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FICO Survey Finds Persistent Credit Gap Facing Consumers and Small Business Owners

Bank risk professionals say credit demand will rise faster than supply; 54 percent expect FDIC's Problem Bank List to grow in 2011

MINNEAPOLIS—December 1, 2010—FICO (NYSE:FICO), the leading provider of analytics and decision management technology, today announced the results of its quarterly survey of bank risk professionals. Results of the survey, which is conducted for FICO by the Professional Risk Managers' International Association (PRMIA), indicate the credit gap that has hindered U.S. consumer spending is likely to continue well into 2011, and lenders are also unlikely to meet the credit demands of small businesses in the near term.

Numbers behind the credit gap

The survey found 42 percent of respondents expect the amount of credit requested by consumers to increase over the next six months. However, only 31 percent of respondents expect the amount of new credit offered by lenders to increase. Furthermore, 39 percent of bankers surveyed expect approval criteria for consumer credit to become stricter, while only 13 percent expect approval criteria to loosen.

Results also indicate that credit will be tight for small businesses. Over 59 percent of those surveyed expect the amount of credit requested by small businesses to increase over the next six months. By contrast, less than 37 percent of respondents expect lenders to increase the amount of credit that is extended to small businesses.

"We continue to see a significant gap between expectations for credit demand and credit supply," said Dr. Andrew Jennings, chief research officer at FICO and head of FICO Labs, which works with PRMIA on the quarterly survey. "Until lenders put the problems in their mortgage portfolios behind them and see sustained growth in private-sector employment, the credit gap is unlikely to close. In the near term, this could have a negative impact on spending during the holiday shopping season, which would be a big blow to an already-fragile economy."

FDIC's Problem Bank List likely to grow

The survey found pessimism in other areas of the bank sector, most notably regarding bank stability. According to government figures, 141 U.S. banks failed from January 1 through November 5 of this year. That number exceeds the 140 failures that occurred in all of 2009, making 2010 one of the worst years in the country's history for bank failures.

Unfortunately, the worst may not be over. Nearly 54 percent of survey respondents expect the number of banks on the FDIC's Problem Bank List to grow in 2011, while only 20 percent expect the number of problem banks to decrease.

"This is undoubtedly bad news for taxpayers and bankers alike," said Jennings. "However, one ray of hope is that the amount of assets managed by failed banks in 2010 is over $50 billion less than the amount of assets managed by banks that failed in 2009. This indicates that larger local and community banks may finally be stabilizing."

Delinquencies expected to remain high

When asked about expected delinquency rates for credit cards, residential mortgages and car loans, survey respondents had a slightly less pessimistic outlook this quarter than last quarter. For example, while 38 percent of respondents expect delinquencies for credit cards to rise this quarter (compared to 19 who expect delinquencies to decline), 42 percent of respondents in the prior survey expected delinquencies to rise. Likewise, the percentage of respondents expecting an increase in mortgage delinquencies fell from 53 percent to 50 percent. The percentage of respondents expecting an increase in delinquencies on auto loans fell from 30 percent to 27 percent.

"The high level of expected delinquencies and continued unmet credit demand indicate that lenders are expecting a protracted economic recovery at best," said Dr. Russell Walker of the Zell Center for Risk Research at Northwestern University's Kellogg School of Management. "Improvement in the mortgage markets will be needed to change this outlook."

A detailed report of the survey results is available at http://www.prmia.org/PRMIA-News/USConsumerCreditRiskqtr4.pdf. The survey included responses from 230 risk managers at banks throughout the U.S. FICO and PRMIA extend a special thanks to The Zell Center for Risk Research for its assistance in analyzing the survey results.

About PRMIA

The Professional Risk Managers' International Association (PRMIA) is a higher standard for risk professionals, with 60 chapters around the world and over 70,000 members in nearly 200 countries. A non-profit, member-led association, PRMIA is dedicated to defining and implementing the best practices of risk management through education, including the Professional Risk Manager (PRM) designation and Associate PRM certificate; webinar, online, classroom and in-house training; events; networking; and online resources. More information can be found at www.PRMIA.org.

About the Zell Center for Risk Research

The Zell Center for Risk Research promotes the study and understanding of the way people perceive risk, the effects of these perceptions, and the management of risk. The center accomplishes these objectives by encouraging academic research in this area, and through the communication of research findings to a wide audience of academics, students and practitioners. The center is housed within the Kellogg School of Management at Northwestern University, a widely-recognized global leader in management education. The school, located just outside of Chicago, is home to a renowned, research-based faculty and MBA students from around the globe. To learn more, visit www.kellogg.northwestern.edu.

About FICO

FICO (NYSE:FICO) transforms business by making every decision count. FICO's Decision Management solutions combine trusted advice, world-class analytics and innovative applications to give organizations the power to automate, improve and connect decisions across their business. Clients in 80 countries work with FICO to increase customer loyalty and profitability, cut fraud losses, manage credit risk, meet regulatory and competitive demands, and rapidly build market share. FICO also helps millions of individuals manage their credit health through the www.myFICO.com website.

Courtesy Fair Isaacs Corporation

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