Product sheet

FICO® Resilience Index 2

Expand consumer resilience prediction across the credit life cycle

FICO® Resilience Index 2 represents a major advance in FICO's groundbreaking product, empowering financial institutions with more precise insight about a borrower's resilience to future economic disruption. Now with effective use cases spanning the entire consumer credit life cycle and an expanded FICO® Score operating range, FICO Resilience Index 2 is designed to enable more intelligent credit decisions, account management, and portfolio review processes that balance both risk and growth.

FICO® Resilience Index 2 benefits:

- **More predictive —** up to 100% increase in resilience predictive power over previous version.
- **Expanded use cases —** including account origination for bankcard and other lending industries.
- **Broader FICO® Score range —** new 580–850 FICO Score operating range offers improved near-prime and super-prime segment coverage.
- **Demonstrated resilience prediction —** can predict likelihood of consumer payment accommodations, an indicator of financial stress.

Breakthrough analytics capture consumer credit risk linked to economic stress

The FICO® Resilience Index 2 is designed to rank-order consumers with respect to their resilience or sensitivity to an economic downturn. First introduced in late 2019, FICO Resilience Index allows lenders to keep credit flowing during economic downturns and limit their use of traditional tactics to reduce overall risk exposure, such as universally raising credit score cutoffs for new loans or dramatically reducing credit limits on existing accounts.

Equipped with the new capability to factor consumer-level resilience insight into decisions, lenders can better maintain profitable relationships with current customers and continue to grow their account base throughout economic cycles.

Regardless of the state of the economy, FICO® Resilience Index 2 also enables lenders to better simulate the effect of economic stress on their portfolios — for strategic activities, such as regulatory stress testing and loan loss estimations. And lenders can rightsize their account management and early-stage collection strategies for customers experiencing financial stress at any point in the economic cycle with resilience insights gained from FICO Resilience Index 2.

FICO® Resilience Index 2 — a leap forward in account origination performance

FICO® Resilience Index 2 is engineered for stronger resilience rank-ordering in account origination. It features multiple FICO® advancements in consumer-level resilience prediction, including the development and optimized combining of robust industry-specific models. This approach delivers significant performance gains across all use cases, particularly for account origination, with significant resilience rank-ordering improvements ranging from 40% to 130% compared to v1.

Figure 1 shows how FICO® Resilience Index 2 would have differentiated consumer credit risk within narrow FICO® Score bands for bankcard accounts opened around October 2007, at the start of the Great Recession. Based on a large randomized national sample, the October 2009 performance results showed that consumers with the highest 20% of FICO Resilience Index 2 values (least resilient quintile) had significantly higher 90+ days past due rates in October 2009

Bankcard account origination during stressed economy, 2007–2009 segmented by FICO® Resilience Index 2 quintiles

