FICO Score Trends Through the Lens of Auto Lending

Federal Reserve Bank of Philadelphia biennial conference on auto lending

Tommy Lee
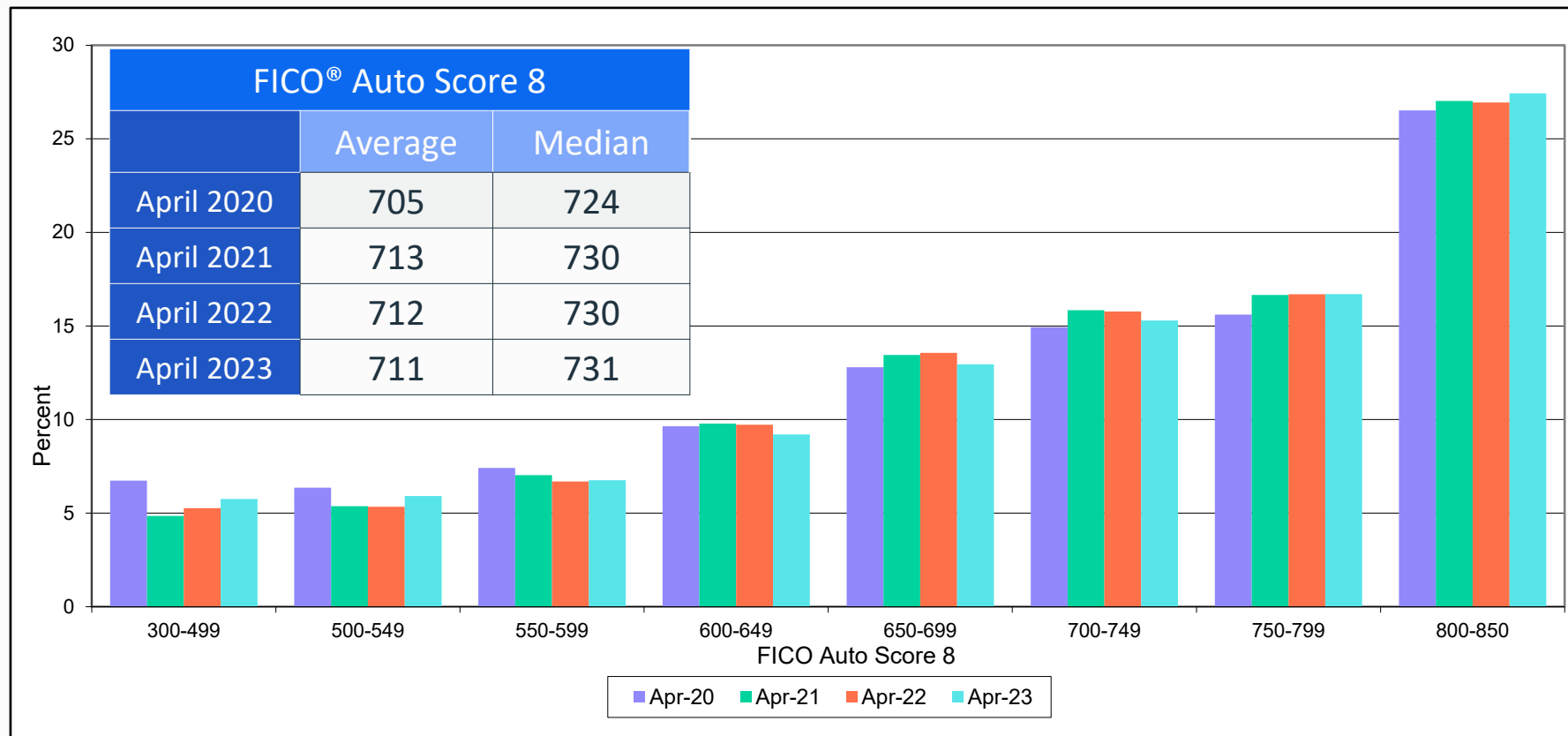Senior Director, FICO Scores and Predictive Analytics

How have consumer credit behaviors shifted since the start of the pandemic?

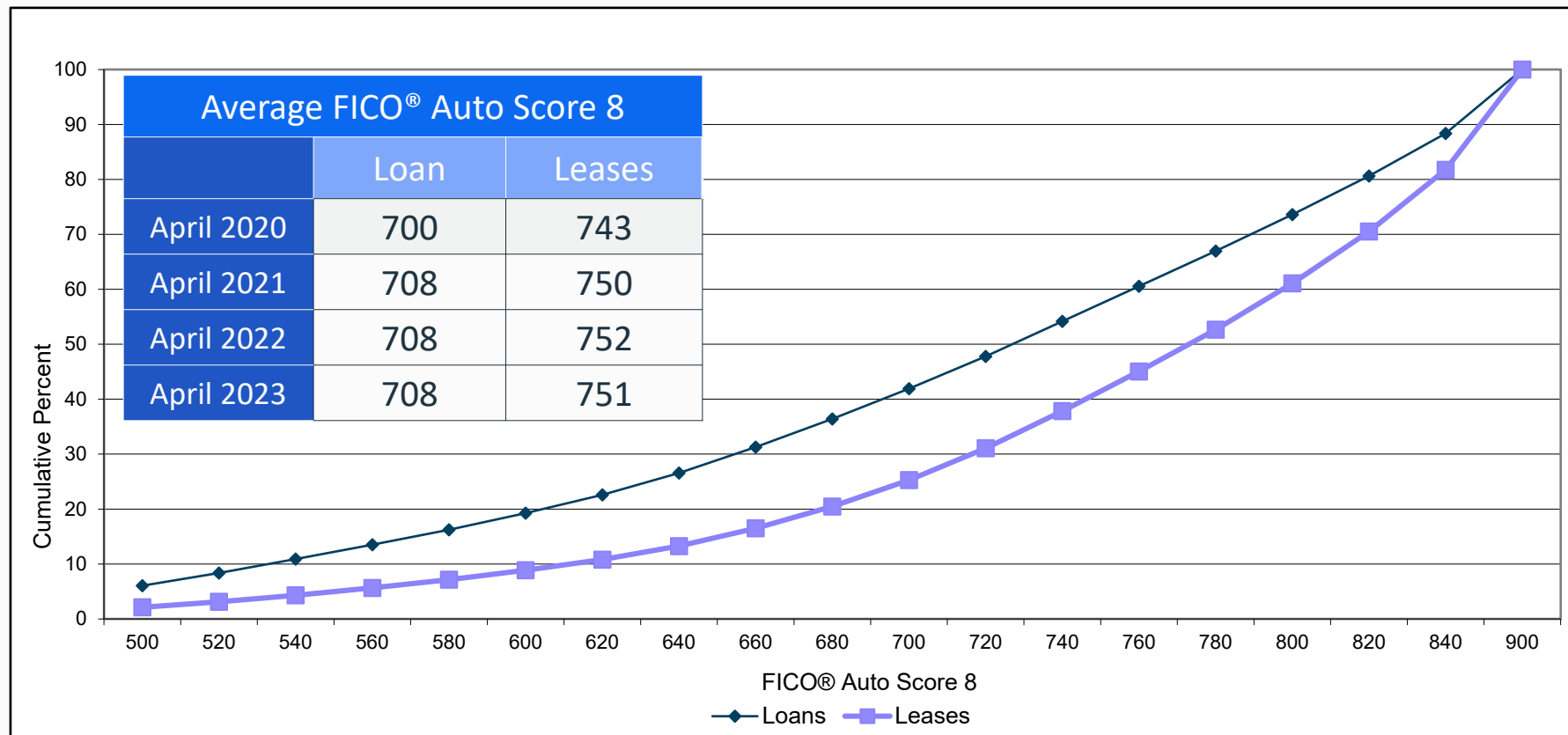Has there been a shift in the score-to-odds relationship?

