

Fair Isaac's reaction to Vantage Score System

Heard about the new [Vantage Scoring System](#)? It's scheduled to be rolled out by the credit bureaus later on this year. This was posted on our discussion boards by a Fair Isaac employee (Fair Isaac created the existing model the credit bureaus use). The post can be found [here](#). Yes, I believe the poster is an actual employee.

Before I share this info... Yes I am a Fair Isaac employee. And yes I obtained prior approval from our PR dept before posting this. This document was posted on our Intranet site last week.

March 23, 2006

FREQUENTLY ASKED QUESTIONS

BACKGROUND

On March 14, 2006, the three national credit reporting agencies, Equifax, Experian and TransUnion, jointly announced the creation and availability of VantageScore, a new credit risk score. According to their announcement, the new score was developed through a collaborative effort by all three credit reporting agencies. The score is being independently marketed and sold through each of the three credit reporting agencies via licensing agreements with VantageScore Solutions, LLC, a company that the agencies have established. The following FAQ provides answers for use by Fair Isaac employees to the most common questions directed to Fair Isaac in the days immediately following their announcement.

Q: Did Fair Isaac help develop the new score?

No. Fair Isaac was not involved in the development of the new score, and any questions regarding VantageScore from sources outside of Fair Isaac should be directed to Equifax, Experian and TransUnion.

Q: Who has more experience in credit bureau-based risk scoring, Fair Isaac or the credit reporting agencies?

Fair Isaac has the most experience. Behind our FICO® scores' unsurpassed performance is 50 years of analytic expertise and 25 years of analyzing credit reporting agency data. We developed the first credit risk score in 1958, the first credit reporting agency score models in 1981, and launched the first general-purpose FICO score in 1989. Our analytic scientists have the most experience studying the nuances of data, allowing us to make the scores more powerful with each redevelopment.

Q: Is there a market for the new score? At this point, we don't know enough about the underlying science of the new score to comment in detail.

However, the ongoing – and growing – success of the FICO score demonstrates that Fair Isaac is already meeting the market's demand for a consistent measure of credit risk across the three credit reporting agencies. FICO scores have been available since 1989 and are used by most lenders when making billions of credit decisions annually. FICO scores are routinely tested and have become relied upon by lenders, rating agencies, the Wall Street community and a growing base of consumer advocates and personal finance experts. Fair Isaac credit bureau risk scores provide a common language for risk in many industries, including consumer credit, commercial credit, mortgage and telecommunications. They are endorsed or used by such industry-leading organizations as Fannie Mae and Freddie Mac for secondary mortgage lending, and Standard & Poor's

and Fitch IBCA in the rating environment.

Q: Will the introduction of the new score hurt Fair Isaac?

We are confident that, provided a choice, lenders will continue to rely upon FICO scores to make the most objective, fair and profitable risk management decisions. Competition has been a fact of life in our industry, and the individual credit reporting agencies have attempted in the past to compete with Fair Isaac by offering scoring alternatives. Yet, FICO scores have continued to be used by the vast majority of banks and lenders in the United States to make the smartest possible lending decisions and grow more profitable. This is the first time that the credit reporting agencies have coordinated their efforts to develop a new risk score and we will monitor lender reactions and take all steps necessary to ensure Fair Isaac remains lenders' scoring system of choice.

Q: Will the new score replace FICO scores in lenders' risk evaluation process?

Based on what we know now, as long as the market is free from competitive restraint, competition from FICO scores (both Classic and NextGen) will be significant because FICO scores have widespread acceptance by consumer lending and securitization users, as well as acceptance by key regulatory bodies as reliable. Their confidence in FICO scores is the result of the FICO score's proven predictability and Fair Isaac's continuous work to update and fine-tune our scoring models to ensure the most precise risk predictions and score explanations possible. Lenders and regulators also value our neutrality in the credit data industry and our ability to objectively analyze and utilize credit bureau data – which differs from bureau to bureau – to generate highly predictive, reliable risk scores.

Q: Does the introduction of VantageScore signal a breakdown in Fair Isaac's relationship with its credit reporting agency partners?

No. Even as our partners introduce VantageScore, Fair Isaac is working with each of the three credit reporting agencies to continue delivery of billions of FICO® scores annually to lenders and other businesses. And we are planning to introduce additional products that Fair Isaac is developing in collaboration with the credit reporting agencies. Of course, we cannot speak to the intentions of the credit bureaus.

Q: How does the new score's scale differ from the FICO scoring scale?

