

# Does providing FICO Scores influence financial behavior?

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Sallie Mae

# Credit Basics

Credit health plays an important role throughout an individual's life, whether someone is trying to qualify for a loan or even looking for a job

- **Credit** is an arrangement an individual makes with a company or individual to receive goods, products, or services now that will have to be paid for later
- A **credit history** is a collection of all the financial information that relates to an individual's life. It helps creditors decide, "If I loan someone money, what are the odds that they will repay it?"
- A **credit score** is a number that summarizes an individual's credit risk

Source: <http://ficoscore.com/fag/> September 2017

# National Credit Bureau Agencies

**EQUIFAX: Phone: 800-685-1111**

**Website: [www.Equifax.com](http://www.Equifax.com)**

**Experian: Phone: 888-397-3742**

**Website: [www.Experian.com](http://www.Experian.com)**

**TransUnion: Phone: 800-916-8800**

**Website: [www.TransUnion.com](http://www.TransUnion.com)**

# FICO Scores®

Lenders can request FICO® Scores from all three major consumer reporting agencies — TransUnion, Equifax, and Experian. FICO® Scores can influence the credit limit, interest rate, loan amount, rewards programs, balance transfer rates, and other terms offered by lenders.

A FICO® Score is a three-digit number calculated from the credit information on an individual's credit report at a particular point in time. It summarizes information in your credit report into a single number that lenders can use to assess your credit risk quickly.

FICO® Scores generally fall within the **300-850** score range.

Learning your FICO® Score can help you better understand your credit health.

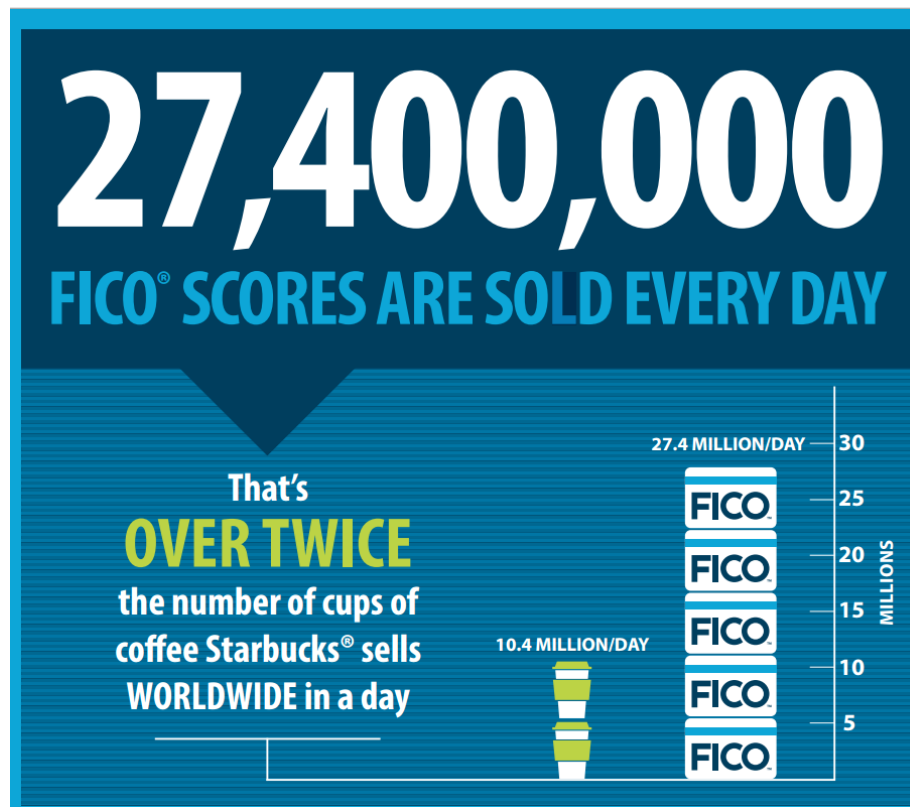
Source: <http://ficoscore.com/fag/> September 2017

# Why your FICO® Score matters

According to TowerGroup, the FICO® Score makes up 90% of the credit scores purchased by lenders.