FICO® Score distributions increased at start of pandemic, stable since 2021

Score distributions for those with active auto loan and/or lease on file

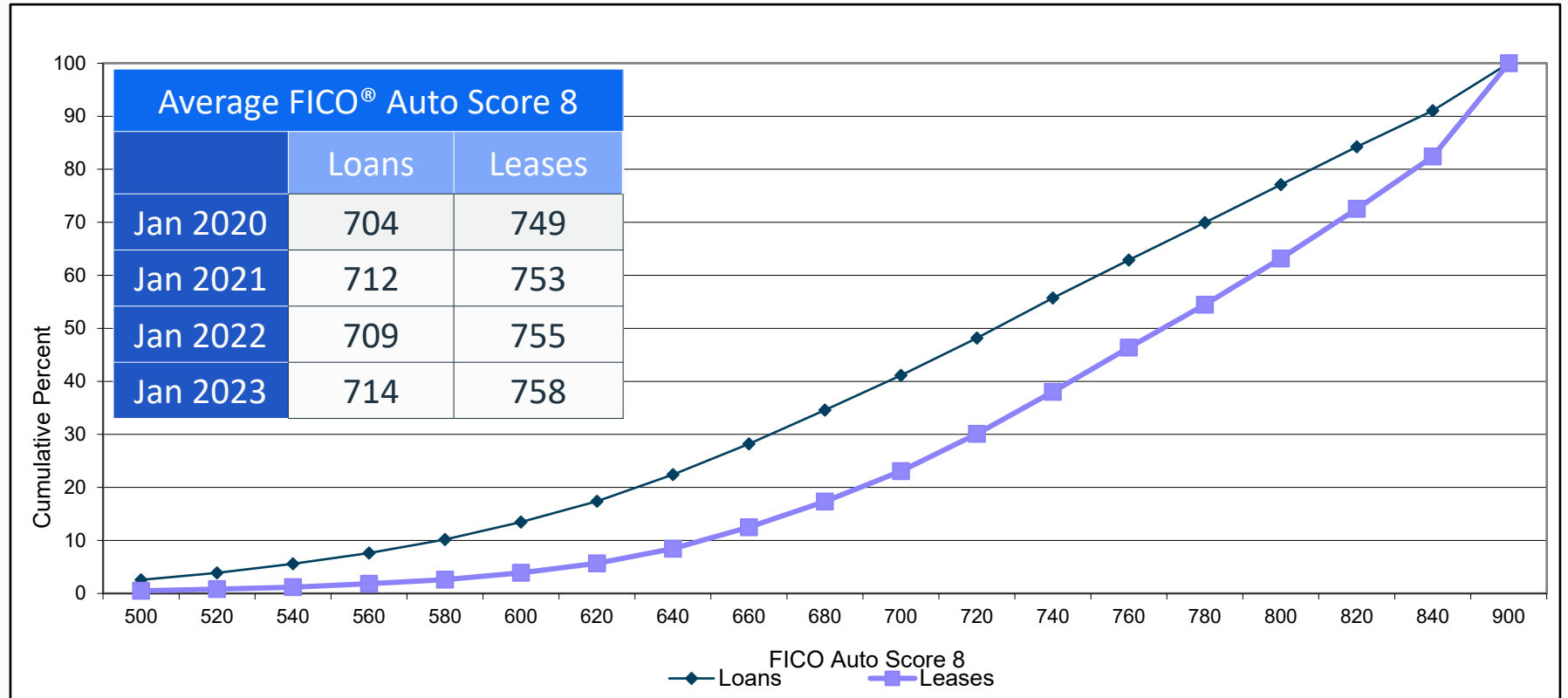| FICO® Auto Score 8		
	Average	Median
April 2020	705	724
April 2021	713	730
April 2022	712	730
April 2023	711	731

Consumers with auto leases are notably higher scoring than those with auto loans

April 2023 score distribution for those with active loan and/or lease on file
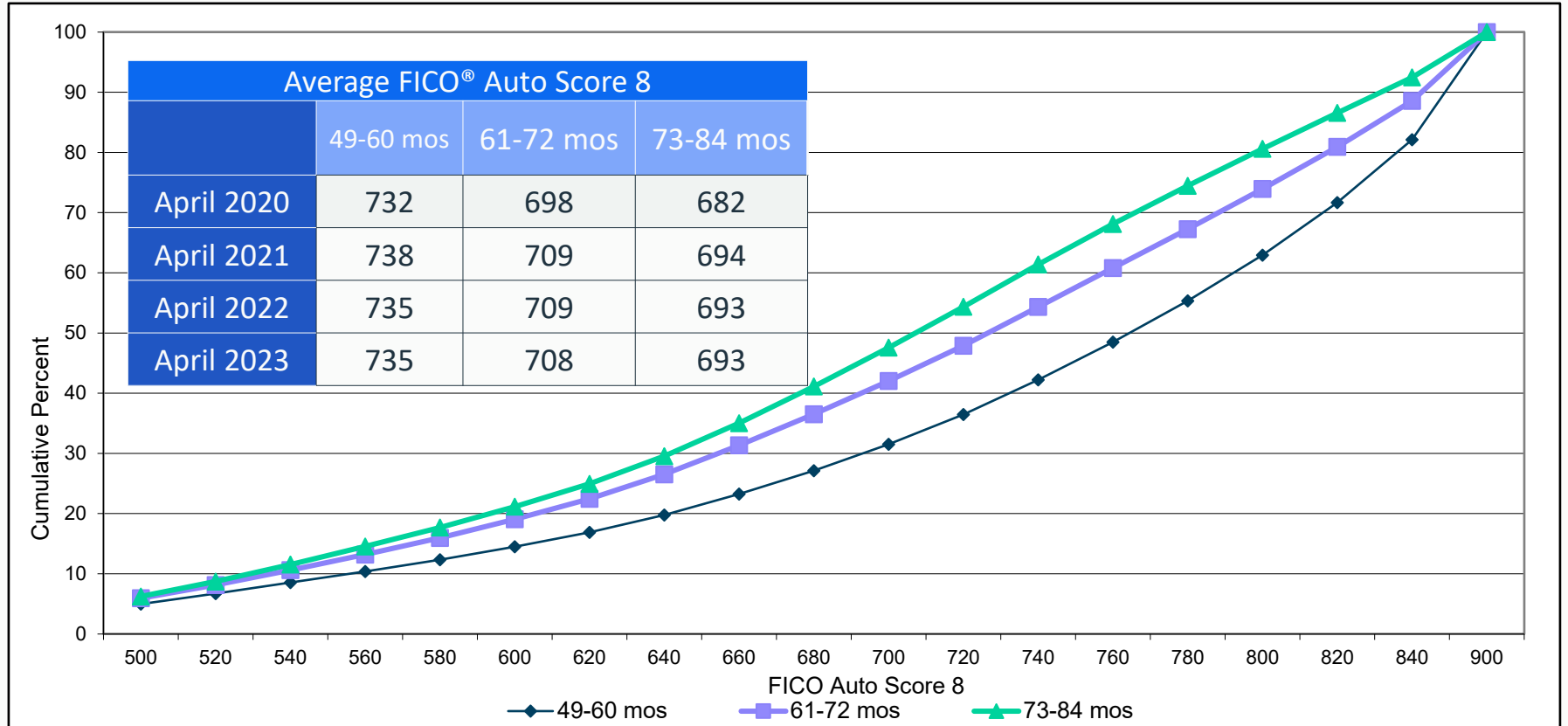
Average FICO® Auto Score 8		
	Loan	Leases
April 2020	700	743
April 2021	708	750
April 2022	708	752
April 2023	708	751

FICO

Among recent vintages, leases score notably higher than loans

January 2023 score distribution for those with a <u>newly issued</u> auto tradeline opening

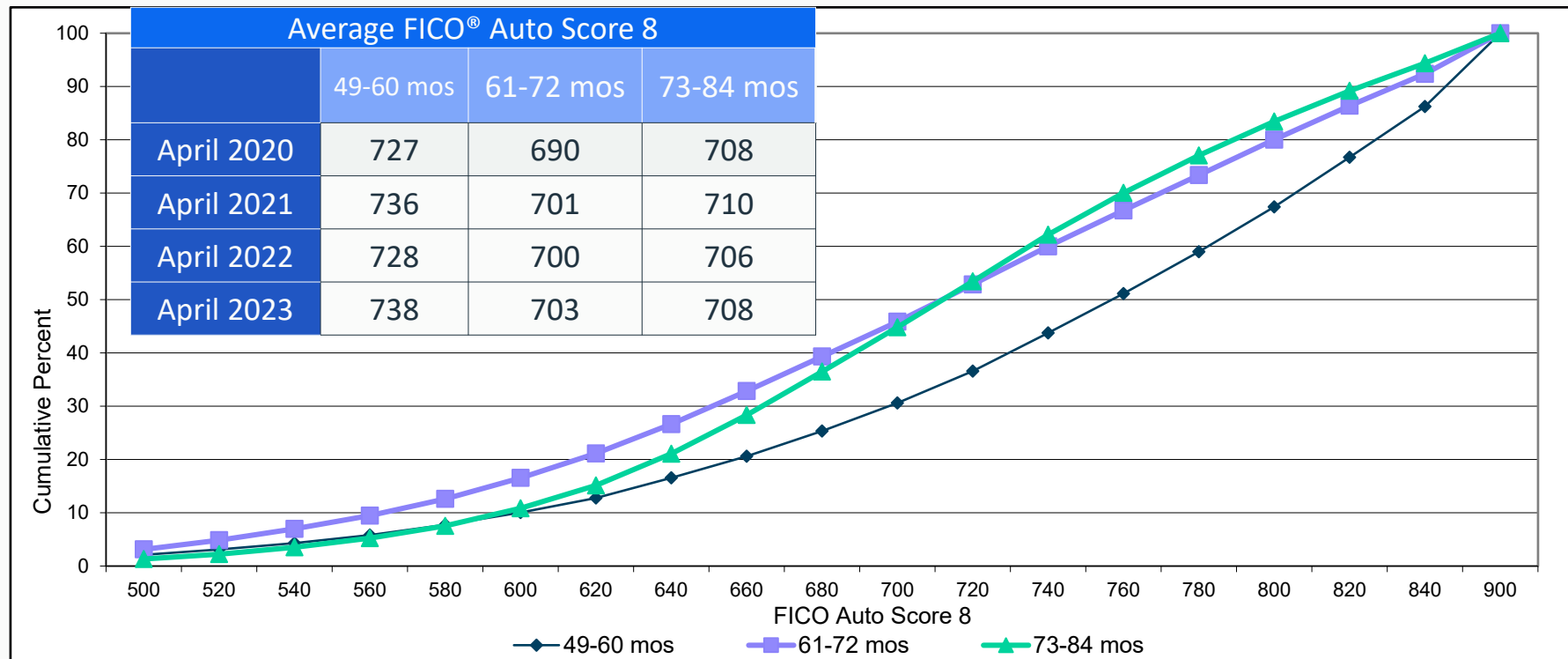| Average FICO® Auto Score 8		
	Loans	Leases
Jan 2020	704	749
Jan 2021	712	753
Jan 2022	709	755
Jan 2023	714	758

