



VantageScore®

# **Access to Affordable Short-Term Credit: Maximizing the value of credit file data**

Federal Reserve Bank of Cleveland  
September 2013

# Today....

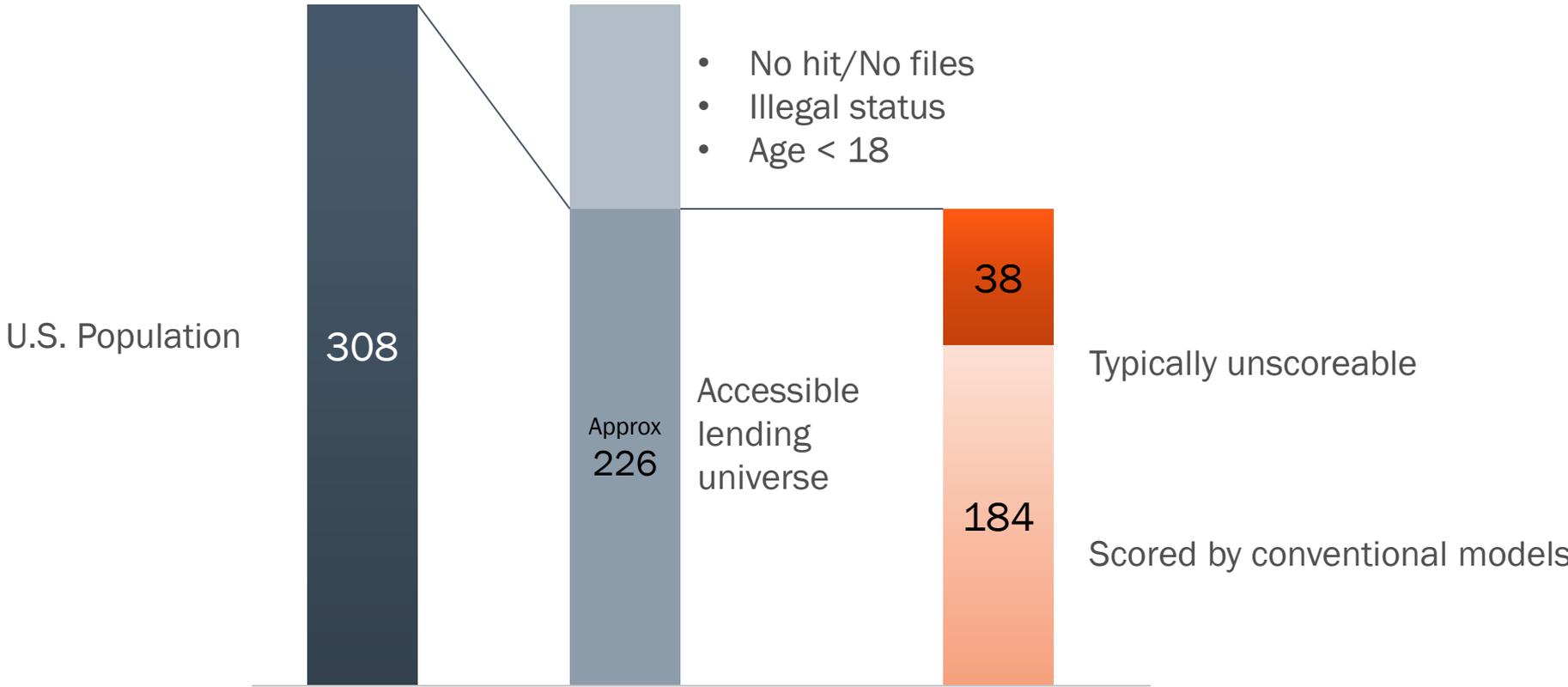
- Focus –
  - Who is not typically scored?
  - Are these consumers really credit-worthy?
    - Effective use of credit file data

# VantageScore 3.0

- Generic consumer risk score
  - Likelihood of 90+ days past due
- Created by the 3 major Consumer Reporting Companies (CRCs):
  - Equifax, Experian, TransUnion
- Reflects consumer data contained in credit files present at the CRCs
  - Traditional, rental, utility and cell
- The same model is in place at each of the 3 CRCs
  - More consistent scores
- 30-35 million more consumers scored over conventional scores

- VantageScore 3.0 unveiled March 2013
  - Score range is changed to 300-850
- Large lenders utilize VantageScore models in all industry segments
  - Mortgage, Bankcard and Auto
- All VantageScore credit scores are provided to both lenders and consumers by the CRCs
  - The CRCs independently market and sell the VantageScore credit scores

