DISCUSSION PAPER
PAYMENT CARDS CENTER

Can Credit Cards with Access to Complimentary Credit Score Information Benefit Consumers and Lenders?

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Summary: *Barclaycard U.S. is one of a growing number of banks offering cardholders free access to their FICO® Credit Scores with credit card products. On November 19, 2014, Paul Wilmore of Barclaycard U.S. presented Barclays' rationale for offering this feature and provided his perspective on its development. He also discussed how consumers responded to this feature in terms of their spending, repayment behavior, and lifespan and intensity of their relationship with the bank. According to Wilmore, program participation is correlated with increased card spending, decreased credit utilization and delinquency, increased digital engagement, and lower cardholder attrition.*

Keywords: credit reports, risk scores, credit cards, consumer lending, information, credit performance

JEL Classifications: D12, D14, G21

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I. Introduction

On November 19, 2014, Paul Wilmore, managing director for consumer markets at Barclaycard U.S., led a Payment Cards Center workshop in which he discussed his bank's experience providing a new option for credit card holders: free and frequent access to their FICO® Credit Scores.[1, 2] This program fits well with a regulatory focus on increasing the transparency of credit information to consumers and fostering a better understanding and usage of their credit products. Policymakers are especially interested in learning about the value of sharing credit score information with credit card holders and how this new information might affect consumers' credit behavior over time.

Despite the widespread use of credit scores and credit reports in lending decisions and their influence on credit terms, a majority of adults in the U.S. do not regularly review either their scores or their reports. In 2014, only 40 percent of adults reported reviewing their credit scores and 35 percent reported checking their credit reports in the past 12 months.[3]

Recently, a number of U.S. lenders have begun providing complimentary credit score information to their credit card customers. Some lenders partnered with Fair Isaac Corporation to offer FICO Scores at no cost to consumers through the FICO Score Open Access program

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[1] FICO, FICO Score, FICO Credit Score, and FICO Score Open Access program are registered trademarks of Fair Isaac Corporation in the United States and other countries. Hereafter, when any of these terms are used in the paper, they refer to these trademarked products.

[2] Lenders use FICO Scores and other credit scores when making decisions about underwriting (deciding whether or not to extend credit), line assignment (the size of a loan or credit line), and pricing (interest rates and fees).

[3] www.nfcc.org/NewsRoom/FinancialLiteracy/files2013/NFCC_2014FinancialLiteracySurvey_datasheet_and_key_findings_031314%20FINAL.pdf

for this purpose. This program provides cardholders complimentary access to these scores purchased by the lender for ongoing credit card account risk management.[4]

The FICO Score Open Access program was launched in November 2013. According to FICO, 60 million consumers were expected to be enrolled in the program through their credit card issuers by early 2015.[5] The program was praised by President Barack Obama as a way to promote financial health and education for U.S. consumers and as a mechanism for consumers to spot identity theft and fraud.[6] Richard Cordray, director of the Consumer Financial Protection Bureau (CFPB), urged lenders to join the initiative.[7] In October 2013, Barclaycard U.S. was one of the first lenders to offer this service to many of its credit card customers.

This paper describes the motivation behind Barclays' participation in the FICO Score Open Access program and the various considerations the launch team made in determining how this feature would be communicated and made available to cardholders.[8] Wilmore noted that about 1.5 million customers have opted in to this feature and described several lessons learned since its introduction. Finally, Wilmore shared preliminary observations on how consumers who are engaged with the FICO Score program perform on metrics such as purchase activity, line utilization, and delinquency rates across four different credit score

[4] www.fico.com/en/products/fico-score-open-access/

[5] www.fico.com/en/newsroom/president-obama-acknowledges-and-praises-fico-and-leading-banks-for-increasing-consumer-access-to-free-fico-scores

[6] www.fico.com/en/newsroom/president-obama-acknowledges-and-praises-fico-and-leading-banks-for-increasing-consumer-access-to-free-fico-scores

[7] www.consumerfinance.gov/newsroom/cfpb-calls-on-top-credit-card-companies-to-make-credit-scores-available-to-consumers/

[8] We refer to Barclaycard U.S. as Barclays or Barclaycard in this document.

bands.[9] According to Wilmore, program participation is correlated with increased card spending, decreased credit utilization and delinquency, increased digital engagement, and lower cardholder attrition.

II. History, Motivation, and Introduction of Cards with Free Access to FICO Scores

According to Wilmore, Barclaycard's interest in offering cardmembers access to their FICO Scores for free emerged from earlier bank initiatives aimed at educating consumers and increasing their financial management and engagement. Previously, Barclays offered another credit score called the TransRisk score (not a FICO Score) to customers in several of its credit card programs. However, Barclays did not actually use the TransRisk score to manage their cardmembers' accounts. Moreover, the TransRisk scores might have been confusing for consumers because they did not map directly into the FICO Scores. Among other things, this confusion may have stemmed from consumers' familiarity with the long-used FICO Scores and because the TransRisk score scale at the time was 100 to 900, which differed from FICO's scale. While the TransRisk program was eventually discontinued, Barclays understood there was high consumer demand for clear and understandable information about their credit scores.

