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June 26, 2009

Director Michael McRaith, (IL) Chair
The Property and Casualty Insurance (C) Committee
Commissioner Kim Holland (OK) Chair
The Market Regulation and Consumer Affairs (D) Committee
National Association of Insurance Commissioners
444 N. Capitol Street, NW, Suite 701
Washington, DC 20001-1509

(Via Email – Eric Nordman, enordman@naic.org)

RE: NAIC Hearing on Credit-Based Insurance Scores – June 15, 2009

Dear Director McRaith, Commissioner Holland,

Fair Isaac Corporation (FICO™) would like to address some of the open questions from your June 15th hearing.

What is the impact to “no hit/no score” consumers seeking auto or home insurance?

While FICO is the originator and leading provider of Credit-Based Insurance Scores (CBIS) to the insurance industry, we aren't an advisory organization upon which insurers rely for form, rate or rule guidance. It is our understanding, however, that when an insurer receives a notice of “no hit” (consumer unable to be found in the credit reporting agency database) or a notice of “no score” (too little information on a consumer's file to provide an accurate score) for a consumer seeking insurance, the insurer is required to follow the applicable law or statute for that consumer's state.

In most states, that means the insurer must treat the consumer in a “neutral” or “preferred” manner with respect to credit, relying on all other remaining factors for their underwriting and pricing decisions. The consumer benefits as the insurer employs either of these approaches. Because analysis shows that “no hit/no score” segments of the population generally have higher than average loss ratios, there are a small number of states that allow an insurer to provide information as part of their rate filing that more appropriately considers the risk presented by consumers found in the “no hit/no score” populations.

How does a credit-based insurance scoring model treat the payment of revolving credit balances in full monthly?

Analysis of consumer credit behavior finds that owing a substantial balance on revolving accounts (such as credit cards and bankcards) relative to the amount of revolving credit available to you represents increased insurance loss risk. FICO CBIS models evaluate total balances in relation to total available credit on revolving accounts, as well as on individual revolving accounts. For a given amount of revolving credit available, a greater amount owed indicates a greater risk, and lowers the score. (For credit cards, the total outstanding balance on the consumer's last statement is generally the amount that will show on the credit bureau report. Even if a consumer pays off their credit cards in full every month, their credit bureau report may show the last billing statement balance on those accounts.) Paying down revolving

account balances is a good sign that a consumer is able and willing to manage and repay their debt, and this will increase their score. On the other hand, shifting balances among revolving accounts, opening up new revolving accounts, and closing down other revolving accounts will not necessarily improve their score, and could possibly decrease their score.

What is the difference between a “credit risk score” used by lenders and a “credit-based insurance score” used by insurers?

It is important to understand the difference between FICO® Credit-Based Insurance Scores and FICO® Credit Risk Scores. FICO CBIS scores predict likely future insurance loss ratio relativities, while FICO Credit Risk Scores predict the likelihood of future serious delinquencies or defaults on credit obligations. While FICO analytic and model development techniques are similar for both sets of models, the models are developed to predict completely different outcomes. While some credit variables have proven to predict each outcome to some degree, the significance (or predictive value) of these variables to the respective outcomes can vary greatly.

With respect to FICO CBIS models, the general categories of predictive value for the overall population are as follows. In general.....

- 40% of a consumer’s final FICO CBIS score will have been influenced by information from a variety of credit variables that reflect “payment history” to include the number, severity and recency of any delinquencies;
- 30% of a final score will have focused on multiple variables that reflect “outstanding debt” or overall “limits-to-balances” considerations;
- 15% of a final score will have considered the predictive value of factors that reflect “length of credit management history” for all credit accounts as well as the average lengths of those credit accounts;
- 10% of a final score will reflect factors that focus on whether a consumer has sought or obtained new credit obligations in the past year; with adjustments in place for multiple mortgage and auto loan inquiries; and
- 5% of a final score will reflect the predictive value of “credit mix” (e.g., revolving credit vs. installment credit accounts) to future insurance loss ratio relativities.

Thank you for the opportunity to present this information. I look forward to responding to any additional questions from your Committees.

Sincerely,



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