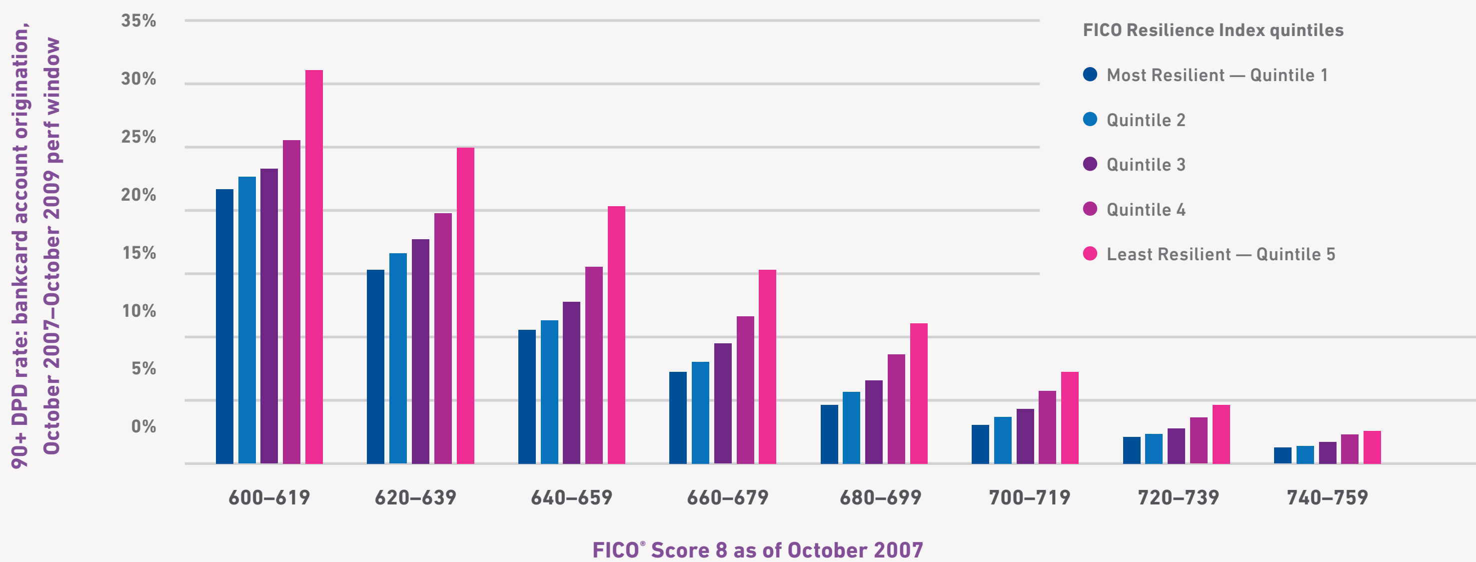


Figure 1: FICO® Resilience Index 2 provides strong additional credit risk rank-ordering within narrow FICO® Score bands in recessionary environments. During unstressed periods, serious delinquency rates within FICO Score bands are expected to be relatively homogeneous.

compared to consumers in the lowest 20% FICO Resilience Index 2 value range (most resilient quintile).

A lender with FICO® Resilience Index 2 in its analytic arsenal would have been better positioned to continue to extend new bankcard offers to consumers in the lower quintiles near its FICO® Score cutoff while limiting offers to those in the top quintile to avoid losses and reduce volatility.

FICO® Resilience Index 2 delivers significant gains in resilience predictive power for account management as well, with rank-ordering improvements during stressed economic periods of up to 80%.

What is resilience?

Even within a narrow FICO® Score band — for example, near the common FICO Score cutoff of 680 — a range of so-called "resilience" or sensitivity to economic stress, such as that brought about by a recession, can be observed. FICO® Resilience Index 2 can provide insights into which 680s are more likely to go seriously delinquent when experiencing economic stress — giving lenders a new tool to use and potentially avoid taking broad measures that impact more "resilient" consumers unnecessarily.

FICO® Resilience Index 2 is scaled from 1 to 99 — with lower values representing greater resilience to economic stress. It can be delivered with a credit file, along with the FICO® Score, and it's delivered with up to five reason codes that help lenders better understand the FICO Resilience Index 2 output as well as support adverse action communication, if necessary. FICO Resilience Index 2 can be used by lenders as another input in credit decisions and account strategies across the credit life cycle.

Higher resilience consumers tend to have

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

Now with expanded FICO® Score operating range, for broader applicability

FICO® Resilience Index 2 is designed to differentiate credit risk within narrow FICO® Score bands — to be paired with the FICO Score in use cases across the credit life cycle. FICO Resilience Index 2 effectively rank-orders consumer resilience across a broader FICO Score spectrum, from 580 to the top FICO Score of 850, extending its applicability in both subprime and super-prime credit segments.

In addition to facilitating new use cases, such as refined pricing and account management strategies in super-prime segments, the expanded FICO® Score operating range of FICO® Resilience Index 2 broadens its applicability for portfolio-level activities, such as stress testing or loss forecasting under stressed scenarios.

