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Impact of Sold-Derogatory Trade Lines on VantageScore 3.0 Credit Scores



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INTRODUCTION

This study demonstrates that excluding sold-derogatory debts from consumer credit files does not cause undue inflation of VantageScore 3.0 credit scores.

VantageScore Solutions undertook this investigation in light of compliance concerns that prompted some lenders to reconsider the way they report sold-derogatories — delinquent accounts sold-off to debt collection agencies — to the three national credit reporting companies (CRCs). Some consumers have complained that these debts, known as “sold-derogs” to the credit industry, persist on their credit files even after they have been discharged through bankruptcy. As a result, some lenders are considering eliminating all charged-off accounts sold to debt buyers from their reporting to the CRCs.

Concern that excluding this information from credit files could adversely affect credit-scoring accuracy led several lenders to ask VantageScore Solutions to look into its impact. The question at hand: Do consumer credit scores significantly increase with the removal of the charge-off data?

In this analysis, we evaluate the impact to credit file data and to consumer VantageScore credit scores (VantageScore 3.0¹) under a scenario in which all lenders delete their sold charged-off (derogatory status) accounts. Specifically, we answer the following questions:

- What percentage of trade lines would be removed if all sold-derogatory accounts were deleted from consumer credit files?
- How many consumers would be impacted by the deletions?
- What percentage of consumers who have sold-derogatory accounts also have third-party collection trade lines?
- How and why does the consumer’s VantageScore 3.0 score change when sold-derogatory trade lines are removed from their credit file?

IMPACT TO CONSUMER CREDIT FILES

From a sample of 4.3 million consumers, randomly selected from one of the three major credit bureaus, 4.9 percent of consumers had at least one sold-derogatory trade line on their credit file. Removing sold-derogatory trade lines from these credit files resulted in a 0.6 percent reduction in overall trade volume.

¹ For the purposes of this analysis, VantageScore 3.0 credit scoring model was used.

Figure 1 shows the distribution of third-party collection trade lines for consumers with sold-derogatory trade lines. Significantly, an overwhelming majority of consumers with sold-derogatory trade lines also have collection trade lines, reflecting a strong probability that the trade line is also reflected as a collection trade line.

IMPACT TO VANTAGESCORE 3.0 SCORES

The high presence of additional collection trade line information on the credit file results in no score change for most consumers when sold-derogatory trade lines are removed. In fact, 59.3 percent of consumers experienced no score change. Figure 2 shows percentage volumes of consumers by score-change tier.

Score decreases (29.2 percent) were driven by reductions in the age of oldest trade lines and consumers now not having any useable trade lines. Score increases (11.5 percent) were driven by improvements in the ages of most recently opened trade lines, time since the most recent derogatory events, and the worst status on file. Understandably, the overall score distribution (Figure 3) remains stable (KS change of 0.48 percent).²

² Definition of KS value: A KS measurement looks at the distributions of cumulative percentage of good consumers and bad consumers (current and defaulting borrowers respectively) by score and identifies the point at which the greatest separation of these two distributions occurs.

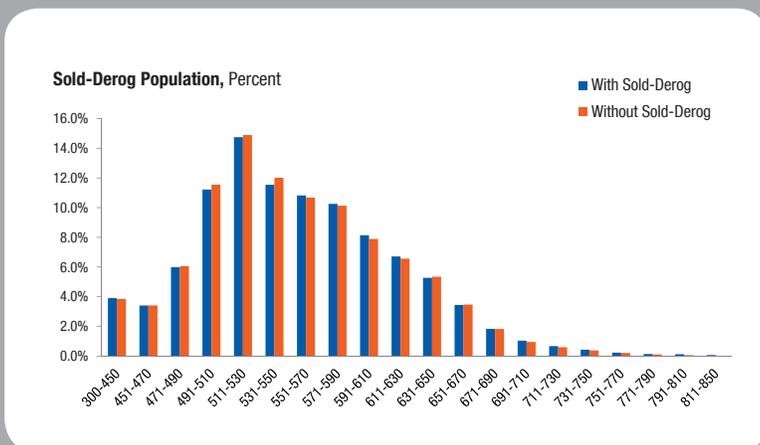
Figure 1: Sold-derogatory and collection trade line profile

Number of SD trades	Percent	Average number of collections	Median number of collections	Percent of consumers with AT LEAST same number of collections
1	70.6%	5	3	92%
2	17.9%	6	4	89%
3	6.5%	6	5	86%
4	2.7%	7	6	84%
+5	2.2%	9	8	86%

Figure 2: Score change bands and volumes for consumers after deleting sold-derogatory trade lines

-21 or more points	1.2%
-1 to -20 points	28.0%
No difference	59.3%
+1 to 20 points	7.7%
+21 to 40 points	2.1%
+41 to 60 points	1.1%
+61 to 80 points	0.3%
+81 to 100 points	0.2%
+100 or more points	0.1%

Figure 3: Score distribution



CONCLUSION

Given the high presence of additional derogatory information and the VantageScore 3.0 credit score model design, universally removing sold-derogatory trade lines from consumer credit files would have minimal impact on consumer scores. Lenders using VantageScore 3.0 can be confident that VantageScore 3.0 risk assessment will remain predictive.

The VantageScore credit score models are sold and marketed only through individual licensing arrangements with the three major credit reporting companies (CRCs): Equifax, Experian and TransUnion. Lenders and other commercial entities interested in learning more about the VantageScore credit score models, including the VantageScore 3.0 credit score model, may contact one of the following CRCs listed for additional assistance:



Call 1-888-202-4025

www.equifax.com/vantagescore



Call 1-888-414-4025

www.experian.com/consumer-information/vantagescorelenders.html



Call 1-866-922-2100

www.transunion.com/corporatebusiness/solutions/financialservices/bank_acq_vantage-score.page

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