 Washington Mutual


**Credit Scoring**

What you don't know CAN hurt you  
Hollis Fishelson-Holstine

April 13 2006

$$g = \frac{P_1 f_1(s)}{f(s)} g - \frac{P_2 f_2(s)}{f(s)} g - P_3 (1 - F_3(s)) g - P_4 (1 - F_4(s)) g$$


$$= \sum_{s=1}^n \left[ \frac{P_1 f_1(s)}{f(s)} g - \frac{P_2 f_2(s)}{f(s)} g - P_3 (1 - F_3(s)) g - P_4 (1 - F_4(s)) g \right]$$

 Washington Mutual

**Agenda**


- ▶ What is credit?
- ▶ Why should I care?
- ▶ Tale of a college student
- ▶ What to do (and not to do)
- ▶ Test what you've learned
- ▶ Q&A

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**What is credit?**  Washington Mutual

- Ability to borrow money or obtain goods by paying little or no money at the time of purchase.
- Your promise to pay the original cost later or over time plus interest.

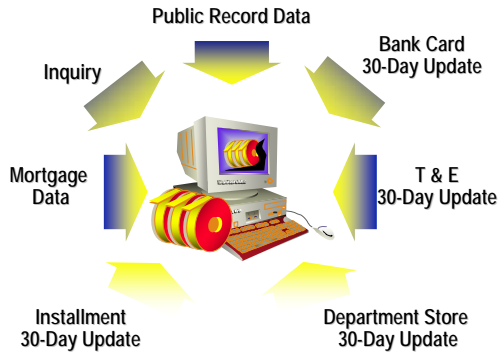
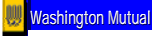
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**What is credit?**  
**Why do you need credit?**  Washington Mutual

- Buying a home
- Getting a job
- Getting phone service
- Renting an apartment
- Finance an automobile
- **Spreading out payments for expensive items**
- **Qualify for insurance**
- **Get a loan**
- **Obtain a credit card**

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## What is credit? What is a credit bureau file?



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## What is credit? Sample credit bureau report "The five information zones"



### BUREAU REPORT

- IDENTIFYING (PERSONAL) INFORMATION**  
I. Wishfor Credit  
805 Main St.  
Anytown, America 77777  
12 Lost Lane  
Somewhere, USA 66666  
Date of Birth: 1-25-45  
SSN 888 88 8888  
Sam's Gas & Oil  
Attendant
- PUBLIC RECORD (LEGAL ITEMS)**  
9-96 Judgment \$1000 Satisfied 3-97
- COLLECTION ITEMS**  
7-95 Collection \$500
- TRADE LINE (ACCOUNT) INFORMATION**

Industry	Date Reported	Date Opened	High Credit	Balance	Current Rating	Historical Rating
Bankcard	6-98	3-80	\$5,000	\$0	Current	120+, 6 yrs ago
Auto loan	6-98	7-87	8,000	1,500	Current	
Retail	3-98	6-83	1,000	200	Current	30 days

- INQUIRIES**

Date	Industry	Date	Industry
7-01-98	Bank	6-01-98	Auto finance
6-15-98	Oil company	2-07-98	Retail

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## What is credit? What is your FICO® (or other) score?

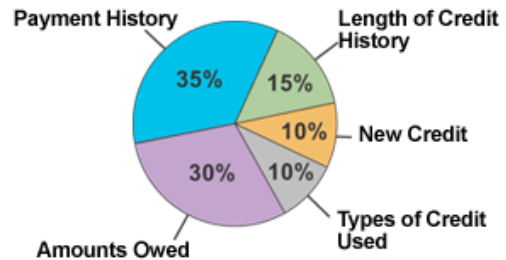


The screenshot shows the myFICO website interface. It displays a "FICO® Score Analysis" for March 22, 2002, with a credit score of 731. The score is compared to a national average of 688. A bar chart shows the score distribution, with the user's score of 731 in the 40% range. The website also lists various services like "Bank Alerts", "Credit Cards", and "Mortgage Services".