FICO Auto Score 8

— Loans   — Leases

FICO

Consumers with shorter term loans tend to score higher than consumers with longer term loans

April 2023 score distribution for those with open auto loans

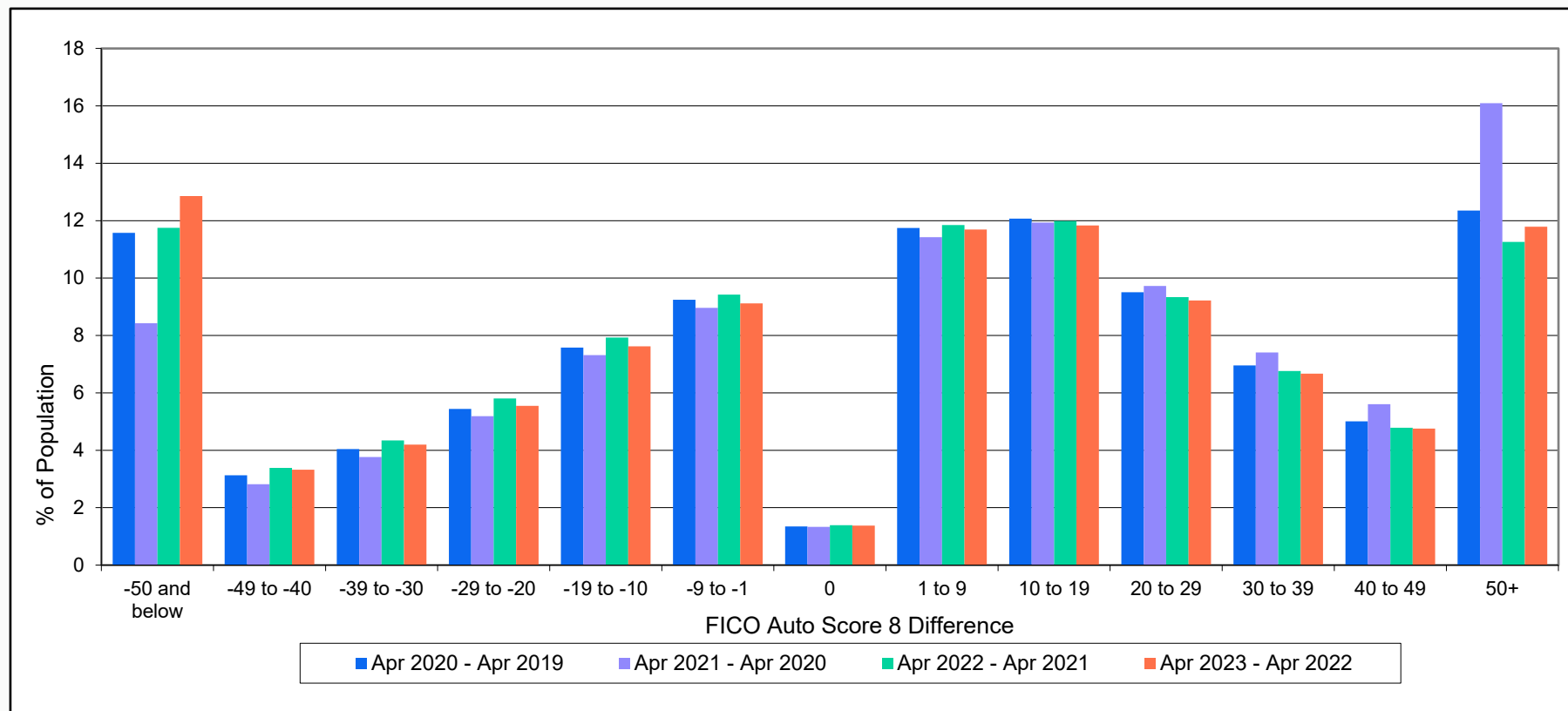| Average FICO® Auto Score 8			
	49-60 mos	61-72 mos	73-84 mos
April 2020	732	698	682
April 2021	738	709	694
April 2022	735	709	693
April 2023	735	708	693

Among recent vintages, consumers with 7 year term loans have slightly higher average scores than consumers with 6 year term loans

January 2023 score distribution for those with a <u>newly issued</u> auto loan opening

Average FICO® Auto Score 8			
	49-60 mos	61-72 mos	73-84 mos
April 2020	727	690	708
April 2021	736	701	710
April 2022	728	700	706
April 2023	738	703	708

FICO

Individual YoY consumer score changes similar to pre-pandemic

56% had a score increase & 43% had a score decrease in the last year
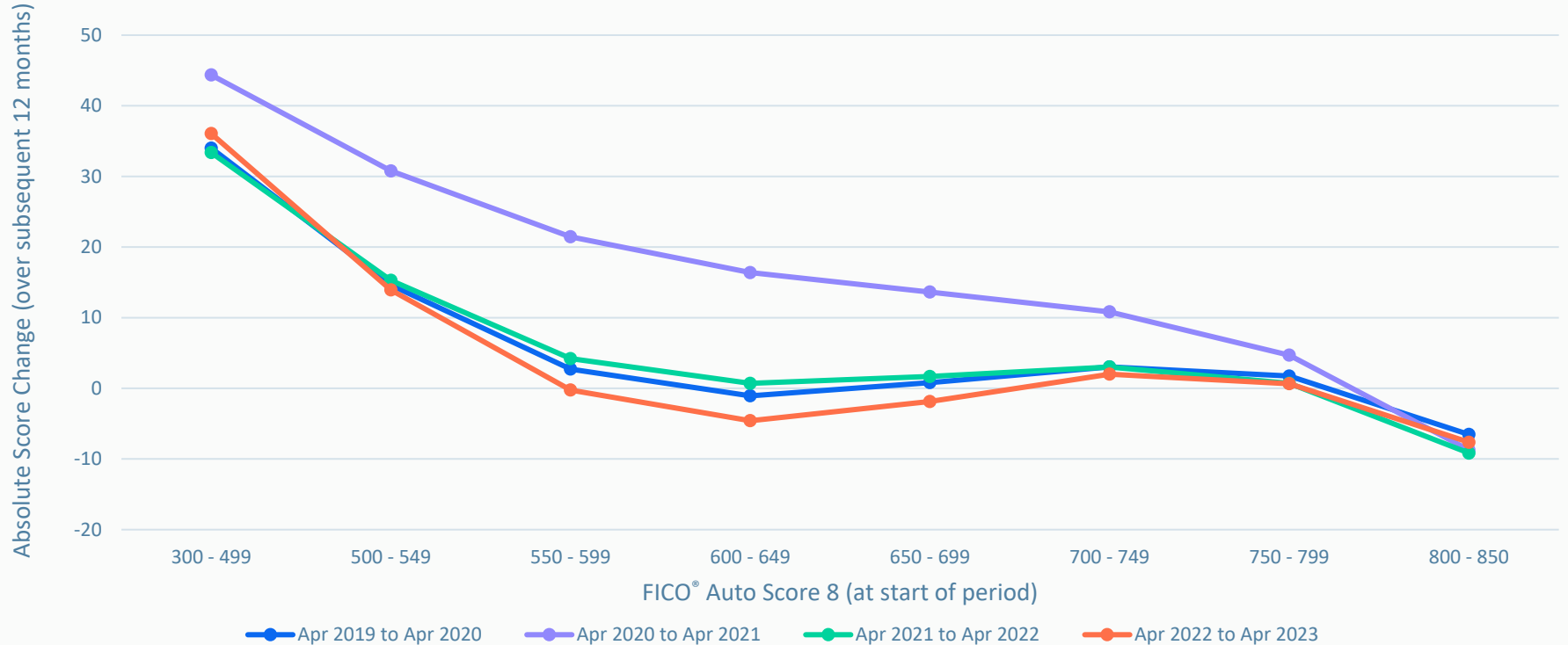
Average changes in FICO® Score similar to pre-pandemic levels