US News and World Report states, “The FICO Score is the No.1 piece of data to determine how much you’ll pay on a loan and whether you get credit.”

Regulators widely accept the FICO® Score as a trusted, reliable credit risk model standard, which FICO has helped shape over the last 20 years.



# Sharing FICO® Scores: Program Overview

Sallie Mae is committed to providing students with tools that help them borrow responsibly

In 2014, we became the first private student loan provider to give student borrowers free access to their FICO® Scores

47MM FICO® Scores provided to borrowers and cosigners since 2014.

But it's so much more!

- [SallieMae.com/FICO](https://SallieMae.com/FICO)
- Understanding Credit, in partnership with FICO
- Webinars and Conference presentations
- Social Media
- School collateral
- Web experience for students who don't have a FICO Score
- Inclusion in Sallie Mae mobile app

# Quarterly Email



Your Quarterly FICO® Score  
is Available!

[Log in to View »](#)



As a free benefit of your loan, you can view your FICO® Score by **logging in** to your Sallie Mae account on the web or through the Sallie Mae mobile app. If you haven't already downloaded the free Sallie Mae mobile app, get it today from the App Store or on Google Play.<sup>1</sup>

FICO® Scores are the most widely used credit scores in lending decisions. Viewing your score can help you understand your credit risk and effectively manage your financial health. When you **log in**, you'll also see the key factor(s) affecting your FICO® Score.

Learn more at [SallieMae.com/FICO](https://SallieMae.com/FICO)

Thank you for being a Sallie Mae customer!

[Log in to View »](#)

New features make it even easier to manage your loans with the Sallie Mae® mobile app



## Useful Resources

[Understanding Credit Handbook](#)

[Tips for improving your FICO® Score](#)

Receive your credit report from three major bureaus at [annualcreditreport.com](https://annualcreditreport.com)

[Learn more about the Smart Option Student Loan®](#)

# FICO® Score Online and Mobile

Welcome, Daniel | Logout

SallieMae Loans Manage Payments Customer Service [Apply for New Loan >](#)

## Your FICO® Score

**Key Factors affecting your FICO® Score**

- 1. Length of time revolving accounts have been established**  
 People who do not frequently open new accounts and have longer credit histories generally pose less risk to lenders. In your case, the age of your oldest revolving account and/or the average age of your revolving accounts is relatively low.  
  
 Keep this in mind: As revolving credit history lengthens and you pay your bills on time, this factor may have less of a negative impact.
- 2. Proportion of loan balances to loan amounts is too high**  
 Your FICO® Score weighs the balances of your mortgage and non-mortgage installment loans (such as auto or student loans) against the original loan amounts. In general, when you first obtain an installment loan your balance is high, and as you pay your loan down, the balance decreases.  
  
 Keep this in mind: This factor will have less of a negative impact on your FICO® Score as you pay down your installment loans and the total balance decreases.

[Learn More about your FICO® Score](#)

**Additional Information**  
 For more information from FICO about FICO® Scores and credit, click the links below: ...

Search 10:58 AM 92%

## Your FICO® Score

You don't have a FICO® Score yet, but this information can help you better understand credit.

### What is a FICO® Score?

It's a three-digit number, ranging from 300 to 850, calculated from the credit information on your credit report at a particular point in time. A higher FICO® Score means better financial options for you.

As a benefit of your student loan, you can view your FICO® Score for free. Typically, borrowers new to credit will be able to access their FICO® Score about 6 months after their first exposure to credit. Once your score is available, this is where you'll find it. You'll also get to see key factors affecting your score.