Three additional factors coincided to convince Barclays of the value of providing FICO Scores to credit card customers. First, many consumer advocacy initiatives at that time emphasized demystifying credit scores, improving consumer financial education, and increasing lender and credit market transparency. Second, Barclays contemplated that when

[9] An important caveat in interpreting these results is that they are not based on a randomized controlled trial. This feature was offered to all cardholders in specific programs. As a result, it is difficult to clearly distinguish between selection (in which consumers enroll) and treatment (the effect of regular access to credit scores and behavior).

consumers had easier and more frequent access to credit scores, it might change their credit card usage behavior. Third, the bank also considered that this new feature could improve loyalty and increase online customer engagement.

a. FICO Score Background

The FICO Score is a proprietary product of Fair Isaac Corporation (FICO). Its base version has a numerical score that ranges between 300 and 850 and measures the probability of an individual's default in the future (usually over 24 months) as calculated based on information contained in the consumer's credit bureau file.[10] FICO identifies five main factors affecting individual credit score: repayment history, debt outstanding, length of credit usage, the mix of credit used, and the applications for new credit.[11] According to FICO, 90 percent of the largest U.S. financial institutions use FICO Scores in their lending decisions. Other considerations not factored into the FICO Score but used by lenders include borrower's income, debt-to-income ratio, and loan-to-value ratio for secured loans.

b. Introduction of the FICO Score Open Access Program

As previously noted, Barclays decided to join the FICO Score Open Access program, which supported credit card issuers and other types of lenders in providing complimentary FICO Score information to their cardholders. The data would include both point-in-time and historical views as well as information on factors affecting the customer's score. According to Wilmore, the FICO Score Open Access program is relatively simple from an operational

[10] There are three major credit reporting agencies in the U.S.: Equifax, Experian, and TransUnion.

[11] www.myfico.com/crediteducation/whatsinyourscore.aspx

perspective because no new data or information was needed from the credit bureau. The FICO Score Open Access program allows Barclays to display to its customers the same FICO Score already purchased by the bank during the course of its routine operations such as risk management and underwriting new accounts.

During the design phase of its new program, Barclays had several prelaunch considerations. The bank was concerned that consumers would have questions about the program and credit scoring and would contact the bank's call center frequently, increasing operating costs. However, those concerns never materialized. Most of the calls that the call center received were about how and where to find the credit score and not questions about the score itself.

Customers observing their FICO Scores on the bank's website sometimes have questions about information in their credit reports. Barclays typically refers those customers to annualcreditreport.com. This website addresses the requirement of the Fair Credit Reporting Act (FCRA) that each of the three credit reporting agencies provide, upon request, a free credit report every 12 months to every consumer. Barclays also refers cardmembers to TransUnion, the credit reporting agency that provides the data used to generate the FICO Score for Barclaycard U.S. The credit reporting agencies have established procedures for handling consumer credit report inquiries and disputes if they arise. While there is no information about an increase in free annual credit report requests as a result of the FICO Score Open Access program, this program and others like it are likely making more U.S. consumers aware of their right to review their credit reports annually from each of the largest credit reporting agencies at no cost.

Many of Barclays' competitors decided to provide FICO Scores to their credit card customers for free and offered customers the opportunity to opt out of receiving credit score information. Barclays decided on a different approach. To obtain their FICO Score information, Barclays' customers must opt in via the bank's website (the process is very simple). The opt-in requirement was conceived to provide important information to customers about the FICO Score Open Access program before they receive their score information, including who provides the credit information and other key attributes of the program. This information was relatively brief but was intended to clarify this new feature to consumers and to answer their questions about credit scores and credit reports, and minimize the call center's costs and the number of consumer questions.

Unlike some other lenders that offered FICO Scores for free with their cards, Barclays decided against providing the credit score on all monthly credit card statements (paper or electronic). Instead, the score is displayed as part of Barclays' online banking module.[12] This allowed Barclays to include the top two factors affecting a customer's score, FAQs, and credit education along with the score. This feature was also designed to encourage more customers to check their accounts online and use other online banking features.

The rollout of the free access to FICO Scores feature to the existing credit card portfolio was done over time, program by program. Barclays used a variety of digital communications to market this feature, including video clips and e-mail distributions, with e-mail campaigns being one of the most successful. Some of Barclays' credit card clients also

[12] By not including the credit score on the monthly statement, Barclays could continue to use a common statement format for customers who did or did not enroll in the program.

enrolled in the program after reviewing media advertisements of the bank's competitors emphasizing complimentary FICO Scores on credit cards.

Before the program was launched, Barclays had several goals in providing complimentary access to FICO Scores to its credit card holders. The bank hoped to affect customer behavior in a positive way, increase online and mobile banking usage without significantly affecting servicing costs, and strengthen cardholder loyalty to Barclays by providing a feature that its cardholders valued.

