VANTAGESCORE®

VantageScore Solutions 2011 Annual Validation

Affirms Model's Predictive Power for the Credit Card Industry

February 2012

OVERVIEW

When the recent recession reverberated throughout the credit markets, the credit card industry was particularly susceptible. Being unsecured, transactional in nature and subject to the ebb and flow of a consumer's spending rate, the industry experienced significant disruption and consumer spending declined. Federal Reserve data reveals that after peaking at nearly 500 million new accounts in 2008, credit card originations fell below 400 million in 2010. On the account management side, card issuers sought to limit exposure, and in some cases reduced credit lines and closed inactive accounts.

In the current environment, credit card companies are increasing their marketing efforts as demonstrated by an uptick in credit card inquiries, a sign of demand. Credit card delinquency rates are also showing signs of improvement. One of the three national credit reporting companies (CRCs) recently issued an analysis that showed credit card delinquency rates are at historic lows, and that competition for low-risk borrowers is strong. With competition so intense, issuers cannot afford miscalculations.

VantageScore 2.0 was built on a performance sample of 45 million consumer credit files over multiple time frames taking into account the mortgage meltdown and the great recession to capture how these events have changed consumer behavior. The model accurately predicts how consumers are changing their behavior based on these events.

This comes into focus as headwinds such as continued high unemployment and increasing home price depreciation remain lurking as a potential spoiler to the credit card industry's recovery. As a result, credit card issuers must focus efforts on rebuilding their portfolios in a more intelligent way.

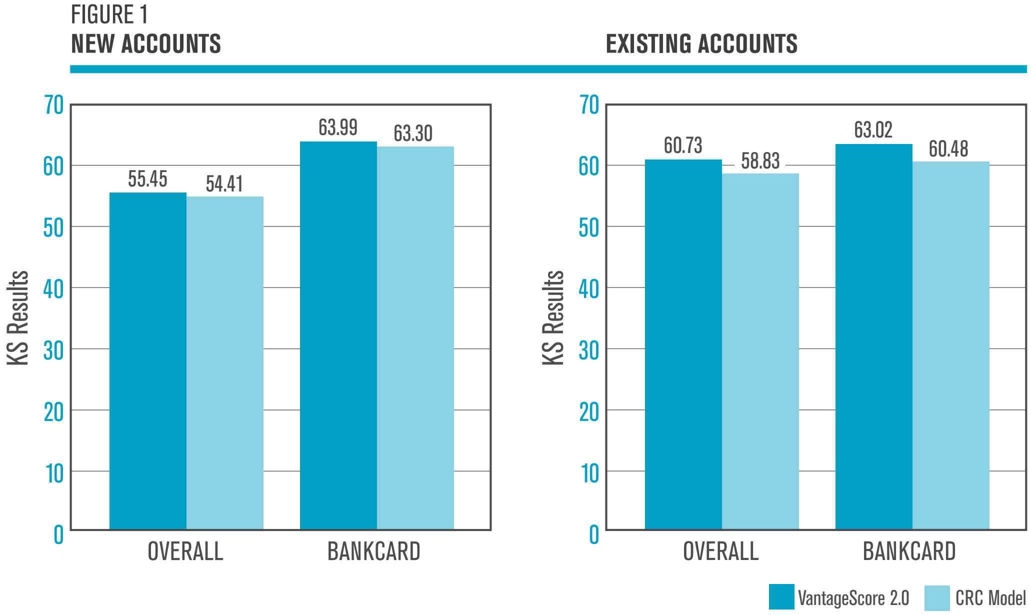
Knowing this, and in order to provide issuers with added confidence, VantageScore 2.0—the model's second version—was recently validated to measure predictiveness in a variety of contexts and environments.

This paper provides an overview of the results and a more concentrated examination of VantageScore 2.0's performance within the credit card industry vertical specifically. VantageScore 2.0 was tested against generic credit score models provided by the three CRCs. Results presented in this paper are based on how VantageScore 2.0 compared against a single benchmark model; however, results were similar across all three.