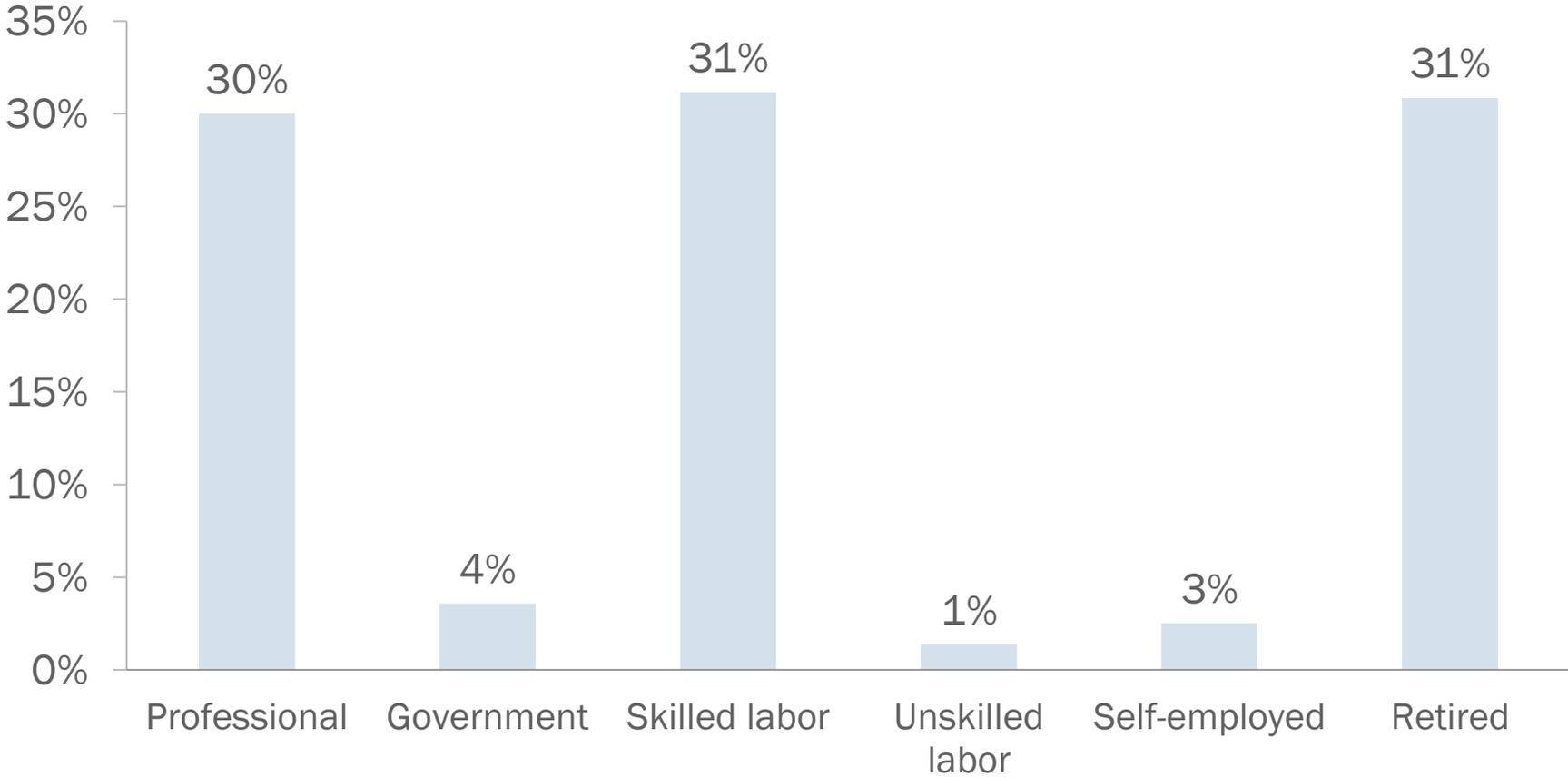
# Who is not typically scored?