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## What is credit? Categories of Information in FICO score



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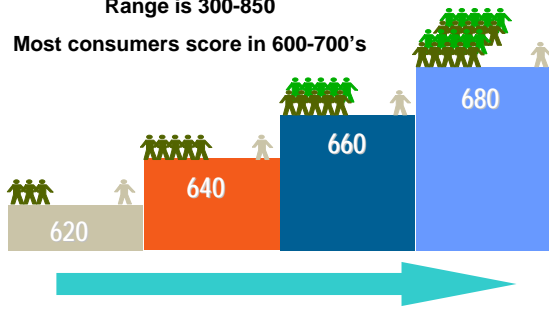
8

## What is credit? What's a good score?



Range is 300-850

Most consumers score in 600-700's



The higher the score the better

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## What is credit? Examples - Previous credit performance

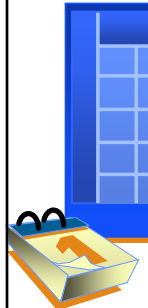


*What types of information does this include?*

- ▶ Trade lines
- ▶ Public records
- ▶ Collection segments

*What questions are answered by this information?*

- ▶ Recency – How long ago was the last delinquency?
- ▶ Severity – What level of delinquency was reached?
- ▶ Prevalence – How many credit obligations have been delinquent?



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## What is credit? What's NOT used in CB Scores



- ▶ Race, color, religion, national origin, sex and marital status (prohibited)
- ▶ Age (at least not FICO score)
- ▶ Salary, occupation, title, employer, date employed or employment history (ARE used in custom)
- ▶ Where you live
- ▶ Interest rate being charged
- ▶ Child/family support obligations or rental agreements
- ▶ Certain inquiries – 'consumer-initiated'; 'promotional inquiries', 'administrative inquiries'
- ▶ Whether participating in credit counseling

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## What is credit? Who can get a copy of your credit report?



- ▶ YOU
- ▶ Extension of credit
- ▶ Review of current account
- ▶ Employment decision
- ▶ Landlords
- ▶ Question of insurance eligibility
- ▶ Court order

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## Why should I care?

### Generic Benefits of Credit Bureau Scoring



- ▶ Unprecedented consumer access to > \$7 Trillion in credit
- ▶ Accurate and efficient decision-making leading to reduced costs and increased speed and convenience for consumers
- ▶ Enhanced competition leading to greater access to credit and lower costs
- ▶ Increased liquidity due to the growth of secondary markets
- ▶ Increased consumer mobility

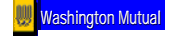
Tower Group Report, Walter Kitchenman, 1999  
Credit Research Center, 2003

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## Why should I care?

### How Credit Scoring Helps You



- ▶ People can get loans faster
- ▶ Credit decisions are fairer
- ▶ Older credit problems count for less
- ▶ More credit is available
- ▶ Credit rates are lower overall

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## Why should I care?

### Let's make it more immediate



- ▶ You'll care that you have a good credit score when you ...
- ▶ Are ready for a 'real' job
- ▶ Are ready for better home entertainment system
- ▶ Are ready for a nicer car
- ▶ Rent an apartment
- ▶ Get your phone & electric set up
- ▶ Get a better interest rate

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## Why should I care?

### Cost of credit



**Assume you get a 5-year, \$20,000 car loan**

**The difference between a lower vs higher interest rate could mean a savings of \$3,600!**

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## Tale of a College Student Tina - Freshman Year

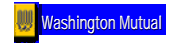


BEHAVIOR OR ACTION	CHANGE IN SCORE	CURRENT FICO SCORE	THE CREDIT SCORE CURVE
Acquire Credit Card with \$1,000 limit. Buy books & supplies. Pays at least minimum due when bill arrives	-	780	A+
Spring Break \$ throws party and maxes out card	-150	630	C
Applies for and gets 2 <sup>nd</sup> credit card	-10	620	C

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## Tale of a College Student Tina - Sophomore Year



BEHAVIOR OR ACTION	CHANGE IN SCORE	CURRENT FICO SCORE	THE CREDIT SCORE CURVE
Over summer works hard and pays balance on first card	+180	800	A+
September, car needs major repairs to get to work. Bill maxes out both card	-180	620	C
October: forgets to tell one credit card company she's moved, so payment on account, including late fees, is \$100 and 30 days past due	-130	490	F
Makes up late payment and pays just minimum due on time on both cards for rest of year	+70	670	B