III. Key Features of the Product; Consumers' Take-Up and Experience with It

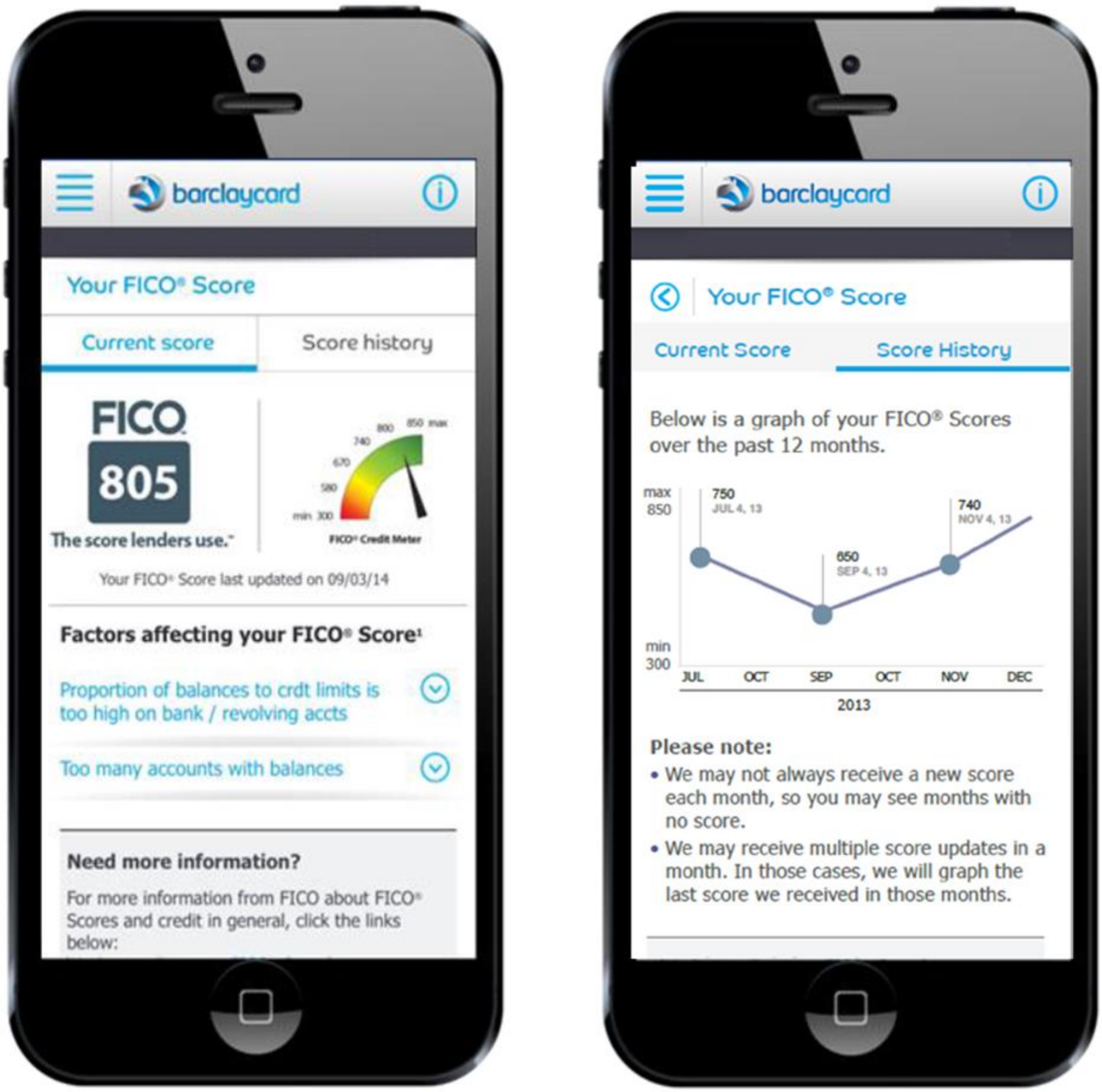
This section discusses the details of the FICO Score feature that Barclays offered for free to its cardholders. It will also explain how customers can interact with Barclays' website to receive timely information on their credit scores and factors affecting their scores. Finally, the section will provide this feature's signup and usage statistics as well as examine how free access to FICO Scores may benefit consumers.

Complimentary FICO Scores are delivered to consumers via Barclays' online banking. In addition to the score, two personalized factors affecting the score are displayed with a detailed explanation of why these factors might have affected the consumer's creditworthiness. As these factors are personalized, consumers with the same FICO Score, but different credit reports, may see different factors.