# FICO® Score Factors

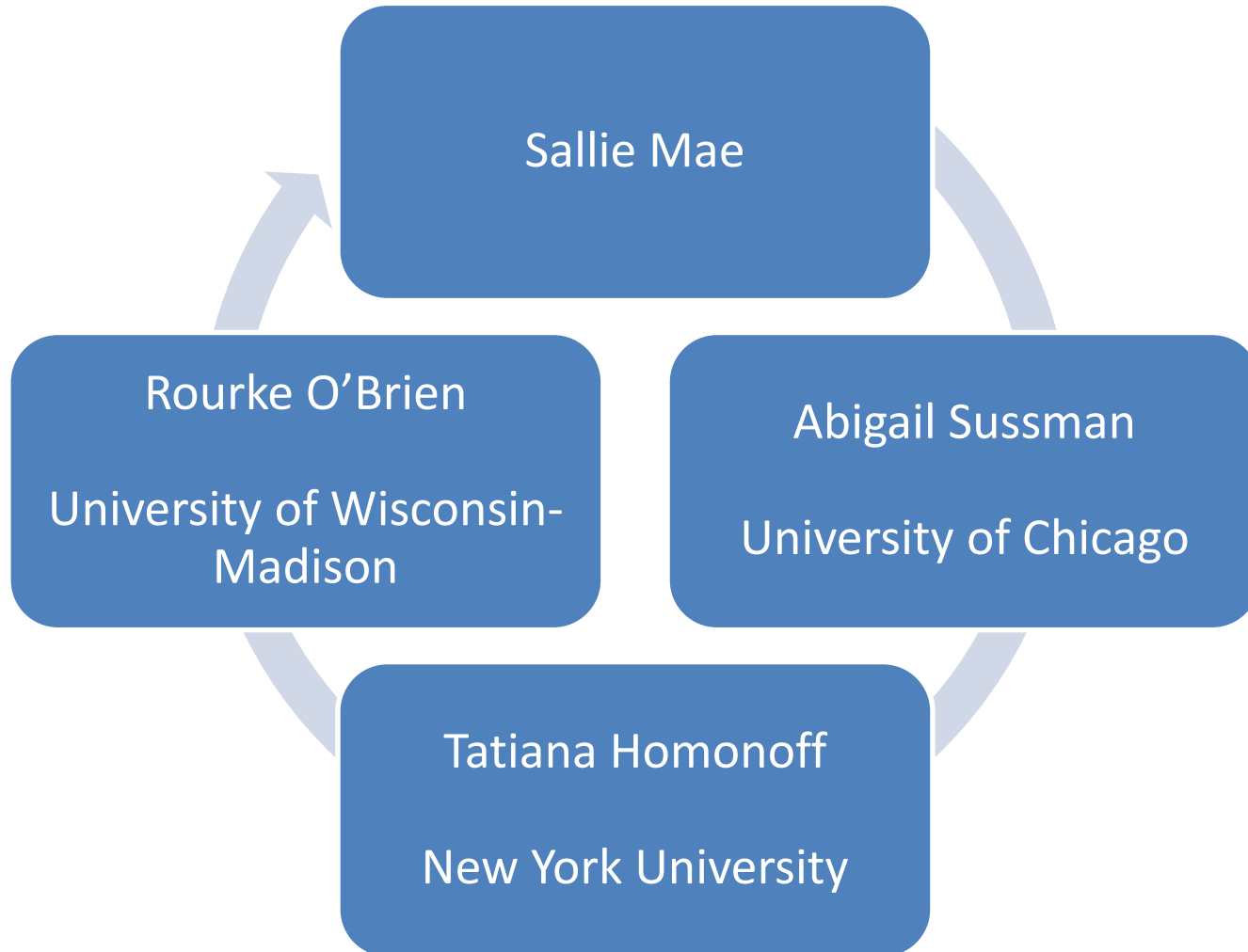
When you receive your FICO® Score, you'll often receive several reasons why your score was not higher. These factors are important because they'll give you an idea of how you can better manage your financial health.

Score factors include:

- The amount you owe is too high
- You owe too much on past-due accounts
- You owe too much on revolving accounts (e.g. credit cards)
- You owe too much on your installment accounts relative to the original amount
- You have a recent public record or collection on your credit report
- You don't have enough revolving accounts to be evaluated

Get ideas on how to manage your credit score at:  
[SallieMae.com/Score](https://SallieMae.com/Score)

# FICO Research Partnership



# Research Goals

Does sharing FICO® Scores have a measurable impact on financial behaviors?