PREDICTIVE PERFORMANCE

VantageScore 2.0's KS statistics are provided below at the overall level, and specifically for bankcard on both new account origination and existing account management. VantageScore 2.0 continues to outperform the benchmark model, most notably for existing account management, as seen in Figure 1.[1]

FIGURE 1

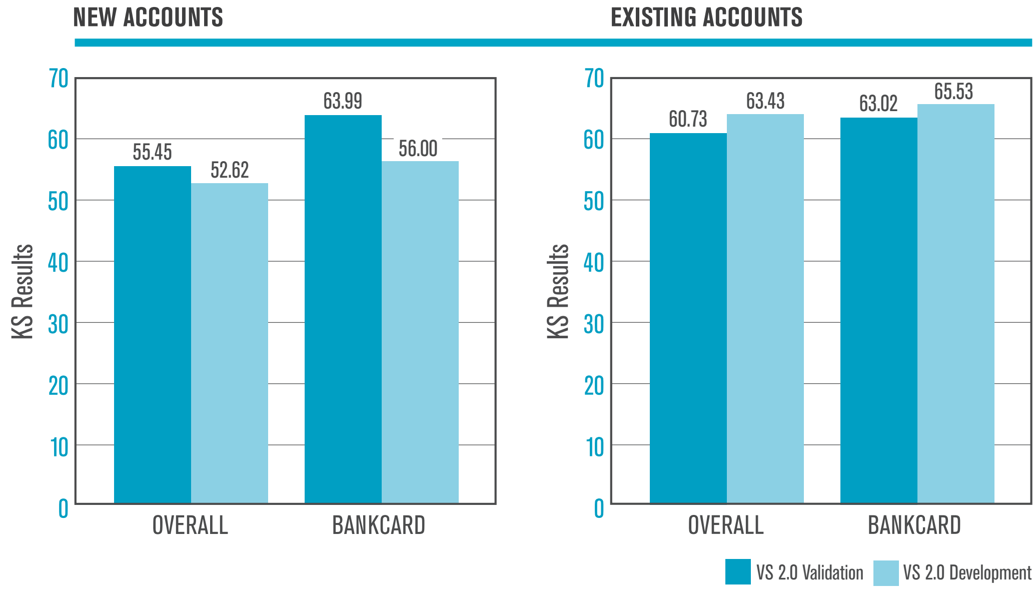


[1] VantageScore 2.0 outperformed all CRC benchmark scores. For percentage comparisons, the median KS result from the benchmark scores is used.

SCORE STABILITY

VantageScore 2.0 was designed at the peak of bankcard volatility. A broad range of diverse consumer behaviors were captured within the algorithm design, resulting in continued excellent predictive strength. See Figure 2.

FIGURE 2



CONSUMER SCORE CONSISTENCY

VantageScore 2.0 uniquely uses a set of leveled characteristics across the three CRCs. As a result of these leveled characteristics, the identical algorithm is used to calculate a credit score at each CRC. The benefit is that both lenders and consumers obtain a more consistent risk assessment when obtaining scores from multiple CRCs. Over 82% of consumers receive scores within 40 points from across multiple CRCs, as seen in Figure 3, which translates into very consistent risk assessment.