All estimates - millions

**Who is not typically scored?**

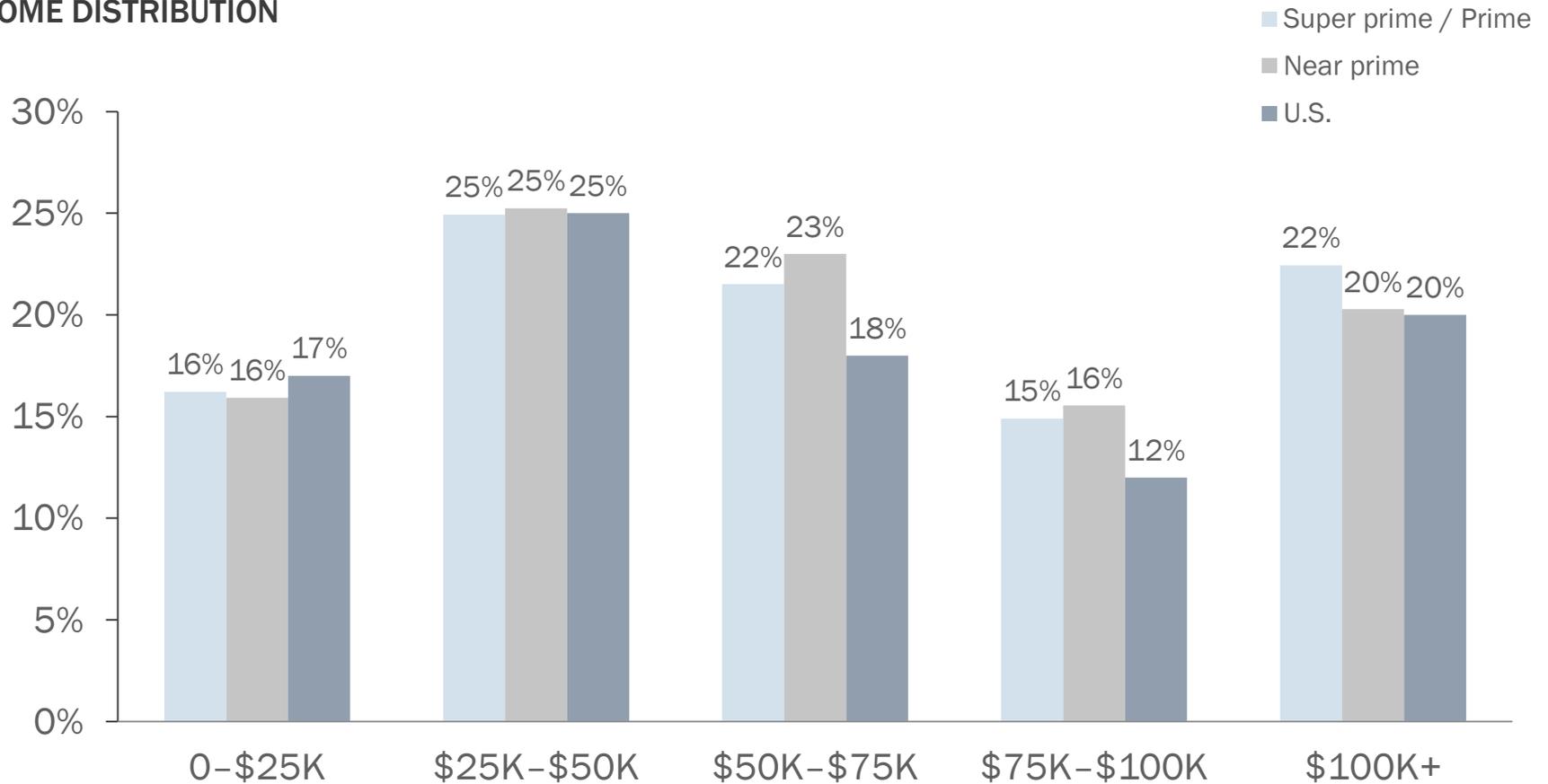
# Typically unscorable consumers fall into prime credit tiers & hold professional or skilled-labor jobs



Anonymous consumer file data and analysis from Experian (June 2012).