How do students interact with financial literacy tools?

What's the optimal frequency and format for communications?

# The Experiment

The study followed a sample of more than 400,000 Sallie Mae private student loan borrowers between June 2015 and June 2017.

We randomly varied the likelihood of viewing scores through quarterly emails with info about score availability

**Control group:** had access to FICO® score, and *did not* receive an email from Sallie Mae advising when their FICO® Score was updated

**Treatment group:** had access to FICO® score, and *did* receive quarterly emails from Sallie Mae advising when their FICO® Score was updated

Researchers tracked FICO® score viewing data and linked it to individual-level credit report data to determine the effect on financial outcomes

Demographics:

- ✓ 25 years old
- ✓ 82% attended a 4 year school
- ✓ 56% are currently enrolled in school
- ✓ Average FICO® Score is 675
- ✓ Average credit history of 6.5 years

# Credit Report: What it includes

Personal Information												
<b>Name:</b> Joe Sample	<b>Date of Birth:</b> 09/15/1979	<b>Address:</b> 901 Main Street Anytown, USA 12345										
<b>SSN:</b> XXX-XX-XXXX	<b>Telephone:</b> (555)555-5555											
Employment information:												
Acme Widgets	2011-2015											
Joe Sample	1997-2012											
Account Information												
<b>My Bank:</b> Bank Name	<b>Pay Status:</b> Paying as Agreed	<b>Date Opened:</b> 10/24/2010										
<b>Balance:</b> \$0	<b>Account Type:</b> Revolving Account											
<b>Credit Limit:</b> \$500	<b>Loan Type:</b> Line of Credit											
Payment History:												
<i>Year</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>July</i>	<i>Aug</i>	<i>Sept</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2015	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok
2014	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok
Public Record												
None listed.												
Credit Inquiries												
<b>Bank</b> Town Bank	<b>Requested</b> 09/12/2011	<b>Inquiry Purpose</b> Credit Transaction										
Special Message												
None at this time.												
Bureau Contact Information												
Please contact us for any reason at (123)444-5678 or online at CreditReportingBureauofAmerica.com												

Each credit reporting agency's report may look different, but generally they all contain:

- Your identifying information
- The amount of credit available to you
- The amount of credit you're using
- A record of whether you make payments on time or are delinquent
- Collection activities

# Experiment Results

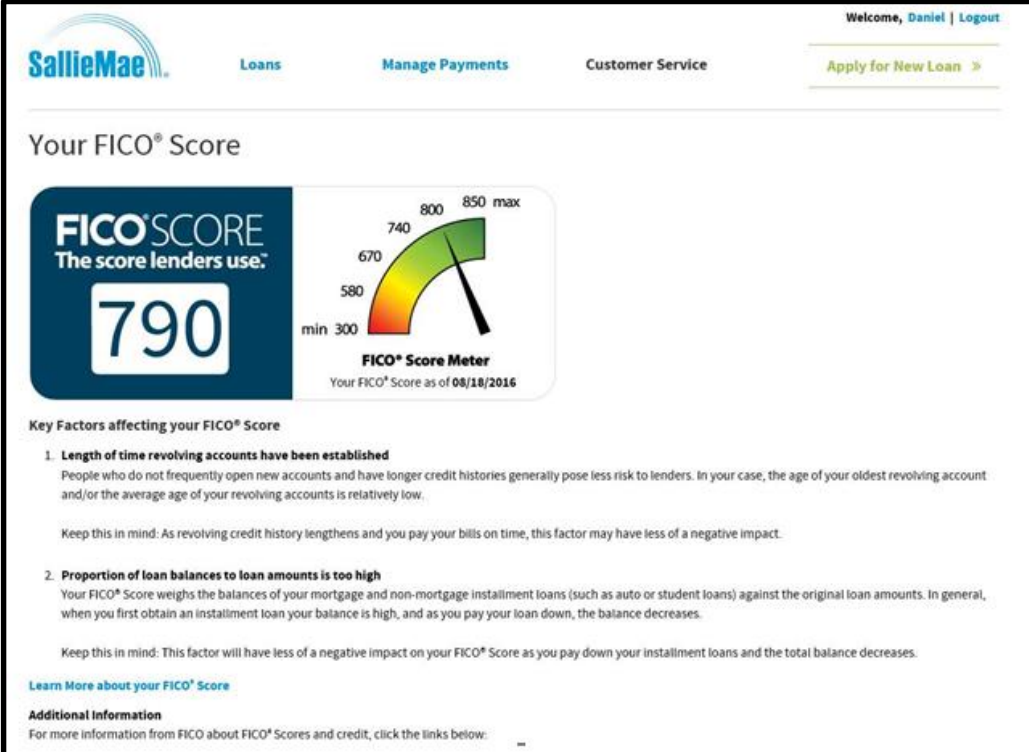
After one year individuals in the treatment group demonstrated:

- Higher rate of FICO Score views
- Fewer past due accounts on average
- More active trade accounts on their credit report
- Higher FICO scores on average

# FICO® Score views

Borrowers who received quarterly emails from Sallie Mae about the availability of free FICO® Scores were 65 percent more likely to view their FICO® Scores

↑ 65%



The screenshot shows the SallieMae user interface. At the top, there is a navigation bar with the SallieMae logo, "Loans", "Manage Payments", "Customer Service", and a "Welcome, Daniel | Logout" link. A "Apply for New Loan" button is also visible. The main content area is titled "Your FICO® Score" and features a large blue box with the text "FICO® SCORE The score lenders use." and a white box displaying the score "790". To the right is a "FICO® Score Meter" gauge showing a scale from 300 (min) to 850 (max), with the needle pointing to 790. Below the score, there are two key factors affecting the score:

- 1. Length of time revolving accounts have been established**  
People who do not frequently open new accounts and have longer credit histories generally pose less risk to lenders. In your case, the age of your oldest revolving account and/or the average age of your revolving accounts is relatively low.  
Keep this in mind: As revolving credit history lengthens and you pay your bills on time, this factor may have less of a negative impact.
- 2. Proportion of loan balances to loan amounts is too high**  
Your FICO® Score weighs the balances of your mortgage and non-mortgage installment loans (such as auto or student loans) against the original loan amounts. In general, when you first obtain an installment loan your balance is high, and as you pay your loan down, the balance decreases.  
Keep this in mind: This factor will have less of a negative impact on your FICO® Score as you pay down your installment loans and the total balance decreases.

At the bottom, there is a link "Learn More about your FICO® Score" and an "Additional Information" section with the text: "For more information from FICO about FICO® Scores and credit, click the links below: -"

## Fewer late payments

Borrowers who are induced to view their score, were significantly less likely to have an account that was 30 days or more past due.

9%





## More active trade accounts on their credit report

Borrowers who are induced to view their score were 3.6 percentage points more likely to have at least one revolving trade account.