Barclays' online banking website allows the consumer to see graphs depicting up to 12 months of FICO Score history. The credit score and the factors affecting it are updated every time this lender receives an update from TransUnion. While some credit score models are industry specific, such as credit cards, mortgages, and auto loans, the FICO Score that

Barclays displays is based on the FICO Score 8 model, which is not industry specific. Figure 1 shows examples of how the FICO Score Open Access program summary information and score history chart are displayed on a mobile device to Barclays' program enrollees.

Figure 1. Barclaycard's Mobile FICO Score Program Design



Barclaycard cardmembers enrolled in the program are automatically set up to receive an update alert any time Barclaycard receives their updated FICO Score. Cardholders can turn off these alerts if they choose. Consumers can use credit score notifications and their FICO Score history to understand how their credit habits may have affected credit scores over time.[13] In some cases, a consumer may detect an issue with her credit report by checking her FICO Score. For example, an unusual and unexpected drop in a score may motivate the consumer to obtain a copy of his or her credit report from one of the three national credit reporting agencies. A review of the credit report may reveal illicit activity associated with the customer's credit information.

Apart from the program, the bank also offers online communities of users that allow cardholders to set credit score goals, commit to those goals, and receive peer-to-peer advice and support from other community members. This feature also enables cardholders to engage with the community and to help other members by providing peer-to-peer advice, action, and encouragement.

a. Consumer Take-Up

As of September 2014, the number of Barclays' customers who enrolled in the program grew to almost 1.5 million (about one-third of all active Barclays' cardholders), with about 400,000 cardholders accessing FICO Scores via their mobile devices. Of all enrolled cardholders, 84 percent check their credit scores every month. Less than 0.1 percent of enrollees contacted the call center about the program, with most contacts occurring in the

[13] The FICO Score displayed to consumers is based on their entire credit report and not just their Barclays card(s). Hence, other information in the credit report may have affected the FICO Score.

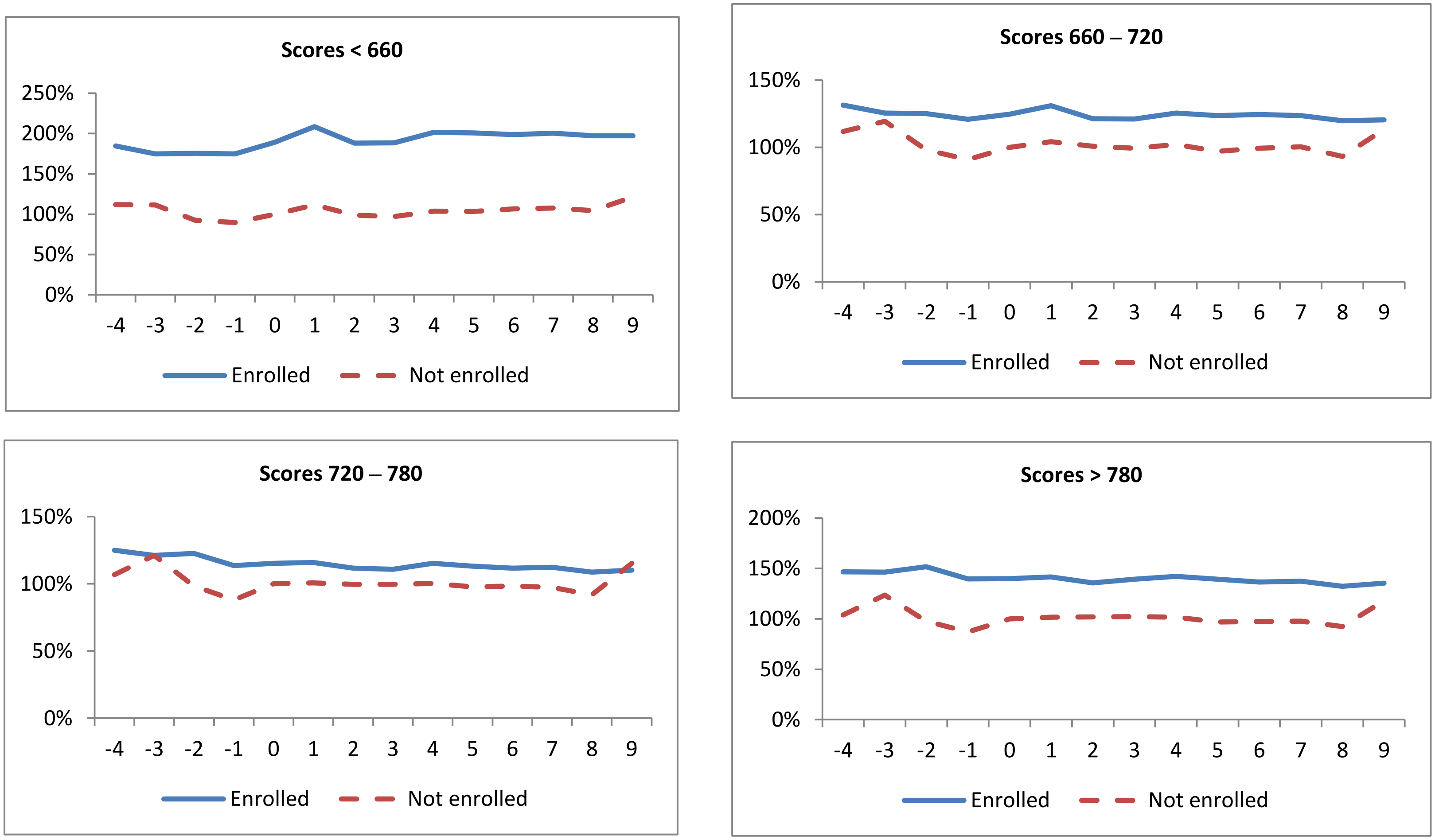
month of enrollment. In addition, on average, 56 percent of enrollees receive an e-mail alerting them if and when their score has been updated each month, with 61 percent of these cardholders opening the score update e-mails, and 47 percent of them clicking through to the bank's website. According to Wilmore, cardholders' feedback on the program has been very positive with few complaints or concerns.