# Income distribution of the typically unscorable mirrors mainstream U.S.

## INCOME DISTRIBUTION

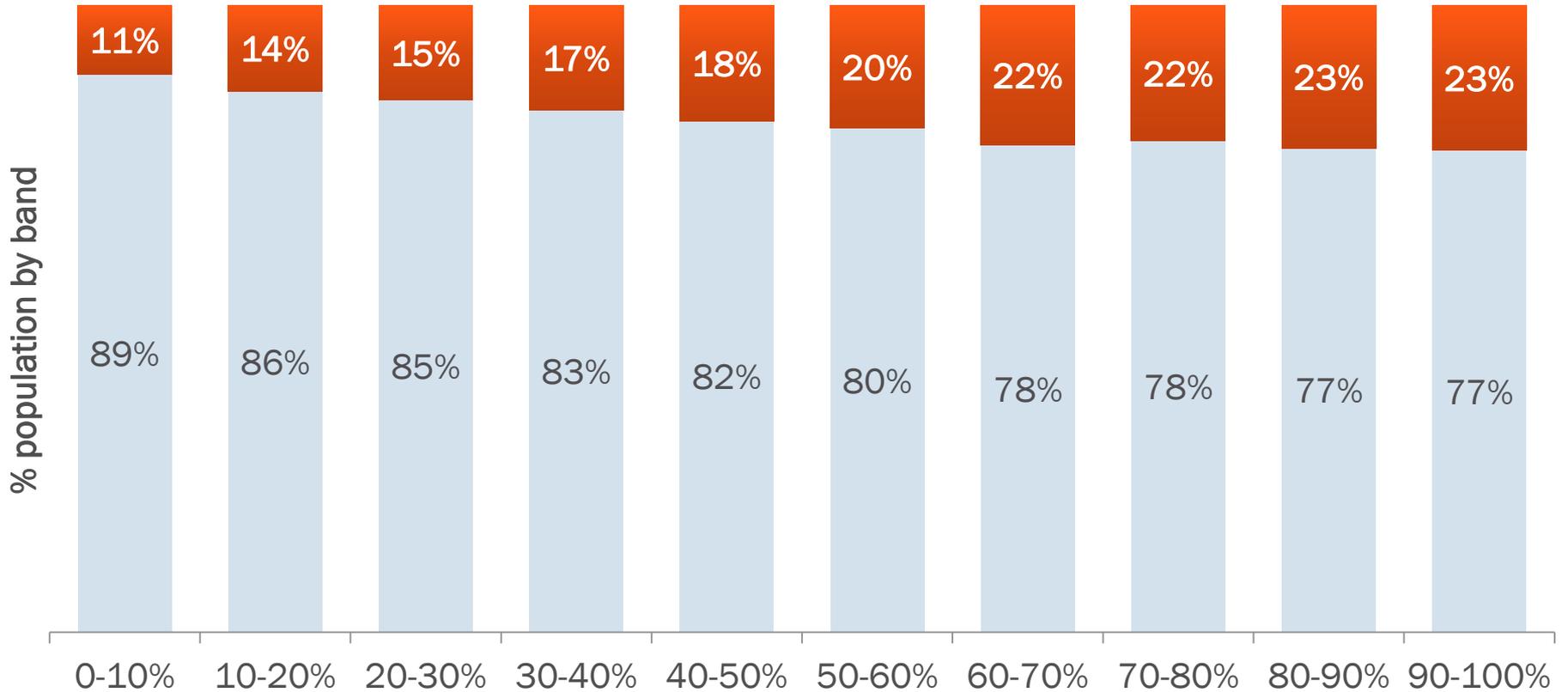


Anonymous consumer file data and analysis from Experian (June 2012). U.S. data from 2010 Census, Individual Income Levels.

# Regions of greater Hispanic concentration have more unscorable consumers

SCORED/NO SCORE CONSUMERS BY ZIP CODE BAND - AOHC

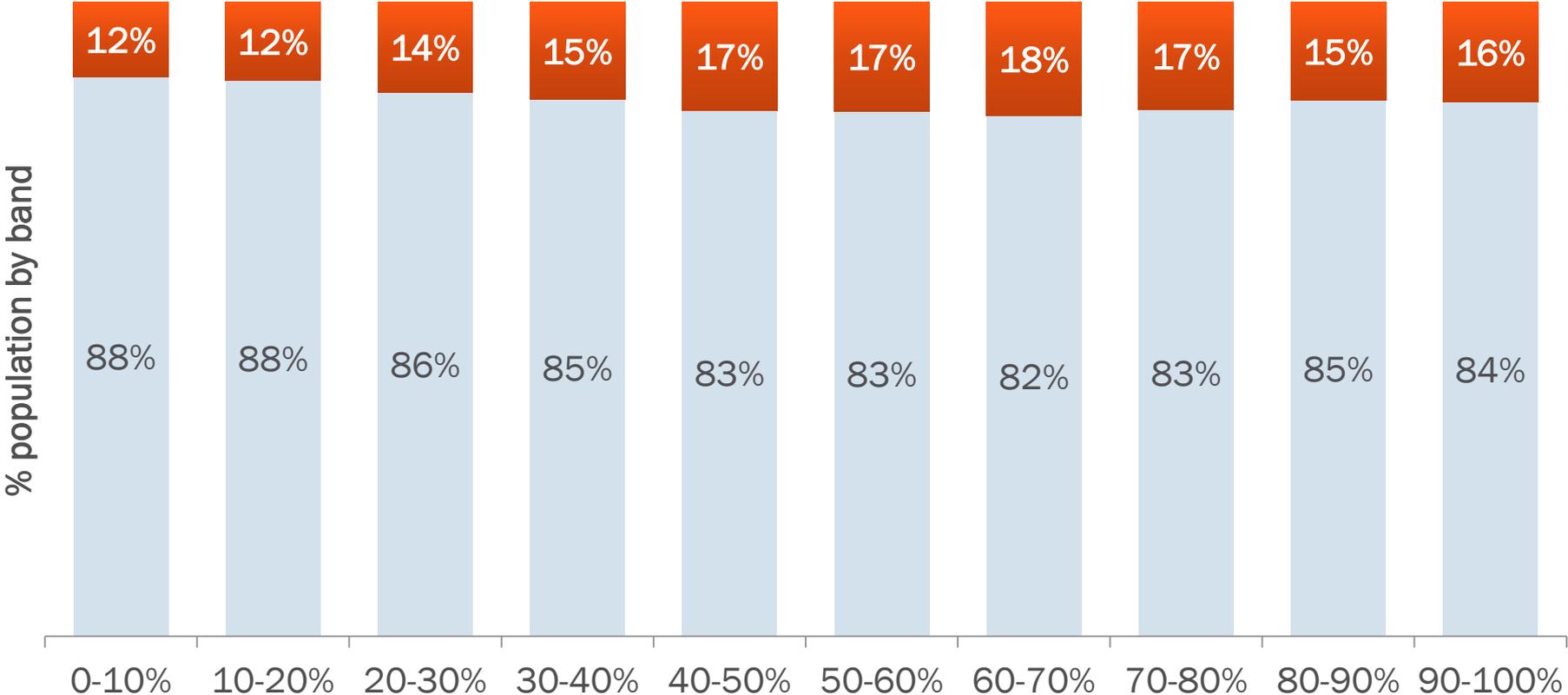
No Scores  
Scored



# To an even greater extent, regions of greater African American concentration have more unscorable consumers

SCORED/NO SCORE CONSUMERS BY ZIP CODE BAND - AOMC

No Scores  
Scored



Today....

Are these consumers really  
credit-worthy?

# Scoring the unscorableables

## Are these consumers actually credit-worthy?

VantageScore 3.0 scores 30-35 million consumers typically not scored by conventional models

- Even though these consumers do not exhibit conventional credit practices, they are nevertheless credit-worthy.

