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How Financially Resilient Are You During the COVID-19 Pandemic?

FICO's new index offers banks and lenders new insight into your financial resilience potential.

When it comes to getting approved for credit cards and loans, your credit score is typically the main factor that determines approval or denial, loan amounts, interest rates, and credit limits. But what about during a global pandemic, when so many "sure things" are now uncertain?

In the COVID-19 economic climate, even people with excellent credit can abruptly lose their jobs and fall behind on monthly payments. At the same time, someone with a lower score might also struggle but not fall behind due to having fewer monthly card or loan payments.

So, in addition to your credit score, how can lenders predict who could be financially resilient during uncertain economic times?

The FICO Resilience Index, a new analytic tool aimed at lenders and credit card issuers, could offer its own measure of insight into your potential financial resilience during a financial crisis.[1]

How does the FICO Resilience Index Work?

- Fair Isaac Corporation (FICO) is the company lenders widely use to determine a person's creditworthiness, based on the borrower's FICO score. Now FICO's newest product aimed at banks and lenders, the FICO Resilience Index, could also weigh in on consumers' ability to obtain credit.
- During a down economy, getting credit is more difficult, since lenders want to mitigate risk. Creditors may implement restrictions like lower credit card limits or stricter approval guidelines, broadly applied to most consumers. To help prevent lenders from taking such broad measures, the FICO Resilience Index takes into account not only your FICO score but also your potential for paying current credit obligations.

- Unlike the FICO score, which ranges from 300 to 850 and rates good to excellent creditworthiness on the high end, lenders want you to be on the lower end of the FICO Resilience Index, which ranges from 1 to 99. For example, a score of 1 to 44 places you as "more resilient" while a high score of 70-99 portrays your resiliency in a troubled economy as "very sensitive."
- To calculate your financial resilience, the FICO Resilience Index looks at some of the same factors used to calculate your credit score to predict your chances of paying credit obligations during troubled economic times.

Factors that rate you as more financially resilient in the FICO Resilience Index include:

- **Long-standing credit accounts.** The more experience you have managing credit and paying on time, the more likely you may be to weather an economic storm. So, the older your credit accounts are, the better your score with the new Resilience Index.

- **Lower total revolving balances.** That's because the more debt you have, the harder it could be to make timely payments in a down economy.

- **Fewer active accounts.** Could you rack up a lot of credit card debt on all those open accounts if your bank account runs dry? Maybe. Too many active accounts could raise your FICO Resilience Index score and scare off lenders.

- **Fewer credit inquiries.** Too many credit inquiries for credit cards or loans could work against you on the FICO Resilience Index, since multiple inquiries may mean you're strapped for cash and could potentially run up excessive credit card debt.

How might the FICO Resilience Index affect my ability to get credit?

Before you become overly confident or worried about how the FICO Resilience Index will affect your chances of being approved or denied for credit cards or loans, keep in mind that the index is brand new – and therefore not yet widely used.

"It's probably going to take a while for the Resilience Index to gain meaningful adoption," says Sean Messier, associate editor at Credit Card Insider.[2] "Lenders rarely adopt the latest scoring products right off the bat because relying on recently-debuted scoring formulas is a risk in itself. These types of things have to be tested."

At the same time, there's no definitive end for the COVID-19 pandemic or the current state of the economy, so the crisis could extend long enough for credit card and banking industries to incorporate the Resilience Index into everyday operations, he says.

“The goal for the index is to improve lender profitability and times are tough, so banks may be quicker to consider innovations that could improve business,” says Messier. “Right now, the most important thing you can do to position yourself for a low score on the FICO Resilience Index is to manage your credit wisely.”

That means keeping credit card balances low in relation to credit limits, paying on time and paying off card balances monthly, if you can. Also, limit your number of credit card applications so you don’t seem desperate, and keep accounts open to show a longer history of managing credit.

While the FICO Resilience Index is marketed as a tool for lenders and banks, it’s also there to help consumers. “The goal is to help lenders operate cautiously during troubled times, yet without so much caution that they’re passing up – or severing – healthy, profitable relationships,” says Messier.

“There are so many little nuances that go into the generation of a single credit score. Using the index could take things on a case-by-case basis and only reduce the limits of those who are lacking in both traditional credit scores *and* resilience.”

Source:
[1]https://www.fico.com/blogs/fico-resilience-index-now-available-lenders-pilot
[2]https://www.creditcardinsider.com/

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