For 550-799 consumers, average FICO Score change in last year is close to zero

Change in Average FICO® Auto Score 8 by Score Band

Auto delinquency and balances increased between April '22 and April '23

New auto loan openings declined

Credit Dimension	Credit Metric	As of:		Relative % Difference
		Apr '22	Apr '23	Apr '23 – Apr '22
Payment History	% of Population 90+ Days Past Due on Existing Auto tradelines in last year	3.4%	4.0%	+17.2%
Payment History	% of Population 90+ Days Past Due on Newly Opened Auto tradelines in last year	1.4%	2.0%	+49.5%
Amounts Owed	Average Auto Loan Utilization	64.8	64.2	-0.8%
Amounts Owed	Average Auto Loan Balances	21,513	22,965	+6.7%
New Credit	% of Population with 1+ new auto tradelines in the past year	30.4	28.0	-8.1%

FICO

# Newly opened auto delinquencies higher than pre-pandemic benchmark as of April 2023

Auto balances have been increasing since the start of the pandemic

Credit Dimension	Credit Metric	As of:		Relative % Difference
		Apr '20	Apr '23	Apr '23 – Apr '20
Payment History	% of Population 90+ Days Past Due on Existing Auto tradelines in last year	4.7%	4.0%	-13.8%
Payment History	% of Population 90+ Days Past Due on Newly Opened Auto tradelines in last year	1.6%	2.0%	+24.5%
Amounts Owed	Average Auto Loan Utilization	63.7	64.2	+0.9%
Amounts Owed	Average Auto Loan Balances	19,160	22,965	+19.9%
New Credit	% of Population with 1+ new auto tradelines in the past year	29.8	28.0	-6.3%

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FICO® Scores are designed to Rank-Order Risk

A FICO® Auto Score is:

- A number from 250-900
- Based on the information in the consumer's credit file
- Rank-ordering consumer risk

620

640

660

680
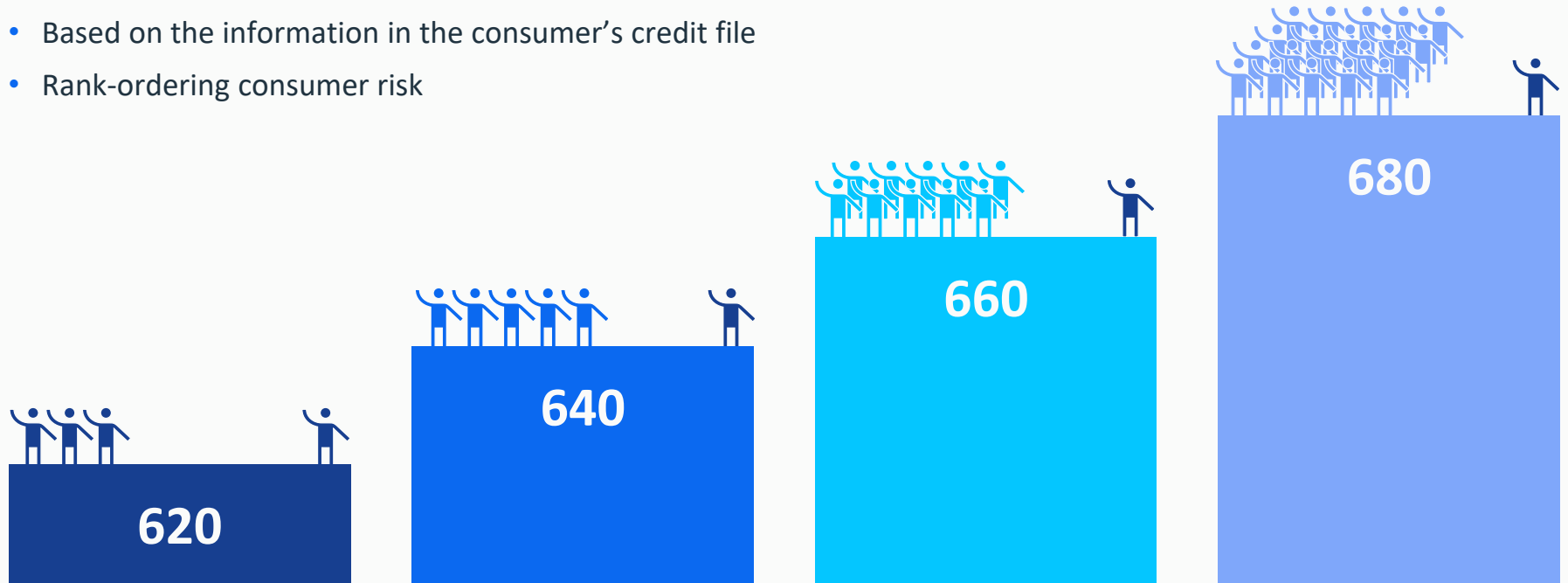
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The odds-to-score relationship does shift in response to changing economic conditions

Odds (default = 90+ dpd over 24 months)*

FICO® Score

Normal Economy — Great Recession

Number repaid trades for 1 trade that is 90 or more days past due over 24 month period

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13

FICO Scores consistently rank order risk, but are not fixed estimates of risk

Shifts in the FICO odds-to-score relationship occur and are largely driven by changes in factors outside the credit file, such as:

- Macroeconomic conditions

- Lender underwriting practices

All 4 C's should be considered when assessing borrower repayment risk
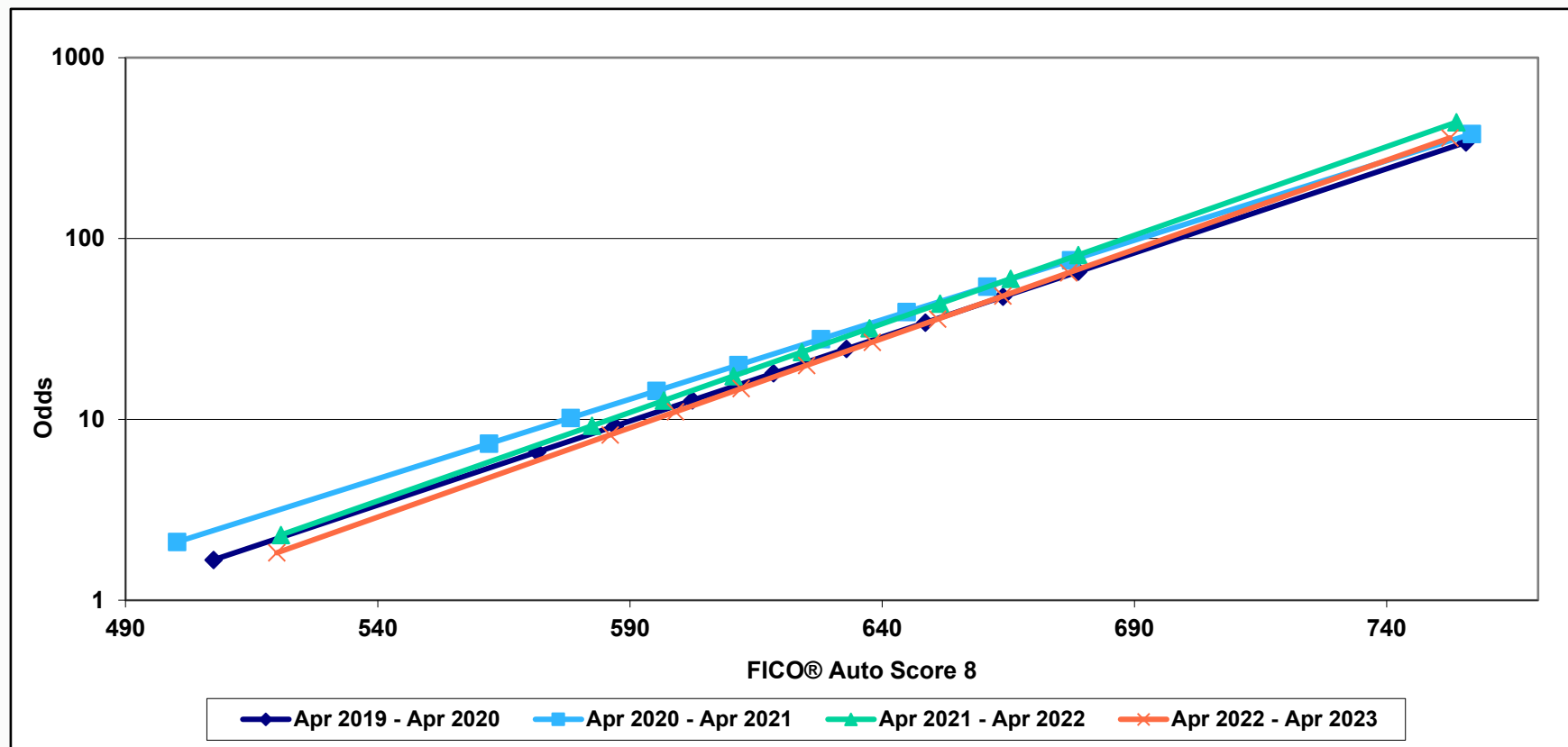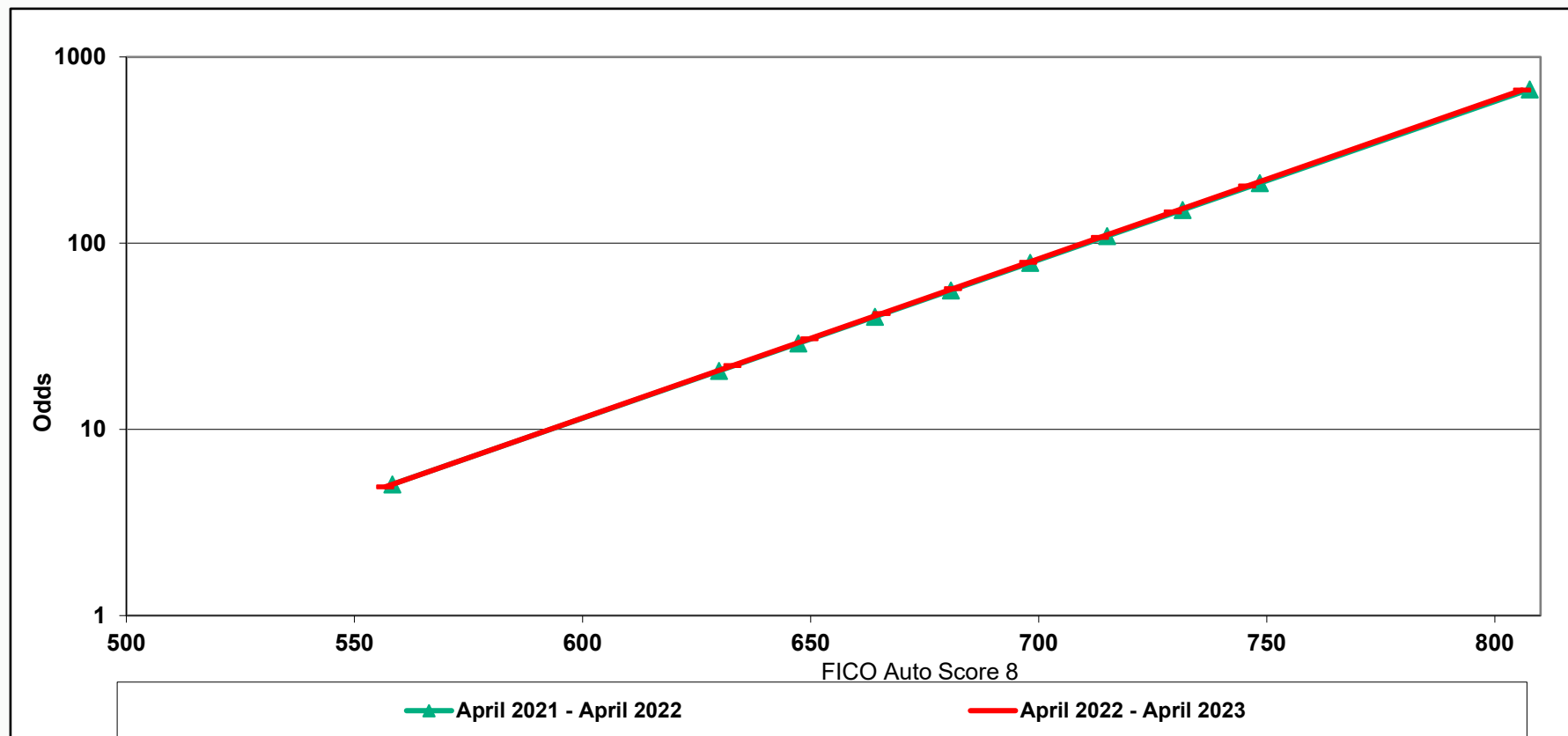
- Credit

- Capacity

- Collateral

- Conditions

Repayment likelihood at any given FICO Score lower in 2022-2023

Odds-to-score on <u>existing</u> auto loans and/or leases now similar to pre-pandemic levels

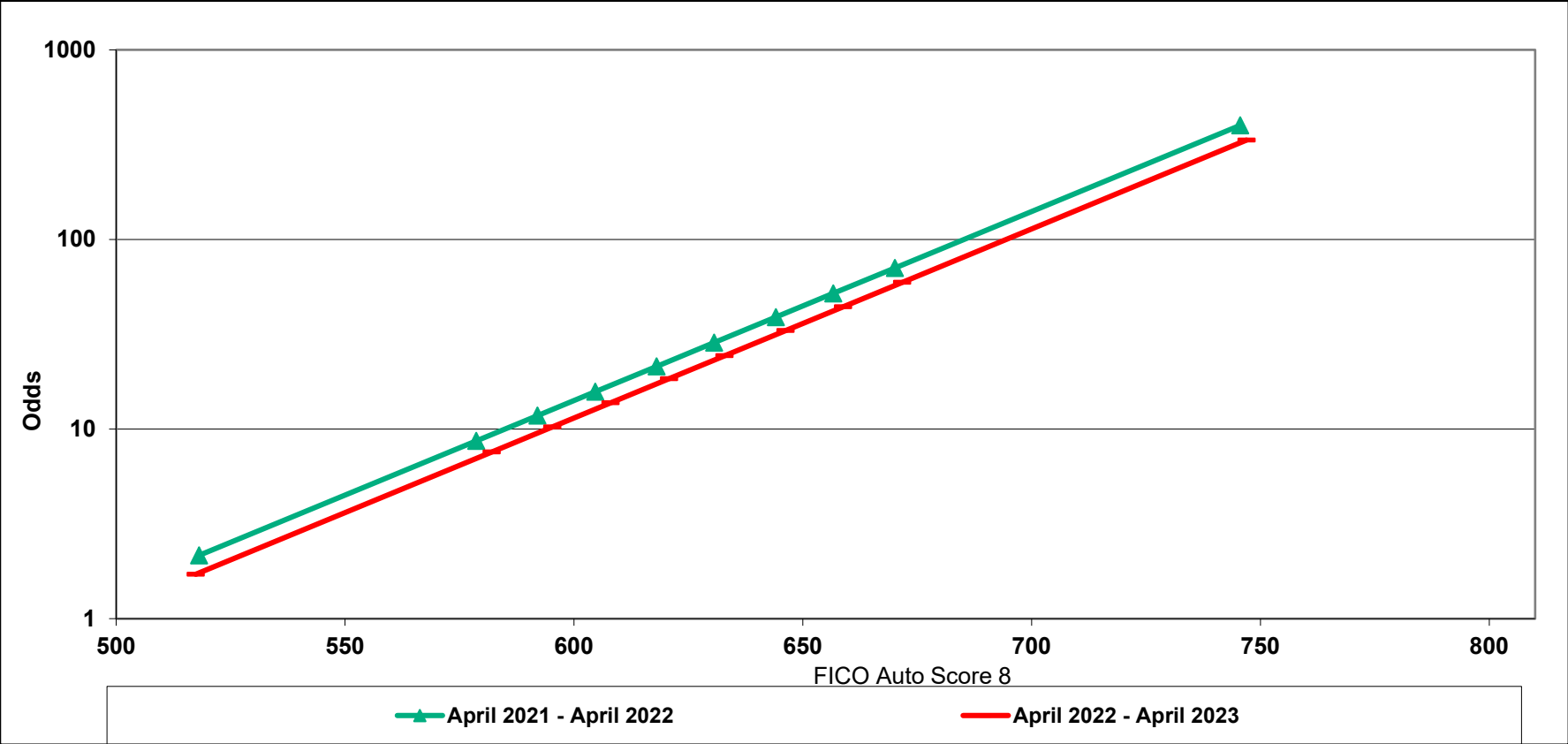# Repayment likelihood at any given FICO Score relative stable for leases