### Scoreable Universe

■ Conventional Models ■ New Model



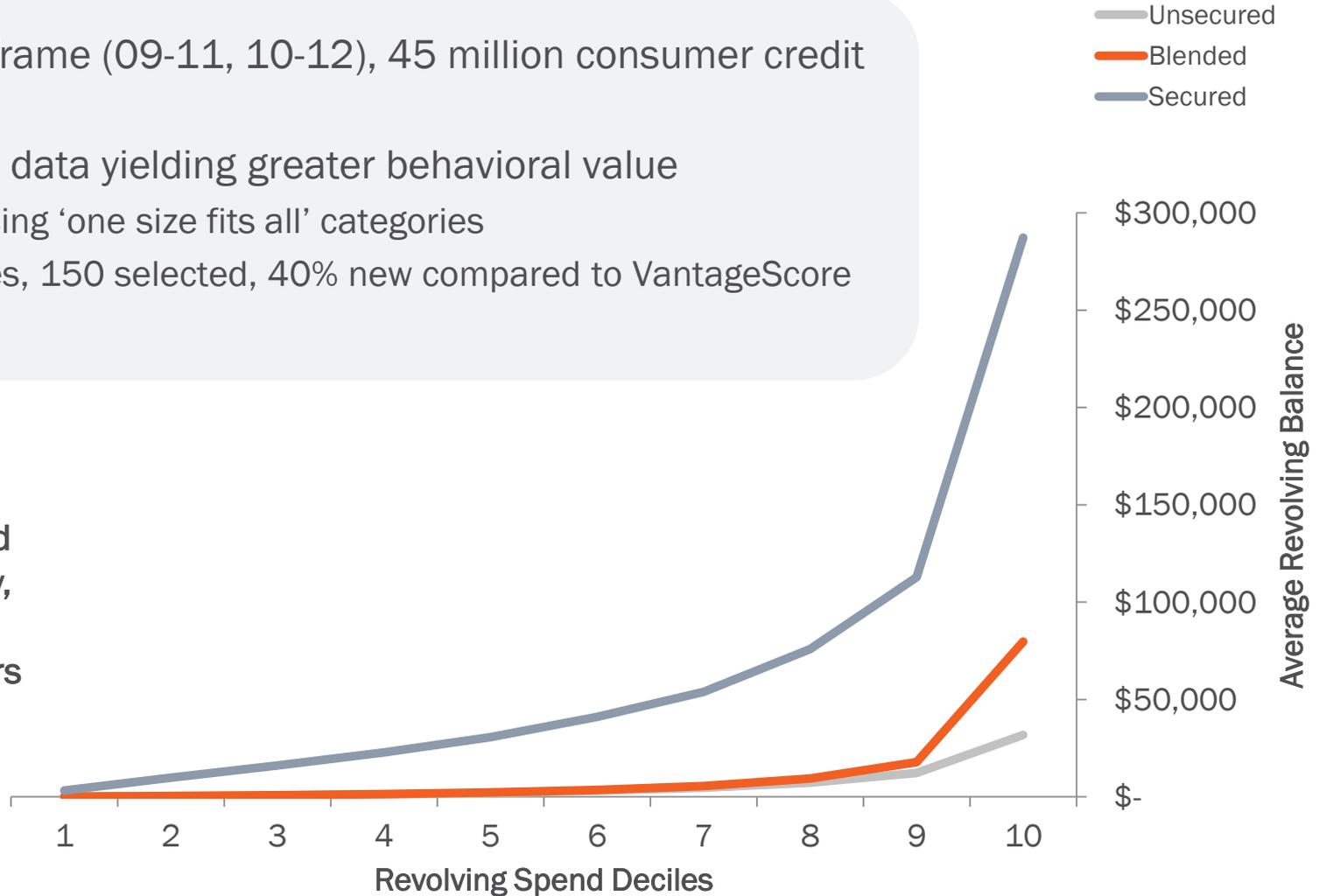
U.S. Consumers (MM)

# VantageScore 3.0 data improvements

## IMPROVED AND EXPANDED DATA

- Blended timeframe (09-11, 10-12), 45 million consumer credit files
- More granular data yielding greater behavioral value
  - No longer using ‘one size fits all’ categories
  - 900 variables, 150 selected, 40% new compared to VantageScore 2.0