Demonstrated efficacy predicting the likelihood of payment accommodations

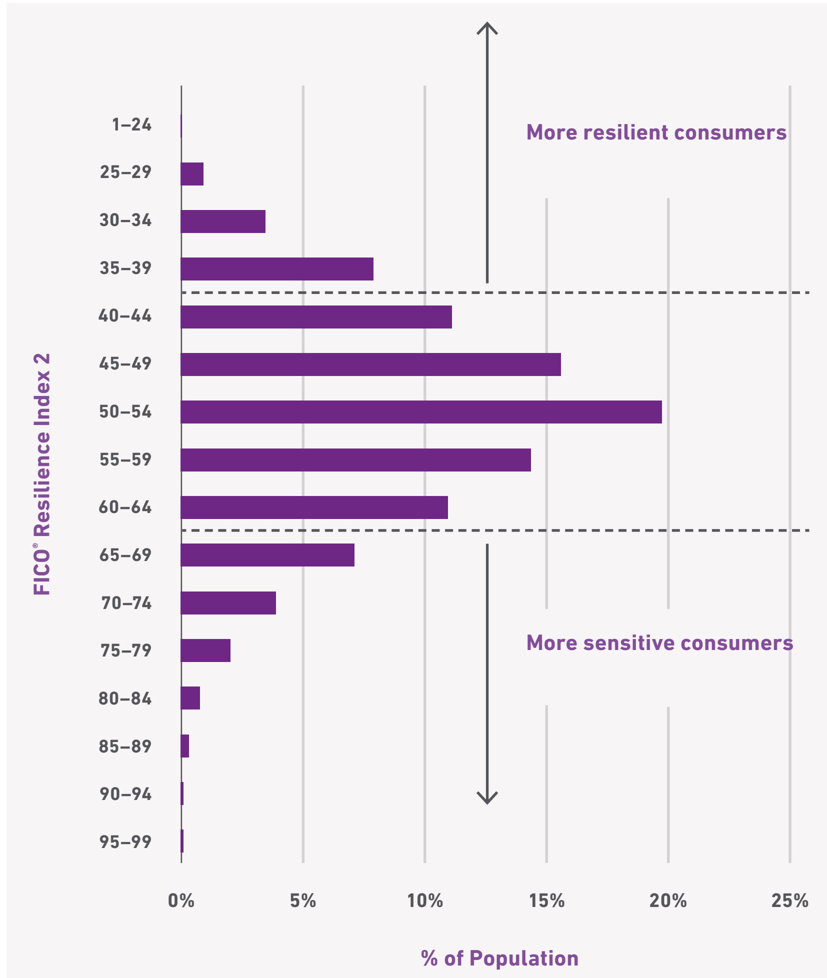
In a downturn such as the 2020 pandemic-driven recession, delinquency reporting can be strongly impacted or suppressed in response to consumer relief from governmental and lender policies. To test the efficacy of FICO® Resilience Index 2 in a downturn with a stress performance measure other than 90+ days past due, FICO® evaluated its ability to predict the likelihood that consumers had some form of payment accommodation or forbearance in the months following the start of the pandemic.

We discovered a strong relationship between FICO® Resilience Index 2 values and the likelihood of payment accommodations, demonstrating reliable rank-ordering within narrow FICO® Score bands. This relationship holds true across the bankcard, auto finance, personal lending and mortgage industries.

Consumer resilience also matters during economic recovery

For consumers in near-prime and subprime FICO® Scores, FICO® research has found that consumer-level resilience as measured by FICO® Resilience Index 2 is predictive of a consumer's recovery from apparent financial setbacks during economic downturns, with "recovery" demonstrated by successfully transitioning from delinquencies on one or more credit obligations to a state of no delinquencies. Maintaining and updating FICO Resilience Index 2 values on account holders at the same cadence as FICO Score updates on their portfolios allows lenders to tailor and prioritize early-stage collection efforts according to customers' current resilience levels.

October 2019 distribution of FICO® Resilience Index 2 for all industries, account management



This distribution captures the FICO® Resilience Index 2 values for a large, randomized national sample of U.S. consumers as of October 2019. Roughly half of the population falls in the "moderate" range, while approximately one-quarter of the population falls in the "resilient" and "sensitive/very sensitive" ranges, respectively.

Build resilience today for tomorrow's economic uncertainty

Portfolio stress-testing and risk management activities, such as estimating loss allowances for various economic scenarios, are required by lenders no matter what the current state of the economy. Understanding the distribution of consumer-level resilience as measured by FICO® Resilience Index 2 across a portfolio allows lenders to enhance stress-testing and tune portfolio structure over time to be more resilient in the face of potential economic stress. Building more resilient loan portfolios may additionally improve lender balance sheets before a downturn by lowering loss reserve requirements.

About FICO® Scores

More than 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.

To learn more about the FICO® Resilience Index 2, contact your Experian Account Executive or call 1 855 339 3990.

FICO® Resilience Index 2 use cases:

Build resilience today for tomorrow's economic uncertainty

FICO® Resilience Index 2 offers lenders a new tool to manage credit risk exposure and reduce financial volatility regardless of economic conditions. It can be used by lenders as another input in credit decisions and account strategies across the credit life cycle.

Decision strategies

- Prescreen
- Underwriting
- Pricing
- Initial line/loan assignment
- Credit line management
- Authorizations
- Early-stage collections
- Staffing planning

Portfolio management

- CCAR, DFAST or internal stress tests
- Expected credit loss forecasting
- Credit loss allowance estimation
- Credit risk capital/RWA calculations
- Risk appetite
- Financial volatility

Secondary market

- Asset valuations
- Debt sales
- Portfolio acquisitions
- Due diligence support
- Securitization
- Mortgage servicing

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

06/21 • 1268-CIS