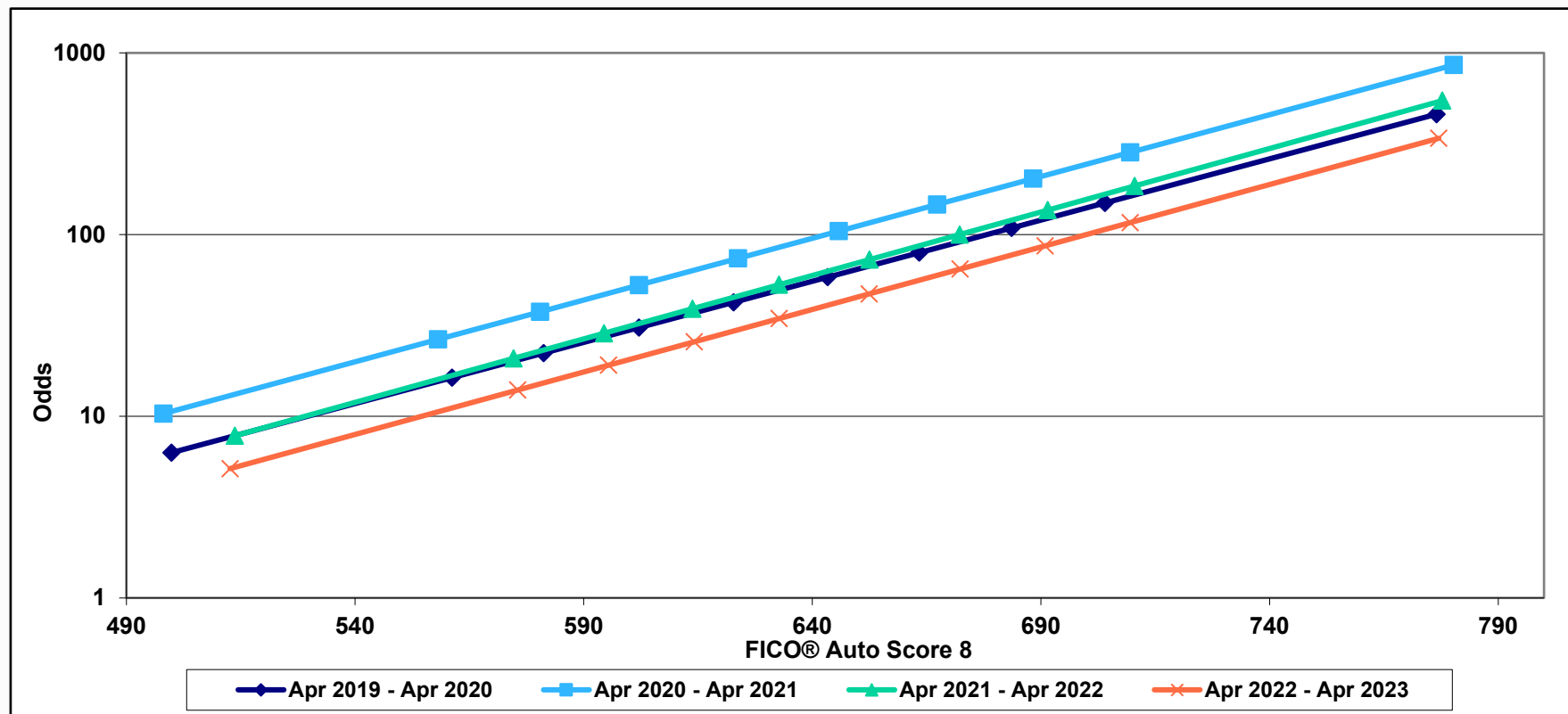Odds-to-score on <u>existing</u> auto leases have not shifted much in last year

Repayment likelihood at any given FICO Score changing more for loans

Odds-to-score on <u>existing</u> auto loans have shifted more in last year

Repayment likelihood at any given FICO Score lower in 2022-2023

Odds-to-score on <u>newly issued</u> auto loans and/or leases now lower than pre-pandemic levels
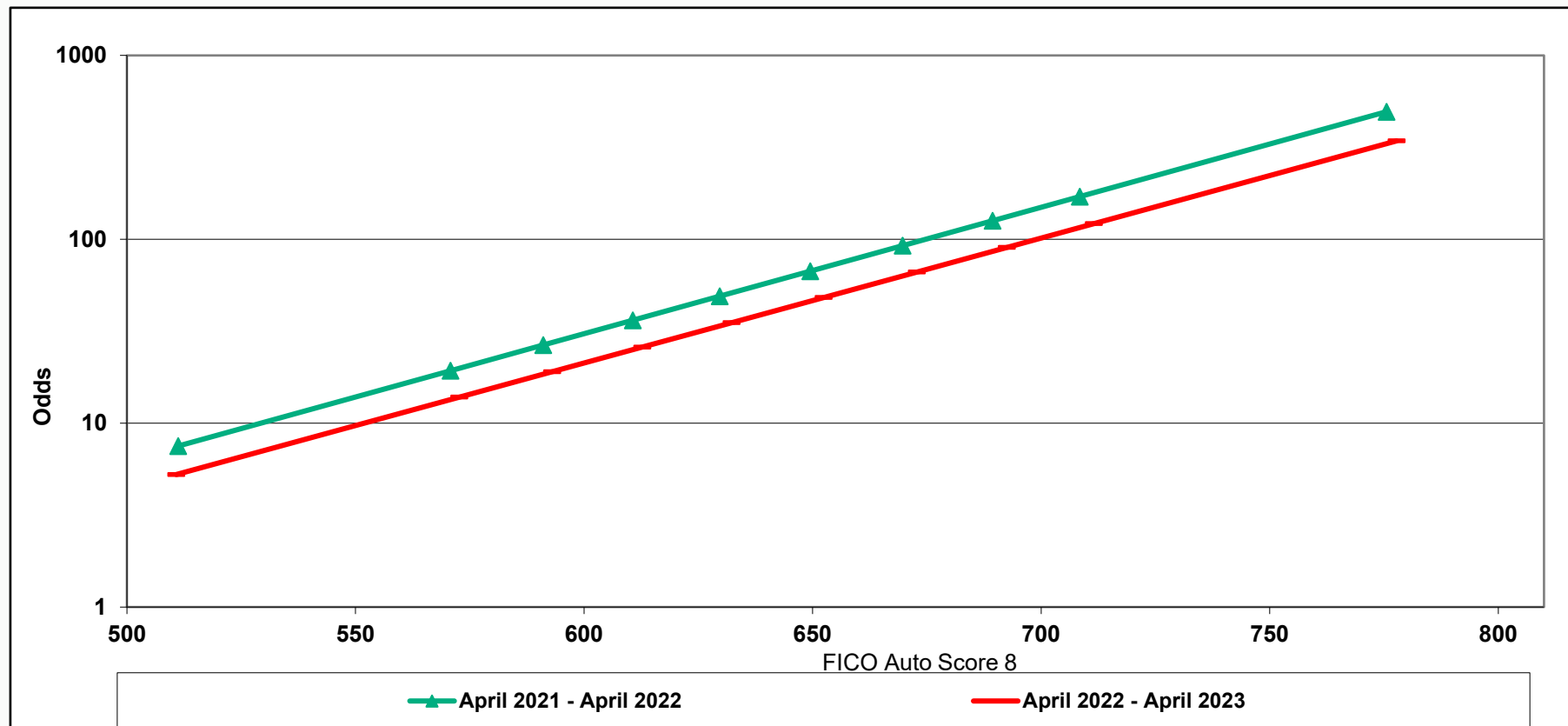
Repayment likelihood at any given FICO Score relative stable for leases

Odds-to-score on <u>newly issued</u> auto leases have not shifted much in last year

FICO

Repayment likelihood at any given FICO Score changing more for loans

Odds-to-score on <u>newly-issued</u> auto loans have shifted more in last year

How will student loan borrowers be affected by the end of the student loan payment pause?

Student loan payments to resume in October 2023

Roughly 40 million U.S. consumers have not been required to make student loan payments since March 2020

Average monthly payment amounts were $393[*] per month prior to the pandemic

Student loan debt forgiveness overturned by Supreme Court; Biden administration working on other options to help borrowers

According to the proposal by the Department of Education, federally backed student loan delinquencies won't appear on credit reports until October 2024

*Source: Federal Reserve

FICO

FICO® Scores increased for student loan (SL) borrowers even more than non-SL borrowers since January 2020

Score Distribution of Student Loan Borrowers

FICO® Score 8 Avg Change Since January 2020		
	Student Loan Borrowers	Non-Student Loan Borrowers
April 2021	+18	+8
April 2022	+21	+8
April 2023	+26	+9