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## Tale of a College Student Tina - Upper Classman

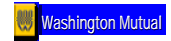


BEHAVIOR OR ACTION	CHANGE IN SCORE	CURRENT FICO SCORE	THE CREDIT SCORE CURVE
<b>JUNIOR YEAR</b>			
Works hard to pay down debts by paying \$50 > min pay on each card and using cards sparingly	+70	670	B
<b>SENIOR YEAR</b>			
Pays off almost all debt by graduation; paid bills on time for solid 2 years; credit once again excellent	+100	770	A+

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## What to Do (and NOT to do) How can I get credit?



- Establish an account
  - ▶ Ask a local company
  - ▶ Find a co-signer
  - ▶ Get a secured credit card
- Use it responsibly for a year or two
  - ▶ Pay all bills promptly
  - ▶ Don't bounce checks
- Shop around
  - ▶ Compare several offers
  - ▶ You'll quickly see the bad deals

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## What to Do (and NOT to do) Why is credit denied?



- No credit history
- Too much outstanding credit
- Credit not handled responsibly in the past
- Victim of fraud

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## What to Do (and NOT to do) Read the fine print



- Go over the contract carefully.
- Fine print contains important details.
- Don't rush into signing anything.
- Once a contract is signed, get a copy of it.
- Know the penalties for missing payments.

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## What to Do (and NOT to do) Know the cost of credit



- Figure out total price when paying with credit.
- Make the largest payments possible.
- Ask about the penalties for missed payments.
- Don't be misled into thinking small payments are the best option.

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## What to Do (and NOT to do) How can I get a copy of my credit report?



- Go to: [www.annualcreditreport.com](http://www.annualcreditreport.com)
- Based on recent legislation, everyone is entitled to a free credit report from each of the three bureaus once per year
- You'll need:
  - ▶ Full name
  - ▶ Social Security number
  - ▶ Addresses for past 2-5 years, telephone number
  - ▶ Birthdate

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## What to Do (and NOT to do) Getting your score



myFICO<sup>®</sup> See how lenders see you<sup>™</sup>

Check out your FICO<sup>®</sup> Score today... See how lenders see you.

myFICO is the only service offering North American consumers their FICO score and scored three-bureau reports

- 2.5 million customers in first two years
- Partnership opportunities for lenders and others
- Online at [www.fairisaac.com](http://www.fairisaac.com)
- "A must" –Wall Street Journal

Product	FICO Score	APR
NAME: <i>Tamara</i>	720-850	5.73%
FICO SCORE: 719	719-719	5.95%
GOAL: <i>Buy my first home</i>	675-699	6.29%
	620-674	7.56%
LENDER VIEW:	560-619	8.23%
Low Credit Risk	500-559	8.66%

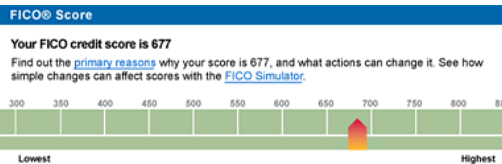
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## Washington Mutual Platinum MasterCard



Exclusive feature: Online access to your credit score.\*Your Platinum credit card comes with free online access to your FICO<sup>®</sup> credit score and tools to help you understand, track, and manage it. As a cardholder you can see your score online, just like this:



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## What to Do (and NOT to do) FICO<sup>®</sup> Scores and Interest Rates



National Average Home Lending Rates (APR) by FICO Score

Home Mortgage Option	560-599	600-619	620-674	675-699	700-719	720-850
30-year mortgage	11.92%	10.12%	8.44%	7.26%	6.76%	6.01%
15-year mortgage	-	-	8.04%	6.90%	6.35%	6.10%
20-year mortgage	-	-	8.04%	7.07%	7.01%	6.76%
1-year mortgage	-	-	6.90%	7.26%	6.32%	6.02%
1. ARM mortgage	-	-	6.92%	5.78%	5.24%	4.99%
1.5 ARM mortgage	-	-	7.26%	6.02%	5.50%	6.10%

Interest Rates as of 3/4/2002

Interest rates for FICO scores between 500-619 are only displayed for 30-year fixed mortgages since the availability of other loan types in this range is limited. Check with your lender for rates on these other loan options.