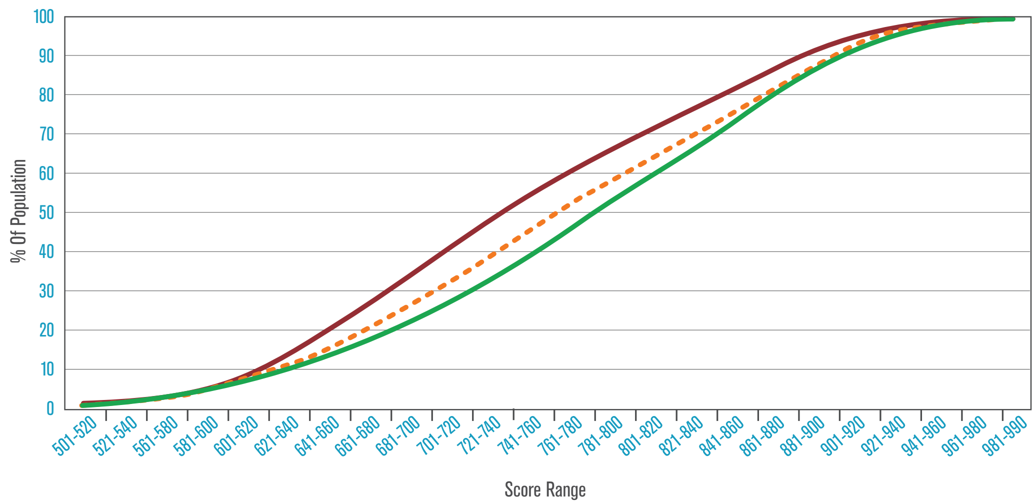
FIGURE 3

	CRC1 – CRC2	CRC2 – CRC3	CRC1 – CRC3
<20 Points	60.40%	63.30%	66.50%
<40 Points	82.00%	84.10%	86.10%

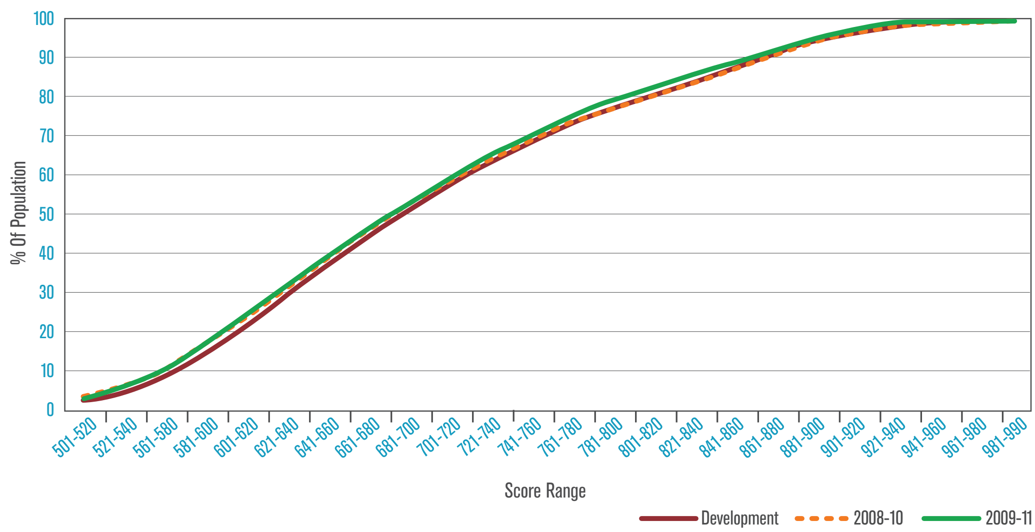
CONSUMER SCORE DISTRIBUTION

Scores for consumers originating new bankcard accounts have trended higher over the last several validation periods.

FIGURE 4
VANTAGESCORE 2.0 SCORE DISTRIBUTION: BANKCARD NEW ACCOUNTS



VANTAGESCORE 2.0 SCORE DISTRIBUTION: BANKCARD EXISTING ACCOUNTS



Risk distribution for existing account management in bankcard has remained largely consistent for the last several years. As a result strategy score cut-offs continue to reflect the same degree of risk, reducing the need for ongoing score to risk realignment.