Legend: Jan 2020, Apr 2021, Apr 2022, Apr 2023
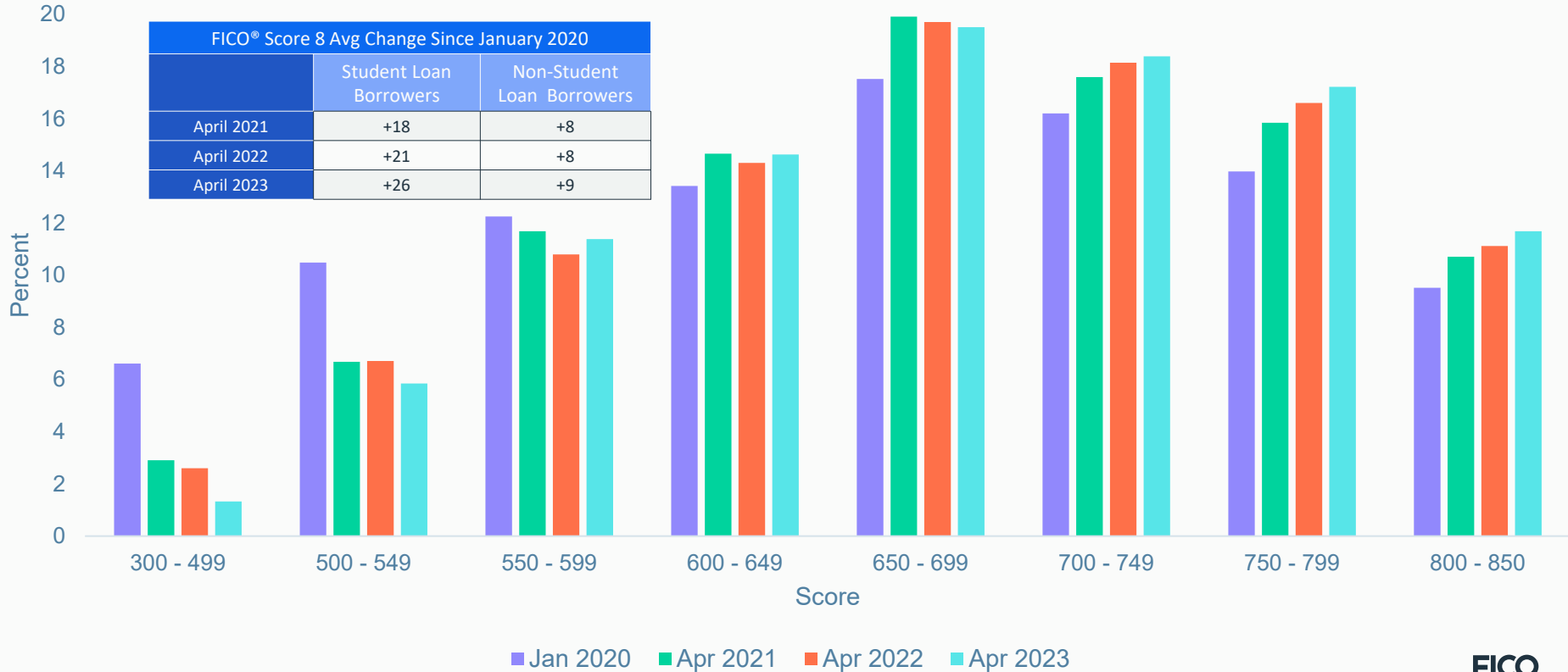
Payment pause led to decline in monthly installment loan payments in April 2021 for SL borrowers

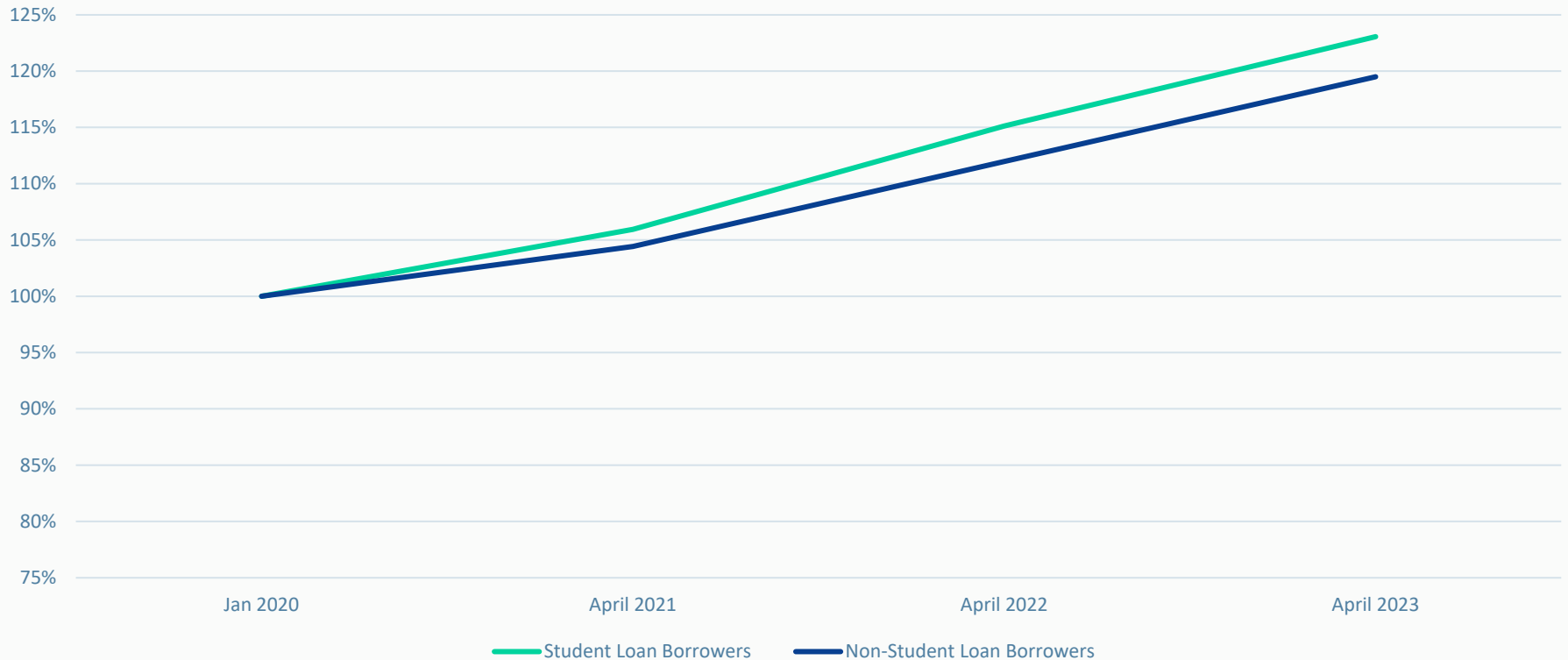However, relative increase in debt is slightly greater for SL borrowers since April 2021

Average Monthly Installment Loan Payments Relative To Jan 2020 Benchmark

Legend: Student Loan Borrowers, Non-Student Loan Borrowers

FICO
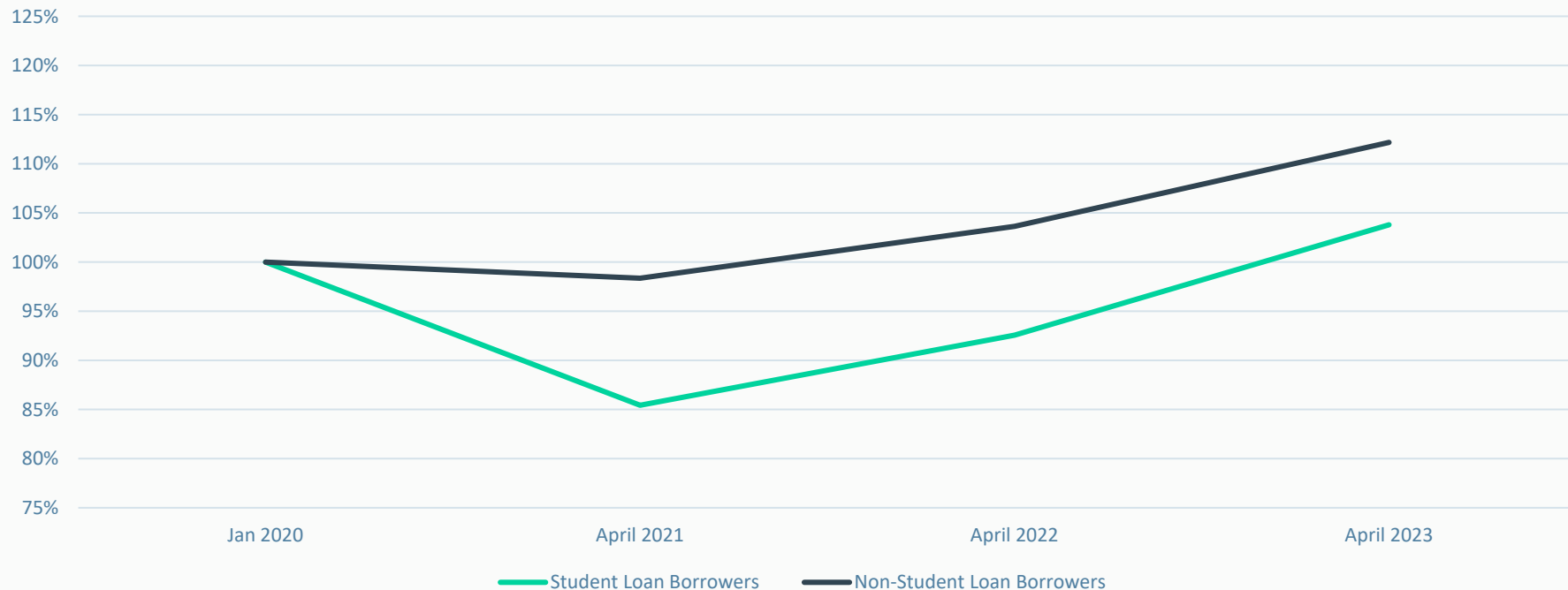
SL borrowers have greater relative increase in auto debt than non-SL borrowers since January 2020

