

the most likely to benefit from an ability to purchase authorized user status, however, experienced much larger increases. The largest increase in score was experienced by individuals whose oldest tradeline was less than 2 years old. The addition of this simulated tradeline increased the credit scores for this group by an average of 22.4 points over the starting mean score of 37.9. As expected, individuals with thin credit files (2 or fewer non-authorized user tradelines) also experienced large increases in score, with their scores rising on average from 44.6 to 64.0.²³

The importance of a change in credit score will depend crucially upon both the size of the change and the initial credit score. For example, a 20 point score increase might have a smaller effect for an already prime-quality borrower (who may already qualify for credit on the most favorable terms) than it would for a subprime borrower, who as a result might now appear to be near-prime or even prime-quality. To provide a better understanding of how credit score changes experienced after the addition of the simulated AU tradeline vary with the starting FRB base score level, figure 1 shows the mean change in score that resulted from the simulation against the beginning FRB base score.

As seen in that figure, there is substantial variation in the mean score change by credit score level. The smallest mean increases (and only decreases) are observed for individuals at the highest credit score levels. These are people who already are identified by the credit scoring model as having low default probabilities, such that the additional information provided by the simulated tradeline has little or no beneficial effect. The remainder of the population experienced larger increases on average, with a noticeable dip in the low 20s. The bottom of this dip occurs at a score

²³ The score changes summarized by table 4 also show that a small number of people (representing about 1 percent of the total population) experience a score decline following the addition of the simulated AU account to their credit record. While it may surprise some that a credit score can be reduced by adding information on an unambiguously “good” account, this result is not wholly unexpected. The reason is that while the simulated account will have increased or left unchanged the score of any individual who remained on the same scorecard, when the addition of an account alters the scorecard with which an individual is scored, unintuitive results can arise.

In the FRB base model, which contains only three scorecards, the addition of the simulated account can have the effect of moving people who would have been scored on the thin scorecard, without the simulated account, onto either the clean or dirty scorecards. People who were initially scored on the clean or dirty scorecards would not have changed scorecards. Because of this movement between scorecards, some individuals (particularly those who moved from the thin to the dirty scorecard) saw their credit scores decline as their profile appeared worse when evaluated using the model on their new scorecard. Since most credit scoring models make use of more than 3 scorecards (for example, the VantageScore is comprised of 12 different scorecards) this suggests that the FRB base model may understate the share of individuals who change scorecards as a result of the additional authorized user tradeline and who therefore may be subject to such counterintuitive score changes. For more information on the 12 scorecards that comprise the VantageScore, see VantageScore (2006).