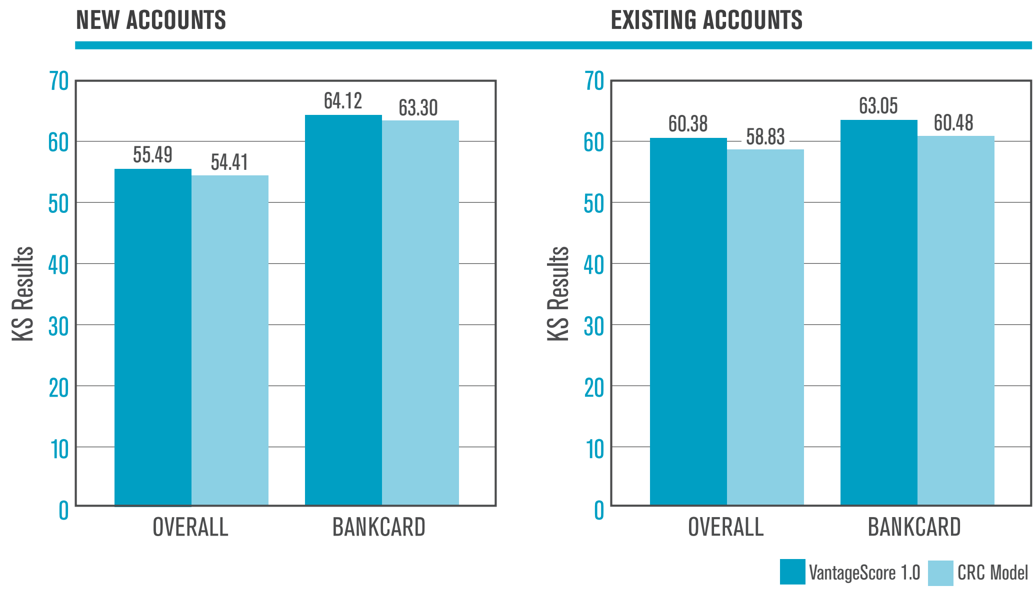
VERSION 1.0

A validation was also performed for VantageScore 1.0 to ensure the earlier version remains predictive. This original VantageScore version was developed using data from the 2003 – 2005 timeframe and validation results demonstrate continued predictiveness.

SCORE PREDICTIVE PERFORMANCE

A highly effective measurement for model validation is a comparison of KS results from models developed using the same timeframe. Figure 6 compares VantageScore 1.0 to the benchmark generic model developed by one of the CRCs. Results show that KS values are higher overall and relative to the credit card sector.

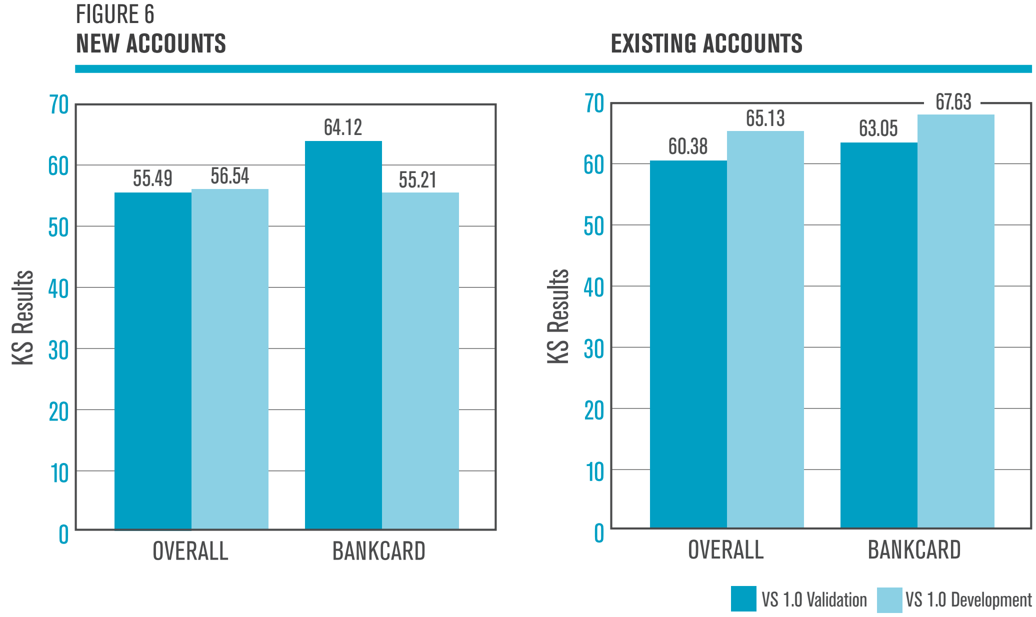
FIGURE 5



SCORE STABILITY

While it's natural for all models to expect some level of deterioration over time, VantageScore 1.0 continues to be an effective risk management tool. Figure 7 below compares VantageScore 1.0's performance at development versus its 2011 validation.