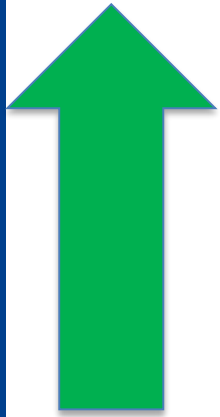


3.6%

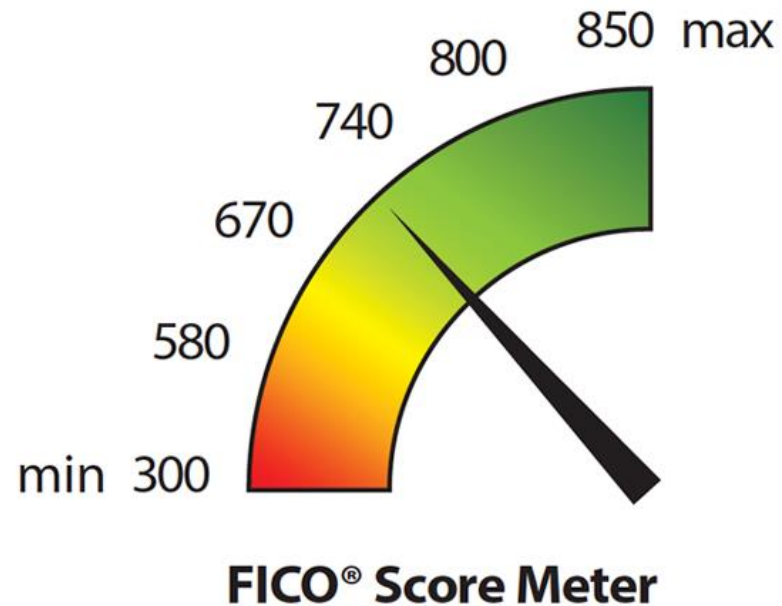


## Higher FICO® Score on average

Borrowers who are induced to view their score increased their average FICO Score by 8.3 points.



**8.3  
points**



# Resources

Read the full research report here:

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3129075](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3129075)

FICO® Score and Credit resources:

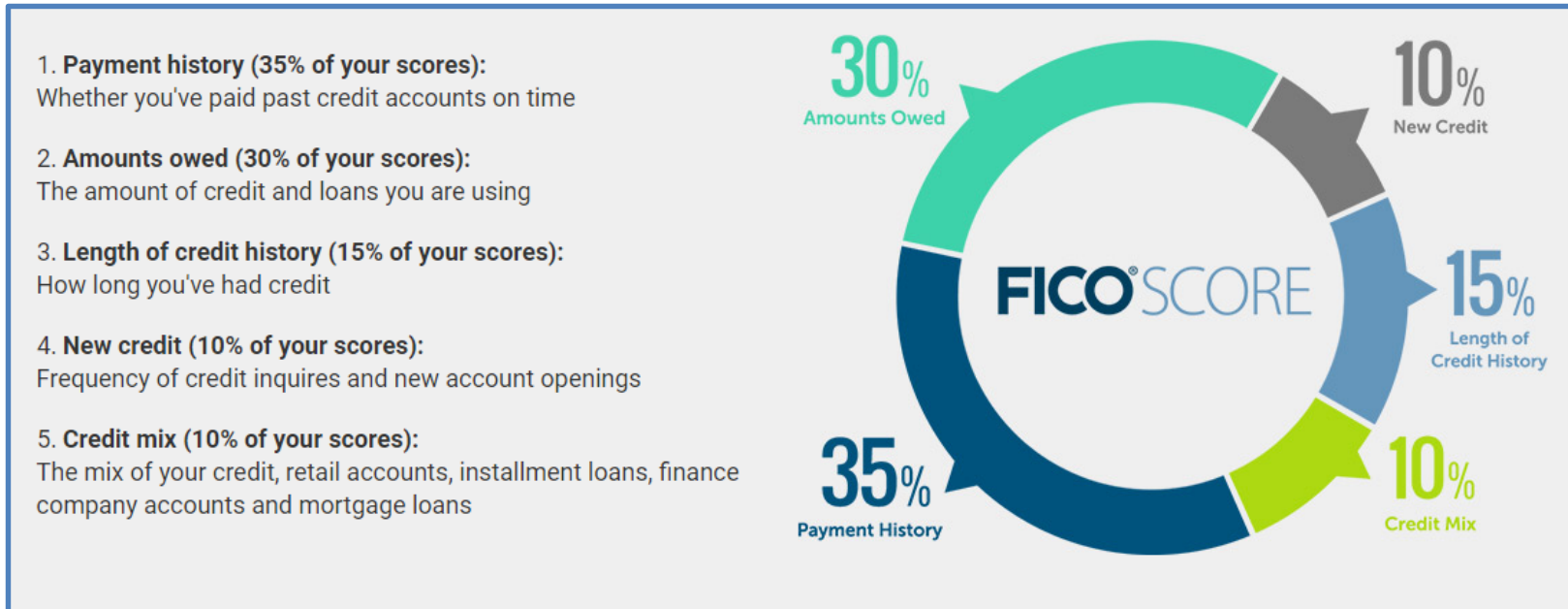
[SallieMae.com/FICO](https://www.salliemae.com/FICO)