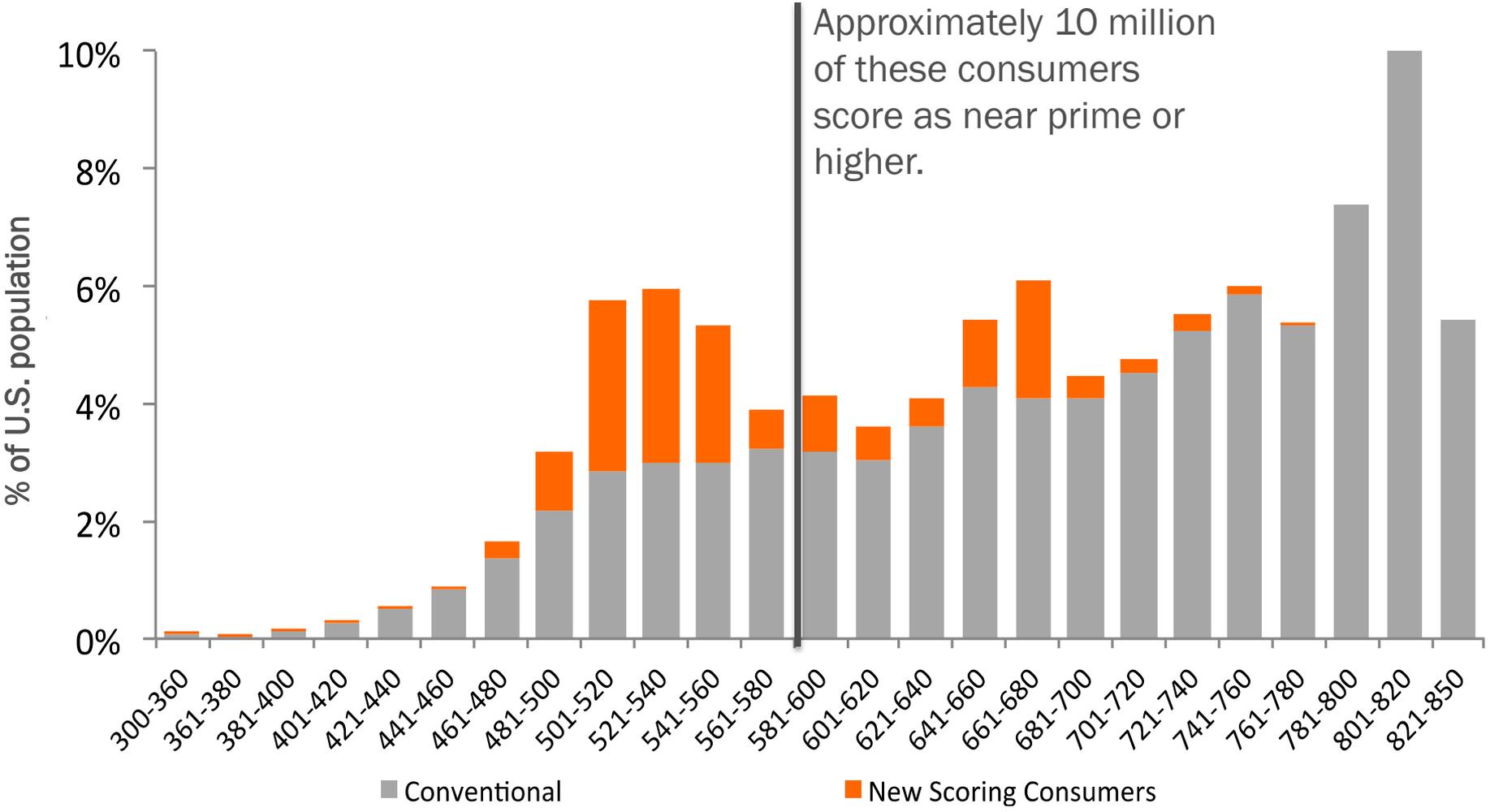
Product level spend varies substantially, identifying unique consumer behaviors



# Even though these consumers do not exhibit conventional credit practices, they are nevertheless credit-worthy

- **New to market** : All trades less than six months old
  - Typically thin file, primarily bankcard product
- **Infrequent credit user**: No trade updated within a six month window
  - Typically thin file, primarily bankcard product
- **No recent activity**: No activity in the last twenty-four months
  - Lower delinquency than typical
  - Often thin file with older trade lines
- **No open trades**: Only closed trades, public records and collections information available
  - Clearly subprime