Cardholder engagement with online banking and active credit management increased after the introduction of free access to FICO Scores. In particular, the overall share of customers using online or mobile banking increased 7 percentage points from January 2014 to October 2014. Most cardholders who enrolled in the program remained nearly 100 percent digitally active in the months following their enrollment.

IV. Credit Card Performance

In addition to showing improved consumer digital engagement and satisfaction, customers enrolled to receive free access to FICO Scores performed better with their credit cards. It is difficult to find a good comparison group for program enrollees because people who chose not to enroll in the program may be different from enrollees in their observable and unobservable characteristics. With this caveat in mind, we observe some divergence in the trends in the data for these two groups.

Figure 2. Indexed Average Monthly Spending per Card in the FICO Score Open Access Program



Note: The base category is the population not enrolled in the FICO Score Open Access Program at time 0.

Source: Barclaycard U.S.

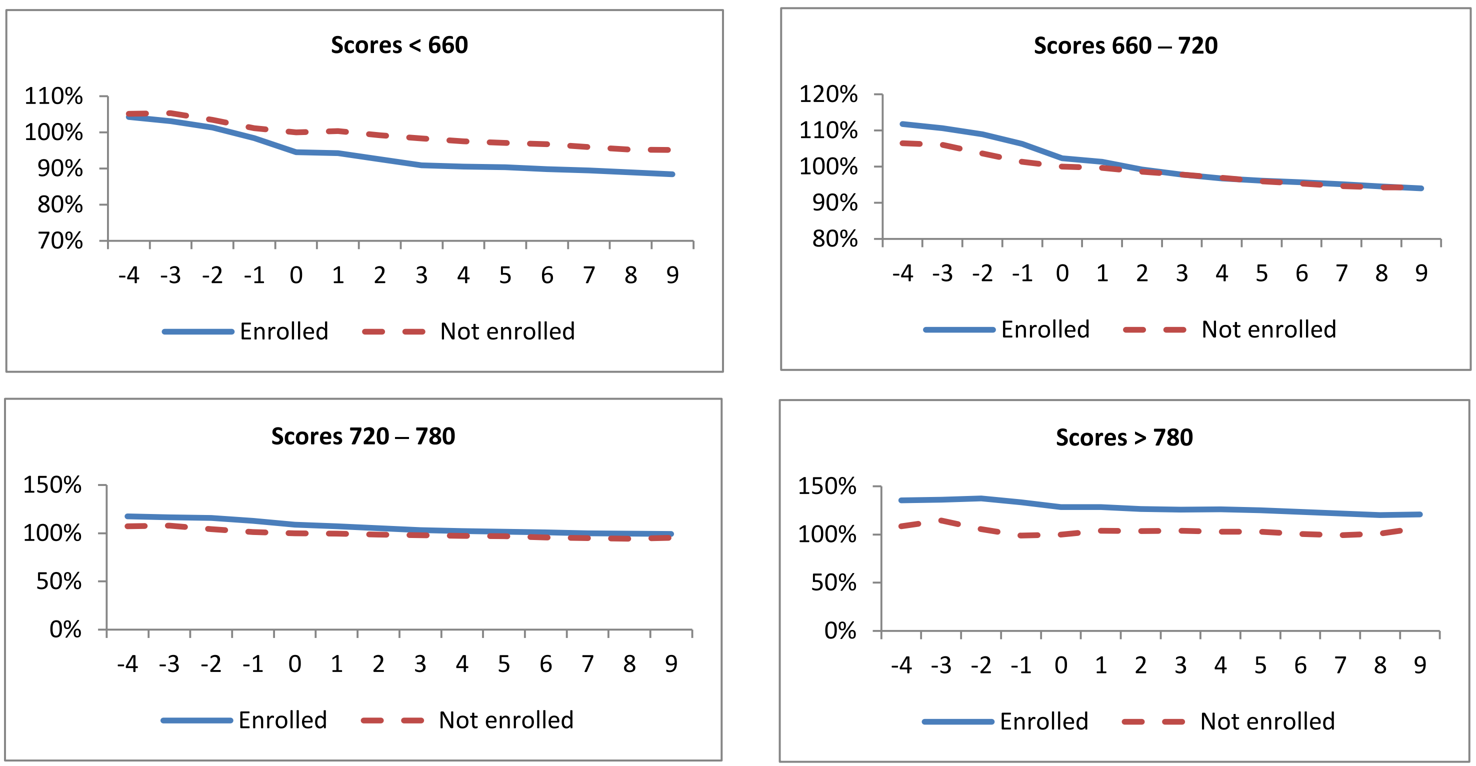
In particular, as seen in Figure 2, the average monthly spending by cardholders enrolled in the FICO Score Open Access program is higher than the average spending for those not enrolled.[14] This figure presents the indexed average monthly spending for four groups of credit card users split by FICO Score band. The credit score groups are (1) underserved (score below 660), (2) aspiring prime (score between 660 and 720), (3) prime (score between 720 and 780), and (4) super prime (score above 780).[15] The figure shows average consumer credit card spending for up to four months before and nine months after the cardholder enrolls in the program.