According to the credit reporting agencies, their VantageScore uses a numeric scale of 501-990, and also a parallel alphabetic scale that classifies consumers into fixed A, B, C, D, F scoring 2 grades. These alpha grades strongly suggest that all lenders agree on levels of risk in neat, permanent scoring bands, which is contrary to Fair Isaac's long experience with lenders. Again, we cannot comment on a system we have not yet seen. However, Fair Isaac can say that the FICO scale has served lenders and consumers well for decades, and is increasingly being understood and accepted by consumers as the standard score range. The classic FICO score uses a numeric scale of 300-850 that is well understood and accepted within the financial services industry and regulators. Most lenders' strategies and securitization decisions within this industry are geared toward the use of the FICO score ranges and consumers. A new, different score range could create confusion for consumers and lenders alike.

Q: What does this different approach mean for consumers?

At this stage, we don't know enough about the new scoring system to comment in detail. However, a number of consumer groups, including Consumer Federation of America, have expressed the concern that the introduction of VantageScore adds confusion to a marketplace already filled with consumer misperceptions about credit scoring. Today, consumers can view their FICO credit scores and be confident that the scores are an indication of how most lenders view their credit risk. We will continue our efforts to help

consumers understand that FICO scores are the same scores most lenders use now – and will continue to use – to make their lending decisions. myFICO.com is the one place where consumers can access their FICO scores across multiple credit reporting agencies and receive education from Fair Isaac on managing their credit scores.

Q: The three companies say this new score was developed in response to client demand. Have lenders been asking for a new scoring system?

No. Fair Isaac stays in close contact with all the major U.S. lenders, and none of them have reported to us a desire for a new scoring system. Originally introduced in 1989 and available from all three credit reporting agencies since 1991, our FICO® scores have provided the same consistent and highly effective predictive power regardless of the credit reporting agency providing the data. We have regularly updated and improved our FICO scoring models in response to open feedback from major lenders.

Q: The bureaus claim that the new score uses the same scoring model across all three credit reporting agencies. How is the FICO score approach different?

Each of the credit reporting agencies deploys the Fair Isaac scoring model design for Classic FICO scores and NextGen FICO scores. We believe our design utilizes the most predictive elements at each of the agencies to ensure highly predictive performance at each of the agencies – and to ensure that lenders can trust that a 680 FICO score generated on one bureau's data indicates the same relative level of risk as a 680 FICO score on another bureau's data. Fair Isaac believes that every FICO score should be as predictive as possible based on the available data.

Q: How will the introduction of the new score impact myFICO.com?

We have confidence that myFICO.com will continue its impressive growth as consumers understand that FICO scores continue to be the scores that most lenders use to make credit decisions. In fact, in the days after the bureaus introduced their new score, myFICO.com marked its top two revenue days in the history of the service.

Fair Isaac Statement Concerning Forward-Looking Information

Except for historical information contained herein, the statements contained in this document that relate to Fair Isaac, including statements regarding its FICO score offering and the benefits to be derived from the offering, are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially, including issues involving the marketing and distribution arrangements for Fair Isaac's products, any unforeseen technical difficulties related to the implementation, use and functionality of Fair Isaac's product offerings, the risks that customers will not perceive material benefits from the offerings, failure of the products to deliver the expected results, the possibility of errors or defects in the offerings, regulatory changes applicable to the use of consumer credit and other data, and other risks described from time to time in Fair Isaac's SEC reports, including its Annual Report on Form 10-K for the year ended September 30, 2005, and quarterly report on Form 10-Q for the period ended December 31, 2005. Forward-looking statements should be considered with caution. If any of these risks or uncertainties materializes or any of these assumptions proves incorrect, Fair Isaac's results could differ materially from Fair Isaac's expectations in these statements. Fair Isaac disclaims any intent or obligation to update these forward-looking statements.

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Editor's take on this: I'd Fair Isaac is very worried about this. And further more, I'd say that the Vantage system is an attempt of the Big 3 to break free of the Fair Isaac stranglehold on the credit scoring system. I'm sure the licensing of the credit scoring model developed from Fair Isaac is VERY expensive. I'd say a little competition is a good thing, but who knows how accurate the Vantage scoring system is. What kind of data do the credit reporting agencies have to back up the validity of their models?

Will consumers be hurt by it? Who will use it? Is it an attempt by the big 3 to stop lawsuits from those unfairly damaged by the system currently used by Fair Isaac, over which they have no control? I'd say there are more questions than answers at this point.