# U.S. Population Score Distribution using VantageScore 3.0

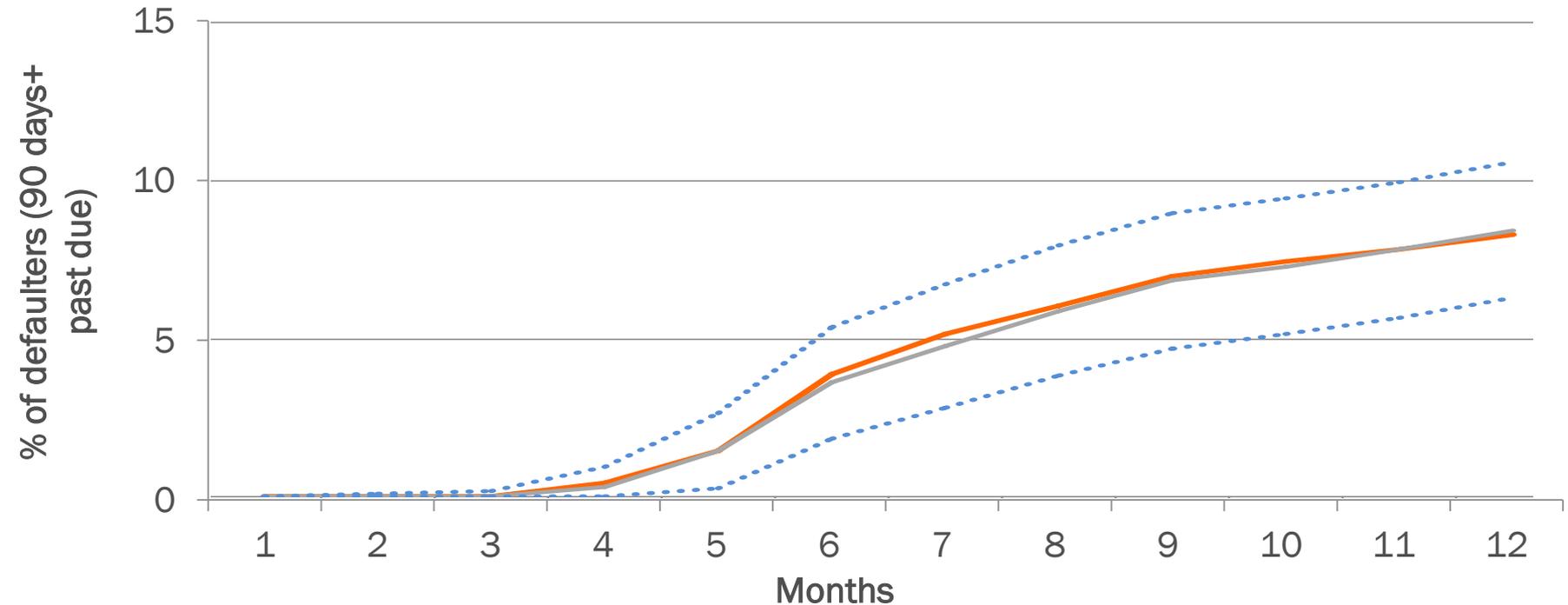


# Does the score provide a reliable assessment of risk?

Does a conventionally scored consumer with a score of 600 exhibit the same risk profile as a new scoring consumer with a 600?

- New scoring consumers default with a very similar profile as conventionally scoring consumers

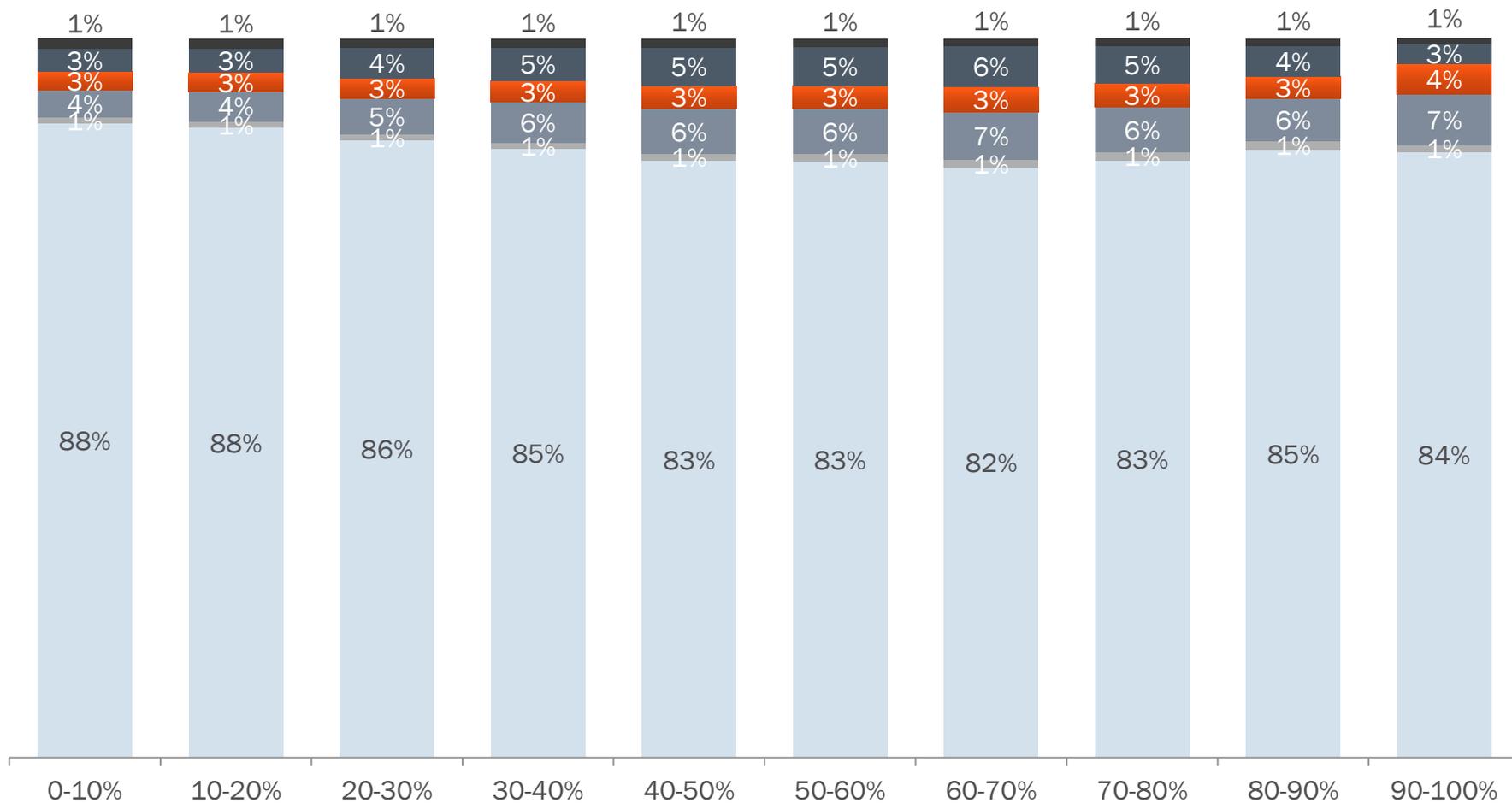
— Expanded  
— Conventional  
- - - 95% Lower Interval  
- - - 95% Upper Interval