The first thing to notice in Figure 2 is that enrolled and not enrolled cardholders seem to have different spending per card even four months before the start of the program. Hence, it is difficult to claim that the changes observed are causal since there is no random assignment into the program and all enrollees select to opt in to it. In addition, it appears that customers who are more attached to their Barclaycard credit card accounts (as shown by their higher spending before enrollment) are the ones who take advantage of the feature. Despite this caveat, after enrollment, the average monthly purchase value of program participants appears to increase slightly relative to the trend of those not enrolled. That is especially the case among underserved consumers. Thus, the FICO Score program does not reduce monthly purchases made by program participants and may even increase them, albeit slightly.

[14] The data have been indexed for confidentiality reasons.

[15] These categories are based on Barclays' taxonomy.

Figure 3. Indexed Credit Card Utilization Rates of Enrolled and Not Enrolled Consumers in the FICO Score Open Access Program



Note: The base category is the population not enrolled in the FICO Score Open Access Program at time 0.

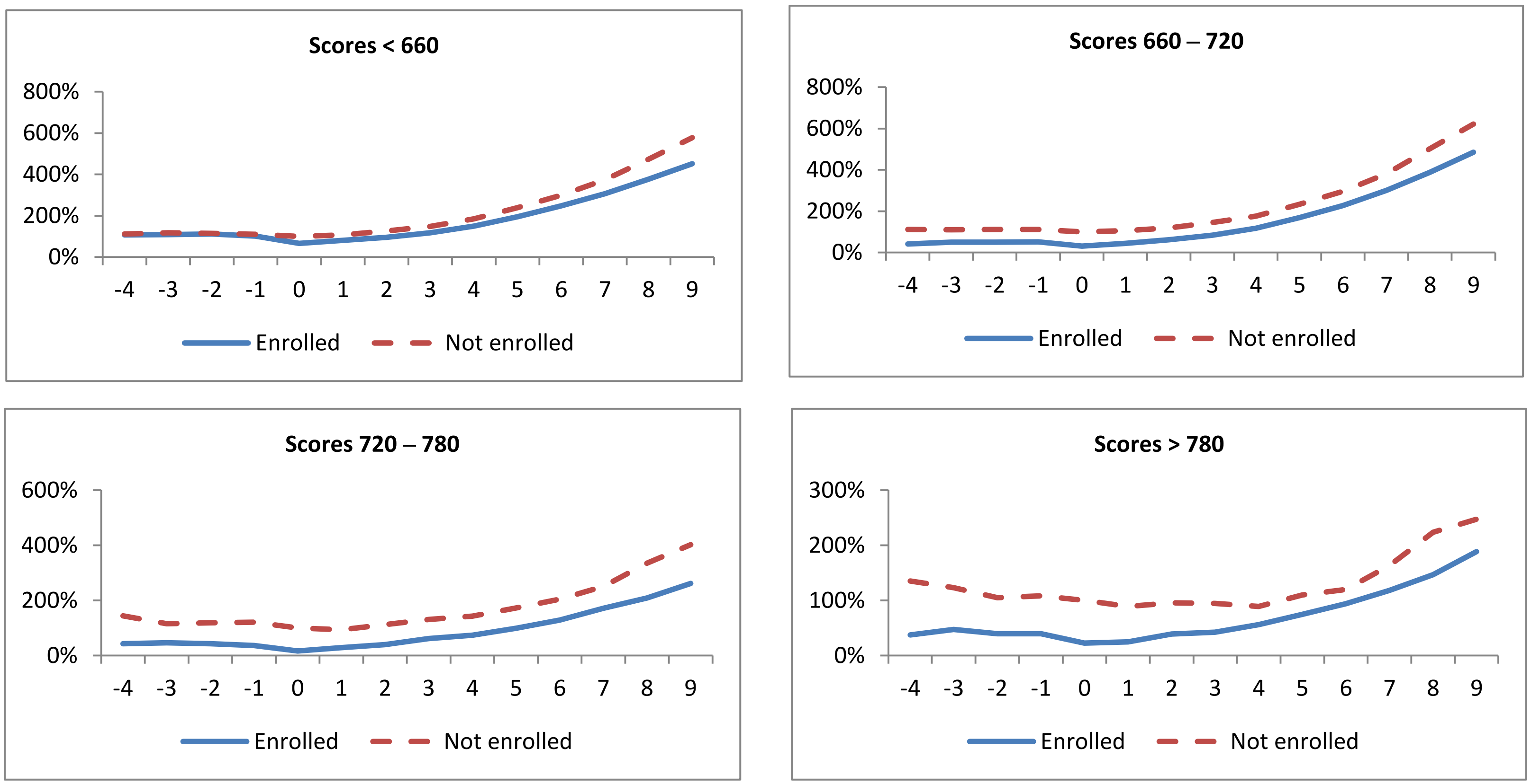
Source: Barclaycard U.S.