National Average Auto Lending Rates (APR) by FICO Score

Auto Loan Option	560-599	600-619	620-674	675-699	700-719	720-850
36-month lease plus	7.61%	16.40%	12.33%	9.44%	7.47%	6.72%
48-month lease plus	7.61%	16.40%	12.33%	8.43%	7.40%	6.74%

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## What to Do (and NOT to do) Fair Isaac Advise to Consumers



- ▶ Pay bills on time
- ▶ Keep balances low on revolving credit
- ▶ Use credit, but don't open a lot of new accounts too rapidly
- ▶ Do rate shopping within focused period of time
- ▶ Re-establish credit history if you've had problems
- ▶ Apply for and open new credit accounts only as needed

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## What to Do (and NOT to do) What is identity theft?



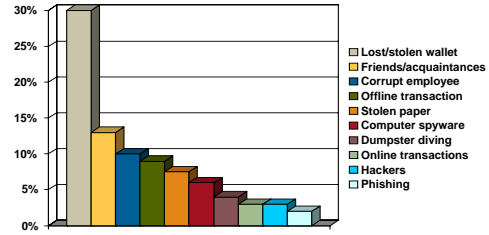
- ▶ Identity theft occurs when someone steals personal information to take over credit accounts, open new accounts, take out loans, rent an apartment, access bank accounts, or commit other similar crimes.
- ▶ Nearly 10M people fall victim each year, costing consumers \$5B in out-of-pocket losses and businesses \$48B (FTC)
- ▶ On average, identity thieves stole \$5,00/person in 2004\*
- ▶ Median out-of-pocket cost per fraud victim in 2004 was \$750\*
- ▶ On average, victims spend 28 hours resolving problems due to identity theft\*

\*January 2005 Identity Fraud Survey Report, co-released by Javelin Strategy & Research and the Better Business Bureau

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## What to Do (and NOT to do) Sources of Information for Identity Theft

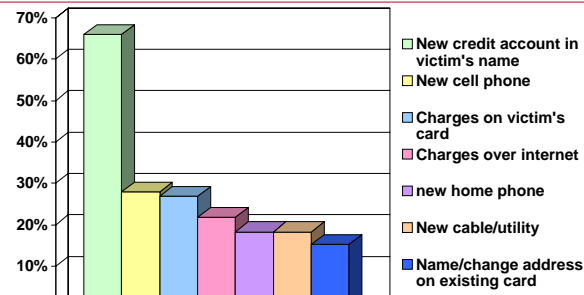


Source: January 2005 Identity Fraud Survey Report, co-released by Javelin Strategy & Research and the Better Business Bureau

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## What to Do (and NOT to do) How it's Used

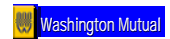


Source: Identity Theft Resource Center (2004)

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## What to Do (and NOT to do) Preventing Identity Theft



- ▶ Monitor your account
- ▶ Be careful with your passwords
- ▶ Don't open email from unknown sources
- ▶ Beware of phishing attacks
- ▶ Don't email personal or financial information
- ▶ Use the best virus and firewall protection
- ▶ Exercise caution when using ATMs
- ▶ Always check your statements for unusual withdrawals

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**Additional Information  
(see handout)**



- ▶ **[www.annualcreditreport.com](http://www.annualcreditreport.com)**
- ▶ **[www.myfico.com](http://www.myfico.com)**
- ▶ **<http://www.practicalmoneyskills.com>**
- ▶ **[www.fdic.gov](http://www.fdic.gov) (then click on consumer section)**
- ▶ **[www.consumer.gov/idtheft](http://www.consumer.gov/idtheft)**
- ▶ **[www.consumer-action.org](http://www.consumer-action.org)**
- ▶ **[www.whatsmyscore.org](http://www.whatsmyscore.org)**