# Many of these new scoring consumers are also in a protected class, Hispanic

CONSUMER DISTRIBUTIONS: ETHNICITY (AOHC) BY SCORE METHOD

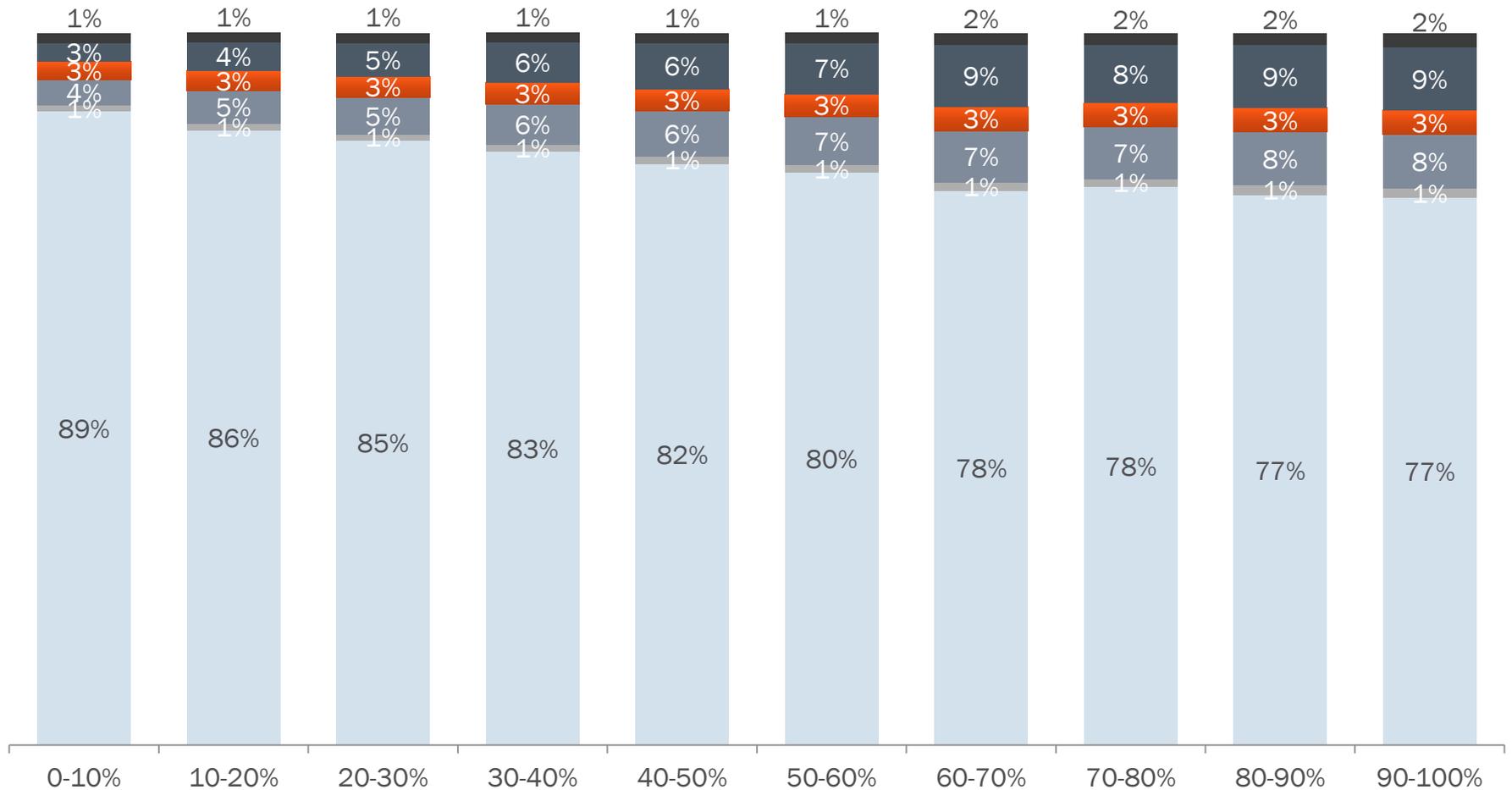
- Exclusion
- V3.0 No Activity
- V1.0/V2.0 AOT < 6
- V3.0 No Trades
- V1.0/V2.0 No update last 6mos
- Conventional



# Many of these new scoring consumers are also in a protected class, African American

CONSUMER DISTRIBUTIONS: ETHNICITY (AOMC) BY SCORE METHOD

- Exclusion
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# Take aways...

- A meaningful percentage of consumers are unscorable by conventional credit score models
  
- These consumers are non-traditional users of credit and some fall into protected classes
  - At least 30-35 million of these unscorable consumers can be scored by analyzing their non-traditional credit management practices
    - 10 million of these consumers are reliably scored as near prime or higher.

Questions...