The enrolled cardholders' utilization rates of their Barclaycard account(s) and those not enrolled in the program are presented in Figure 3. Similar to Figure 2, this figure shows the indexed utilizations rates for the four groups of customers separated into score bands. The two groups of consumers with lower scores (below 660 and between 660 and 720) generally seem to show reduced utilization rates after enrolling in the program. These customers traditionally have very high utilization rates. According to the discussion of major factors influencing FICO Scores previously presented in the paper, a high utilization rate may play an important role in the scores for these groups. Thus, it is possible that this is one of the two factors listed as affecting customers' FICO Scores when they access the FICO Score page.

The behavior of the other two groups of cardholders seems to be different: They generally do not show as large of a reduction in their credit card utilization and tend to show that utilization remains above that of their nonenrolled peers. This finding may be because of low pre-enrollment utilization and a low likelihood for high utilization to be one of the two major factors affecting the credit scores of these consumers. Overall, credit card utilization by the most risky (underserved and aspiring prime) cardholders seems to decline after they enroll in the program. However, the utilization of less risky (prime and super-prime) customers is little changed, which may preserve earned income from these accounts.[16] This trend may benefit lenders because the balances at risk among the most risky customers are reduced, while the utilization by less risky customers is unchanged.

[16] An important caveat of this result is that it has not been validated using a randomized sample to control for any selection issues.

Figure 4. Indexed 30+ Days Delinquency Rates of Enrolled and Not Enrolled Consumers in the FICO Score Open Access Program



Note: The base category is the population not enrolled in the FICO Score Open Access Program at time 0.

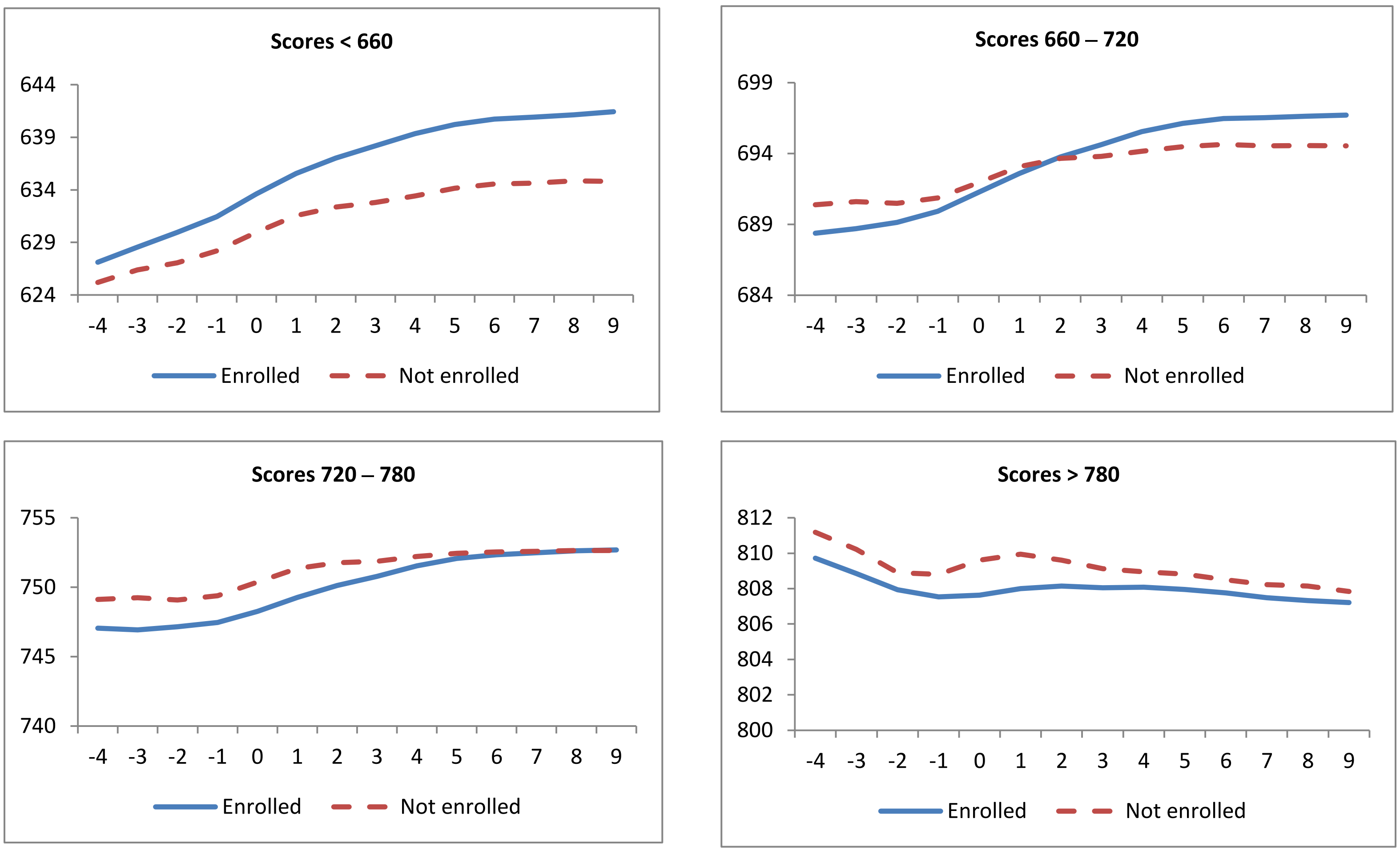
Source: Barclaycard U.S.

