

VantageScore Default Risk Index – Powered by TransUnion

Methodology

OVERVIEW:

The VantageScore Default Risk Index (DRI) illustrates a more accurate way to use credit scores to evaluate and compare pools of loans. Each quarter, the DRI is made available on the VantageScore website using data from TransUnion. This free, interactive data series compares the total volume and weighted-average risk profile of quarterly originations in the bankcard, mortgage, auto, and student loan industries. Rather than using credit scores to directly examine risk profiles, the DRI translates each score into an estimated probability of default (PD) using the most recent score-to-PD mapping tables available at the time.

In a single number, the Default Risk Index summarizes the risk profile of new originations in a way that is mathematically accurate and consistent over time. While the DRI is published using aggregate data, its underlying methodology can be applied to any group or pool of consumer loans.

INDEX CONSTRUCTION:

To begin, borrowers liable for each origination are scored using VantageScore 3.0 as of the TransUnion quarterly archive preceding the trade line open date. For example, a borrower with a trade line open date of March 11, 2015 will be represented by that borrower's VantageScore 3.0 as of the December 2014 archive.

Next, each origination is assigned a PD. This is done by mapping the credit score associated with each origination to the most recently updated VantageScore 3.0 performance charts (see below).

Next, the probability of default for each category of loans (i.e., mortgage, bankcard, student, and auto) in aggregate is calculated. This measure is weighted based on the principal balance of loans originated during the quarter. For bankcards, it is weighted based on the value of credit limits originated during the quarter. This weighted-average PD is an estimate of "risk profile."

Finally, each risk profile is indexed to the beginning of the series, where the third quarter of 2013 equals 100.

PERFORMANCE DEFINITION:

A loan is considered in default when 90 or more days past due.

LOANS WITH MULTIPLE BORROWERS:

Each loan is represented by a single credit score. In instances where a loan has two or more borrowers, the lowest score will be used.

SCHEDULE OF UPDATES:

The DRI is published quarterly.

CREDIT FILE DATA:

The DRI is derived using a statistically representative national sample of credit files from TransUnion.

PERFORMANCE CHARTS:

VantageScore publishes performance charts annually based on a statistically representative national sample over a two-year performance window. These charts summarize the percentage of consumers at each of 20 different score intervals to default. The DRI uses the versions specific to new loan originations (as opposed to account management) for each industry type (i.e., bankcard, mortgage, auto, and student loans).

DENOMINATION AND DOMICILE:

Balances are reported in \$USD. Only domestic originations are included.

Note: VantageScore Solutions is the company that owns the intellectual property rights to the VantageScore credit scoring models. VantageScore is jointly owned by Equifax, Experian, and TransUnion. TransUnion is a global information solutions company that serves businesses and consumers in 33 countries worldwide.

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 **TransUnion**

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