2009. While the 20% most sensitive consumers had over double the serious delinquency rate compared to the stable economy, the 20% most resilient had only a slightly elevated serious delinquency rate.

Why use FICO® Resilience Index?

- **Better prepare for cyclical downturns**
  FICO® Resilience Index provides insights into consumer resilience under economic stress, giving lenders and investors a new tool to help them manage and reduce financial volatility.
- **Assess loan portfolio vulnerability more accurately**
  FICO® Resilience Index provides an additional way to evaluate the quality and resiliency of portfolios at any point in an economic cycle.
- **Refine credit marketing and origination to reduce risk**
  Lenders can tune their marketing strategies to consider consumer economic sensitivities — for example, offering more favorable terms to attract consumers identified as more resilient to economic stress.
- **Improve stress testing outcomes**
  By actively managing FICO® Resilience Index distributions within their portfolios, lenders may improve capital coverage in severe stress test scenarios required for regulatory stress tests, such as CCAR and DFAST.
- **Better estimate loss allowances**
  Lenders can use FICO® Resilience Index to help them identify potential latent risks within lending portfolios, providing a basis for adjusting future loss estimates under a range of economic scenarios.
- **Integrate easily with existing FICO® Score processes**
  FICO® Resilience Index is available for use in conjunction with the FICO® Score and can be pulled simultaneously as a simple extension to existing batch and online processes.

Consumers with a lower index rating are more resilient. Higher index rating indicates more sensitivity to shifting economic conditions.

More resilient	1–44
Moderate	45–59
Sensitive	60–69
Very sensitive	70–99

About FICO® Scores

Over 30 years ago, the FICO® Score in the United States helped democratize access to credit by providing an unbiased credit risk assessment tool for lenders. FICO and its scoring solutions have been the independent standard for the universal and impartial evaluation of credit risk, trusted by lenders for decades around the world. Today's challenge of bringing billions more consumers into mainstream financial services is just the next chapter in FICO's innovation and intention to facilitate financial empowerment. With more than 30 years' experience in credit risk score development, FICO's analytic development and consulting teams share knowledge and insights from global experience in developing and supporting models in more than 30 countries.

To learn more about FICO® Resilience Index, contact your local Experian® sales representative or call 1 855 339 3990.

Experian
475 Anton Blvd.
Costa Mesa, CA 92626
T: 1 855 339 3990
www.experian.com

04/20 • 1224/3122 • 1233-CIS