Figure 4 reports the indexed 30+ days delinquency rates of the FICO Score access program enrollees and nonenrollees.[17] Similarly to the previous figures, this plot displays delinquency rates for cardholders in the four credit score groups. Enrolled underserved cardholders (the first panel of Figure 4) appear to have similar delinquency rates to their nonenrolled peers in the four months before enrollment. However, upon enrollment, program participants showed delinquency rates that diverge from the delinquency rates of their nonparticipating counterparts. Although the delinquency rates of both groups increase after enrollment, the delinquency of program participants stays below the comparison group for up to nine months after enrollment.

Delinquency rates of the other three groups of program enrollees are well below delinquency rates of their nonparticipating peers. This may be due to some selection on the part of the program enrollees. Despite this caveat, the delinquency rates of the program participants stay below the rates of nonenrollees even nine months after the time of enrollment.

[17] *Delinquency* is defined as greater than 30 days past due in making required monthly payments on a credit card on time.

Figure 5. Indexed FICO Scores of Enrolled and Not Enrolled Consumers in the FICO Score Open Access Program



Note: The base category is the population not enrolled in the FICO Score Open Access Program at time 0.

Source: Barclaycard U.S.

Figure 5 depicts the evolution of the FICO Score Open Access program enrollees and nonenrollees split into the four score groups. This figure seems to suggest that credit scores of underserved, aspiring prime, and prime cardholders increase after enrollment in the program. The scores of the super-prime group stay the same. Some increases in credit scores of the first three groups of enrollees are larger than increases in the scores of nonenrollees, which may suggest a positive effect of program participation on educating the enrollees.

In addition to better performance of the program enrollees in terms of purchases, credit card utilization, riskiness, and delinquency, Wilmore emphasized lower attrition among this population. In particular, the difference in the annualized attrition between enrollees and nonenrollees is equal to 6 percentage points eight months after enrollment, which is significant relative to the industry average. According to Wilmore, the FICO Score Open Access program also increased consumer awareness of Barclays' products and services.

V. Conclusion

Applying his experience with the program giving free access to FICO Scores, Wilmore emphasized the ways in which consumer financial education can benefit both the consumer and the lender. The program displays FICO Scores free of charge to credit cardholders who opt in to receive this information. Cardholder adoption, engagement, and feedback have shown this program to be a valuable and convenient feature for Barclaycard U.S. cardholders. In addition, increases in customers' digital engagement, low additional operational expenses, and the potential for this program to be a positive influence on cardholder behavior provide benefits to the lender.[18]

Wilmore attributes some of the success of the program to its gradual rollout and application of an opt-in strategy. The opt-in strategy allowed Barclays to communicate supplemental information about the FICO Score at the point of enrollment. Wilmore believes this decision was important in minimizing operational support costs for this program. In his opinion, the opt-in strategy also helped reduce consumer confusion about the FICO Score and whether it is the score used in credit card lending decisions made by Barclays. In summary, Wilmore emphasized that providing the FICO Score Barclays uses in lending decisions free to customers is an important example of financial market participants sharing information that can help improve outcomes not only for cardholders but also for lenders.

[18] While enrollment in the program is associated with positive changes in cardholder behavior, these changes may not be causal.

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