[SallieMae.com/UnderstandingCredit](https://www.salliemae.com/UnderstandingCredit)

[myfico.com/credit-education/credit-scores/](https://myfico.com/credit-education/credit-scores/)

[AnnualCreditReport.com](https://www.annualcreditreport.com)

# Components of Your FICO® Score



A good FICO® Score means better financial options for you

Source: <http://ficoscore.com/faq/> September 2017

# • What is a “Good” FICO® Score

The higher the score, the better it is!

FICO® Score	Rating	What FICO® Scores in this range mean
800+	Exceptional	<ul style="list-style-type: none"> <li>• Well above the average score of U.S. consumers</li> <li>• Demonstrates to lenders you are an exceptional borrower</li> </ul>
740 - 799	Very Good	<ul style="list-style-type: none"> <li>• Above the average of U.S. consumers</li> <li>• Demonstrates to lenders you are a very dependable borrower</li> </ul>
670 - 739	Good	<ul style="list-style-type: none"> <li>• Near or slightly above the average of U.S. consumers</li> <li>• Most lenders consider this a good score</li> </ul>
580 - 669	Fair	<ul style="list-style-type: none"> <li>• Below the average score of U.S. consumers</li> <li>• Though many lenders will approve loans with this score</li> </ul>
< 580	Poor	<ul style="list-style-type: none"> <li>• Well below the average score of U.S. consumers</li> <li>• Demonstrates to lenders that you are a risky borrower</li> </ul>

Average  
FICO® Score  
of U.S.  
consumers  
in 2017 is  
now 700

Source: [https://www.myfico.com/downloads/files/myfico\\_uyfs\\_booklet.pdf](https://www.myfico.com/downloads/files/myfico_uyfs_booklet.pdf); <http://money.cnn.com/2017/06/30/pf/credit-score/index.html>

September 2017

# Credit Inquiries

## Soft Credit Inquiries

Soft inquiries are all credit inquiries where your credit is NOT being reviewed by a prospective lender. These include

- Checking your own credit (such as checking your score in myFICO)
- Credit checks made by businesses to offer you goods or services (such as promotional offers by credit card companies)
- Inquiries made by businesses with whom you already have a credit account.

## Hard Credit Inquiries

Hard inquiries are credit inquiries where a potential lender is reviewing your credit because you've applied for credit with them. These include:

- Credit checks when you've applied for an auto loan, mortgage or credit card.
- Each of these types of credit checks count as a single credit inquiry.

## Rate Shopping

Your FICO score considers all inquiries within a 45-day period for a mortgage, an auto loan or a student loan as a single credit inquiry. This same guideline also applies to a search for a rental property such as an apartment. These inquiries are usually recorded by the credit bureau as a type of real estate-related inquiry, so the FICO Score will treat them the same way. You can avoid lowering your FICO Score by doing your apartment hunting within a short period.

# FICO Score Q&A

## **Why do FICO® Scores change from month to month?**

There are many reasons. FICO® Scores are calculated each time they are requested, so the calculation takes into consideration the information that is in your credit file at that time. As the information in your credit file changes, FICO® Scores can change. Keep in mind that certain events such as late payments or bankruptcy can lower FICO® Scores quickly.

## **What is a typical FICO® Score for someone just starting out with credit history?**

A FICO® Score is a complex algorithm based on unique credit report data, so there is no “typical” or “entry-level” score. Someone new to credit may have difficulty scoring in the highest score ranges, due to a limited number of active accounts and length of history.