FIGURE 6

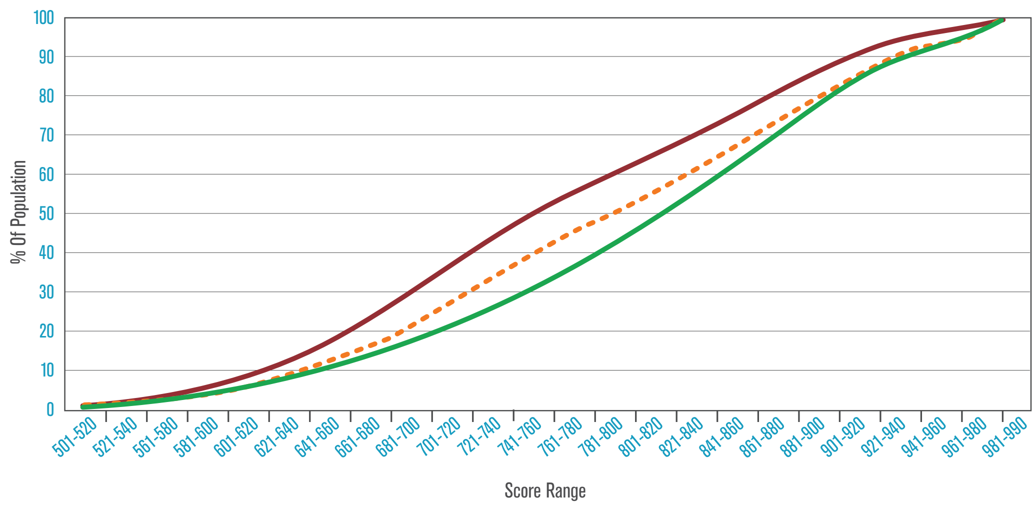


CONSUMER SCORE DISTRIBUTION

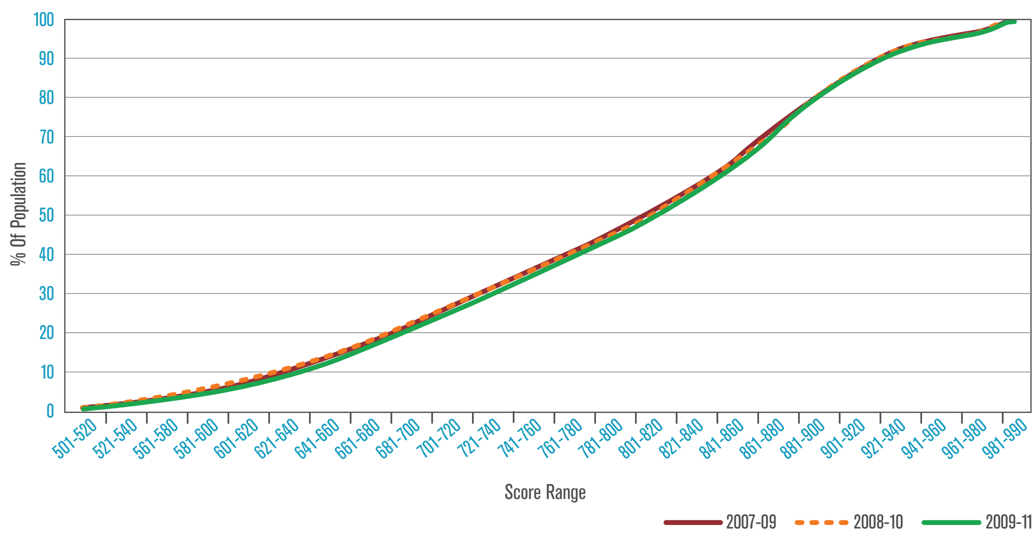
Similar to VantageScore 2.0, score distribution for consumers issued new credit card loans has trended higher, and risk distribution for existing account management in the sector has remained consistent.

FIGURE 7

VANTAGESCORE 1.0 SCORE DISTRIBUTION: BANKCARD NEW ACCOUNTS



VANTAGESCORE 1.0 SCORE DISTRIBUTION: BANKCARD EXISTING ACCOUNTS



CONCLUSION

Competition for low-risk borrowers is very intense in the credit card industry. As issuers seek intelligent ways to increase origination volumes and maximize the performance of existing accounts, relying on an accurate risk assessment tool that takes into account current trends is paramount.

A new era in the credit card market requires a new approach to risk management. VantageScore 2.0 can help guide an issuer's strategy, and be an important quiver in an increasingly competitive market.