Average Auto Balance Relative To Jan 2020 Benchmark

Legend: Student Loan Borrowers, Non-Student Loan Borrowers

SL borrowers have greater relative increases in credit card debt than non-SL borrowers since April 2021

Both groups saw their credit card debt decrease in first year of pandemic


Average Credit Card Balance Relative To Jan 2020 Benchmark

Legend: Student Loan Borrowers, Non-Student Loan Borrowers
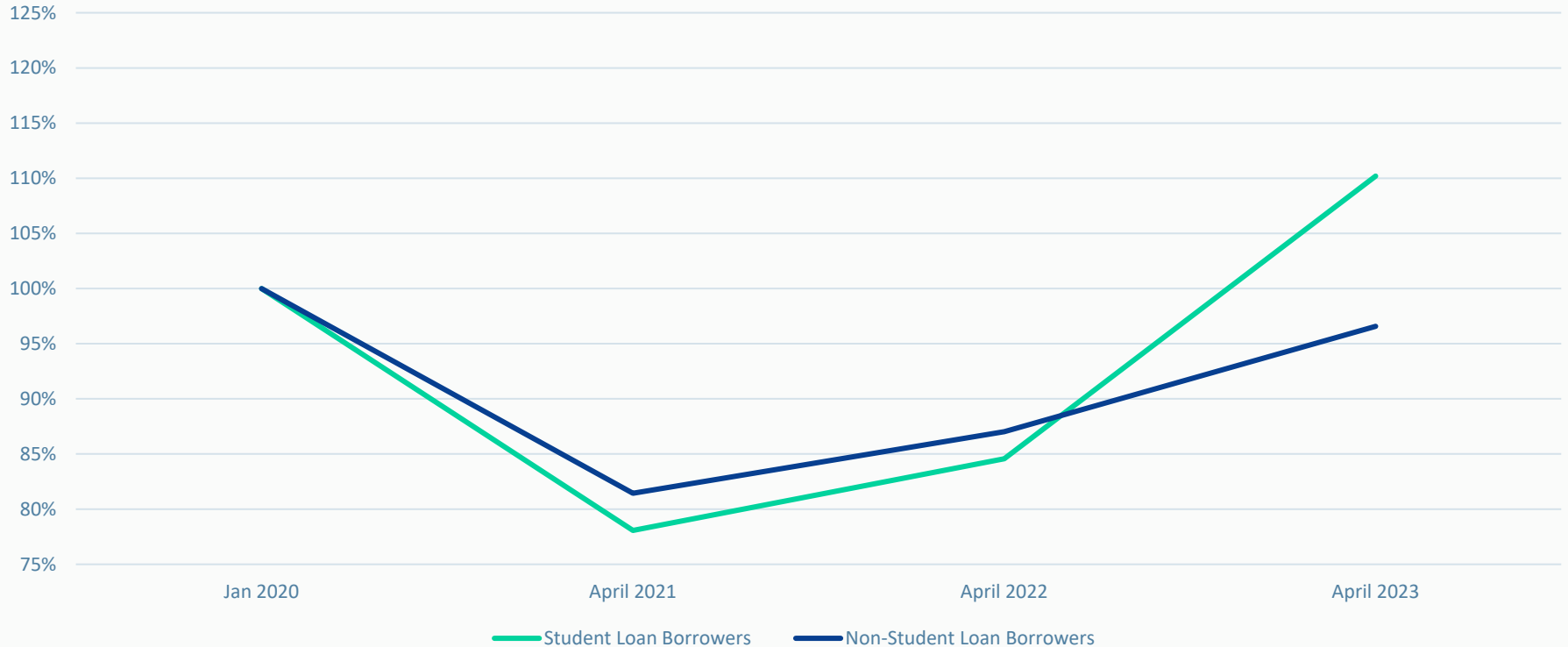
Not all SL borrowers increased their installment loan debt from 2021-2023

43% increased their installment loan monthly payments from 2021 to 2023; 26% decreased

Student Loan Borrowers' Difference In Monthly Installment Loan Payments Between April 2021 & April 2023

FICO.
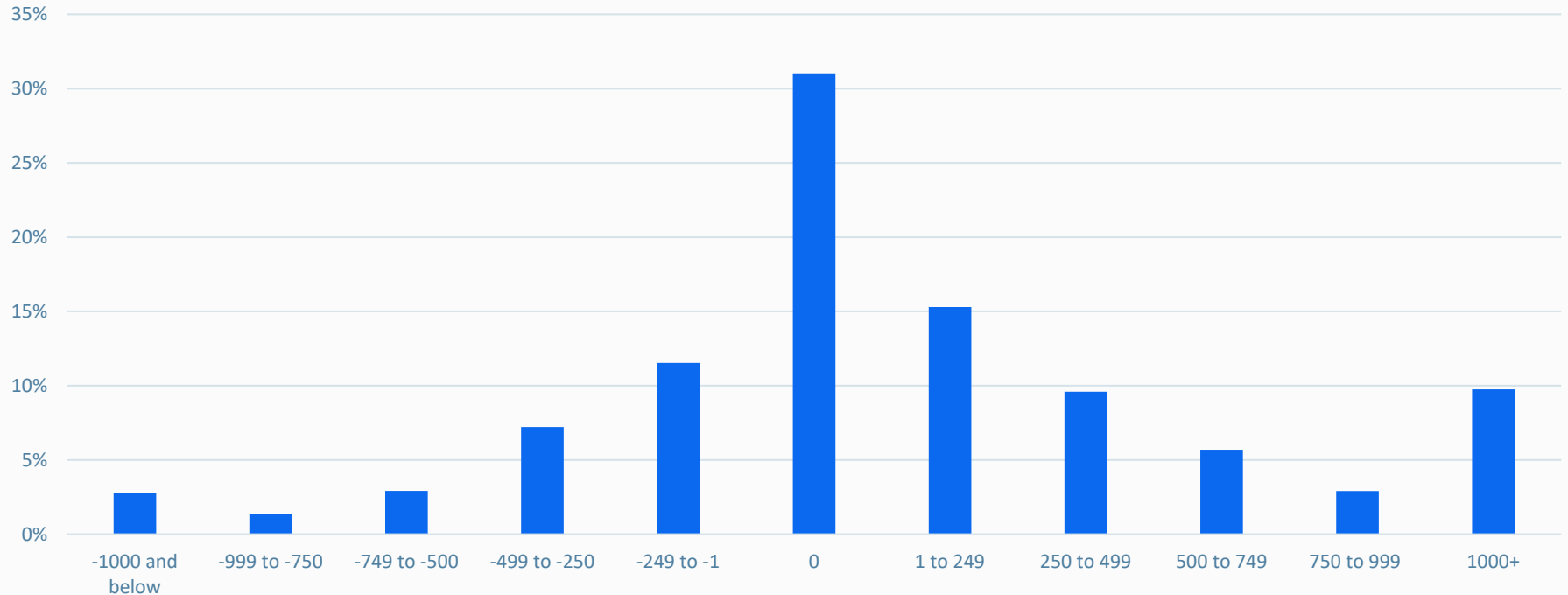
SL borrowers have higher delinquency rates compared to pre-pandemic for some use cases

Student Loan Borrowers: Use Case	12 Month 90+ Delinquency Rate As of:		Relative % Difference
	Apr '20	Apr '23	Apr '23 – Apr '20
Auto Finance Loans, Account Management	5.8%	5.0%	-13.8%
Auto Finance Loans, Originations	2.1%	2.4%	+15.6%
Bankcard, Account Management	10.4%	10.3%	-0.7%
Bankcard, Originations	8.7%	9.6%	+10.4%
Personal Loans, Account Management	10.0%	12.1%	+21.1%
Personal Loans, Originations	7.6%	9.0%	+17.1%

FICO

Summary of FICO® Score dynamics since the start of the pandemic

Where we are, where we might head, and opportunities

FICO Score distribution shifted in the first year of the pandemic, but has been stable since 2021

Auto delinquencies on existing loans are approaching pre-pandemic levels, and auto balances have been rising since the start of the pandemic

FICO Score is a highly effective tool for rank ordering risk across all economic conditions—but relationship between score and repayment odds can and does shift through the cycle

The repayment odds at a given score improved in the first year of the pandemic, but have now shifted near or below pre-pandemic baseline

The extent to which student loan borrowers exhibit shifts in default rates by score will partly depend on the extent of government intervention

OPPORTUNITY

Use additional data sources and profiling analyses to identify borrowers more/less likely to be adversely impacted by economic conditions. Strategy adjustments should be refined and segment-driven.

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Thank you