## **How much credit history do you need to be considered “established”?**

Many variables go into determining your FICO® Score. If you have a longer credit history, you’re generally determined as a lower risk to lenders. As your revolving credit history lengthens and you pay your bills on time, this factor may have less of a negative impact on your FICO® Score.

## **How can a higher FICO® Score save you money?**

When you apply for credit – lenders will assess your risk as a borrower. Your FICO® Score may affect not only a lender’s decision to grant you credit, but also how much credit and on what terms (interest rate, for example). Keep in mind that your FICO® Score is only one of many factors lenders consider when making a credit decision.

# Building a Credit History Q&A

## Student Loans:

### **Does taking out a student loan have a negative impact on my FICO® Score?**

Student loans are considered in your FICO® Score. When you open a student loan, it will increase your amount of debt, but if you pay your bills on time, lenders tend to view you as being a relatively lower credit risk.

### **Does deferring payments on my loan until after graduation harm my payment history?**

Deferred loans do not harm your FICO® Score. In fact, the existence of your loan can help establish your length of credit history and mix of credit.

### **I have the option of starting to pay my student loan while I'm in college. Will that impact my FICO® Score?**

When you pay student loans on time, it shows responsible behavior, lowers your outstanding debt, and lenders tend to view you as being a relatively lower credit risk. Missing or late payments will have negative impact on your FICO® Score.

### **Does moving my loan into forbearance impact my FICO® Score?**

Your FICO® Score does not consider the fact that a loan is in forbearance, so moving a loan into forbearance would not affect your score like missing a payment would. However, your loan is still considered part of your personal credit. Even in forbearance, the amount of your loan will be taken into account and could impact your score.



# Building a Credit History Q&A

## Credit Cards

When selecting a card, you should compare different cards' Annual Percentage Rates (APR). An APR is the annual cost of borrowing, including all interest, fees, premiums, etc., expressed as an annualized percentage rate. You should also be aware of hidden fees. If you miss a payment, make a late payment, or exceed your credit limit, you may be charged fees.

### **Does opening up new credit accounts affect my FICO® Score?**

Apply for and open new credit accounts only as needed. Opening accounts for the purpose of providing a better credit picture probably won't raise your FICO® Score and in some cases may even lower your score.

### **Will closing credit cards increase my FICO® Score?**

Closing cards won't increase your score and may actually lower it at least slightly. A better way to increase your score is by managing your credit cards responsibly.

# Tips for improving FICO® Scores

- Pay all your bills on time
- If you have missed payments, get current and stay current. Keep balances low on credit cards and other types of revolving credit
- Apply for and open new credit accounts only as needed. Don't open accounts for the purpose of providing a better credit picture – it probably won't raise your FICO® Score and, in some instances, may even lower your score
- Monitor your credit report. You can get a free report annually from each of the three major credit bureaus at [annualcreditreport.com](https://www.annualcreditreport.com). Check for errors periodically to ensure you have not become the victim of identity theft
- Pay off debt rather than moving it from one credit card to another. The most effective way to increase your FICO® Score in this area is by paying down your total credit card debt
- Manage credit cards responsibly. Keep any balances low and always pay your bills on time. Closing credit cards will not increase your score and may actually lower it slightly.
- If you have been using credit for only a short time, don't open many new accounts quickly, as rapid account build-up can lower your score
- While having student loans to pay may limit your discretionary spending for a time, it can also help you build a solid credit history if you are making regular, on-time payments. And that can pay off in the future when you borrow for a car, a home, or other items on credit.

# Questions?

Does Knowing Your FICO Score Change Financial Behavior? Evidence from a Field Experiment with Student Loan Borrowers published by Tatiana Homonoff, Rourke O'Brien and Abigail B. Sussman on January 27, 2018. Full report can be found here [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3129075](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3129075)

Borrowers and cosigners who have an available FICO® Score, may receive their score quarterly after the first disbursement of their loan. The FICO® Score provided to you is the FICO® Score 8 based on TransUnion data, and is the same score that Sallie Mae uses, along with other information, to manage your account.

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