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# Diving deep on credit establishment





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## Introducing:

- **Shawn Rife**  
Experian
- **Sandy Womer**  
Experian



# Credit history

“ Sin writes history, goodness is silent. ”

— Johann Wolfgang von Goethe



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# Session objectives

- **Understand** patterns of credit establishment by age group



18-20 year olds



21-34 year olds



35+ year olds

- **Identify** the behaviors that drive new to credit consumers to future prime or subprime credit scores
- **Learn** how to use these findings to enhance your current lending and portfolio strategies



# Profiling the emerging consumer



- 37% of consumers considered emerging consumers (thin file or no-file)
- These consumers largely seek to establish a credit history:
  - ▶ 32% of emerging consumers with 3-4 trades migrated to thick file status between December 2011 and 2014
  - ▶ 13% of no-hits migrated to thick file status during that same period
- No-hit consumers behave similarly to many more-established thin-file consumers
  - ▶ Up to 48% of no-hit consumers would score at near-prime+ if given chance



# Profiling the emerging consumer



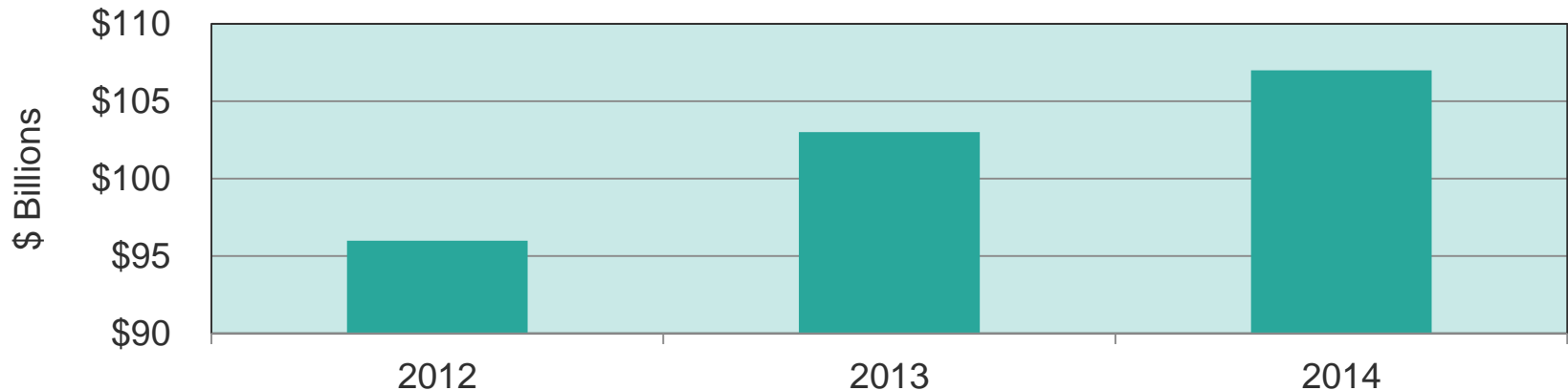
- Recent data suggests continued strong migration towards thick file among emerging consumers
  - ▶ Among a sample of no-hits, the incidence of the no-hits dropped 33% from March to December 2013
  - ▶ A similarly-drawn sample of thin-file consumers shows a 550% migration from thin-file to thick file status during the same time period
- Taken as a whole, the data suggests that developing ways to identify, evaluate and include the emerging consumer should be a priority



# Sizing the emerging consumer market

- Emerging consumers generated \$107B in fee and interest in 2014
- The emerging consumer market saw an average **growth** rate of 6% yearly since 2009

**Annual fees and interest revenue (emerging consumers) \***



The growing size of the emerging consumer underscores the need for credit scoring solutions that identify creditworthy prospects and leverage technology to reign in costs

\* Center for Financial Services Innovation (2013 Financially Underserved Market Size Study)



# The many faces of the emerging consumer

## Emerging consumer segments

Cash is king



Strivers



Borrowers



Savers



\* Center for Financial Services Innovation Underbanked Consumer Study (June 08, 2008)





# Emerging consumers: New realities for the post-recession world

## After a long recession, lending is finally back in expansion mode

### Consumers



- 64 million+ with little or no credit history
- Typically unscorable by traditional scoring
- Limited access to cost-effective credit products

### Lenders



#### Lenders:

- Struggle to grow revenue and maintain profitability
- Need to expand their customer base into this fast-growing, risky market
- Looking for alternatives to costly manual underwriting of unscorable population

### Regulators



- CFPB have directives around financial inclusion of the underserved populations
- CARD Act of 2009
- Regulators mandating ways to offer emerging consumers improved options to meet their needs



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## Analysis results





# Analysis design



- Looked at consumers who opened their first trade between October 2012-December 2012
- Followed their trade behavior and performance over the next three years through December 2015



# Population overview

**A = Super-prime**  
781-850

**B = Prime**  
661-780

**C = Near Prime**  
601-660

**D = Sub-prime**  
500-600

**F = Deep Sub-prime**  
300-499

Percentage of consumers  
by VantageScore® 3.0 Segment 12/2015

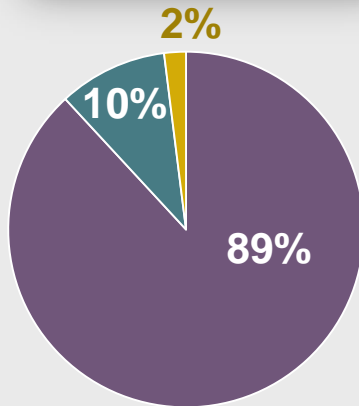
Generation as of 12/2012	Percentage of consumers by VantageScore® 3.0 Segment 12/2015			
	Super Prime / Prime	Near Prime	Subprime / Deep Subprime	No Score
18-20	36%	23%	41%	0%
21-34	52%	16%	31%	1%
35+	50%	17%	31%	2%



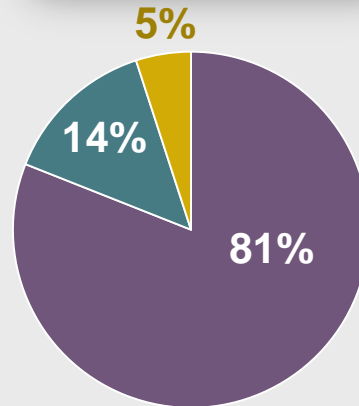
# Population overview

## Type of first account

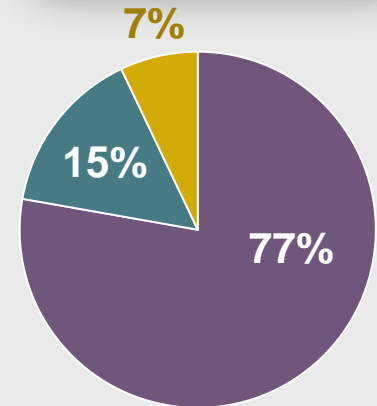
### 18-20 consumers



### 21-34 consumers



### 35+ consumers



Individual

Authorized user

Joint

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# How trade ownership impacts future risk

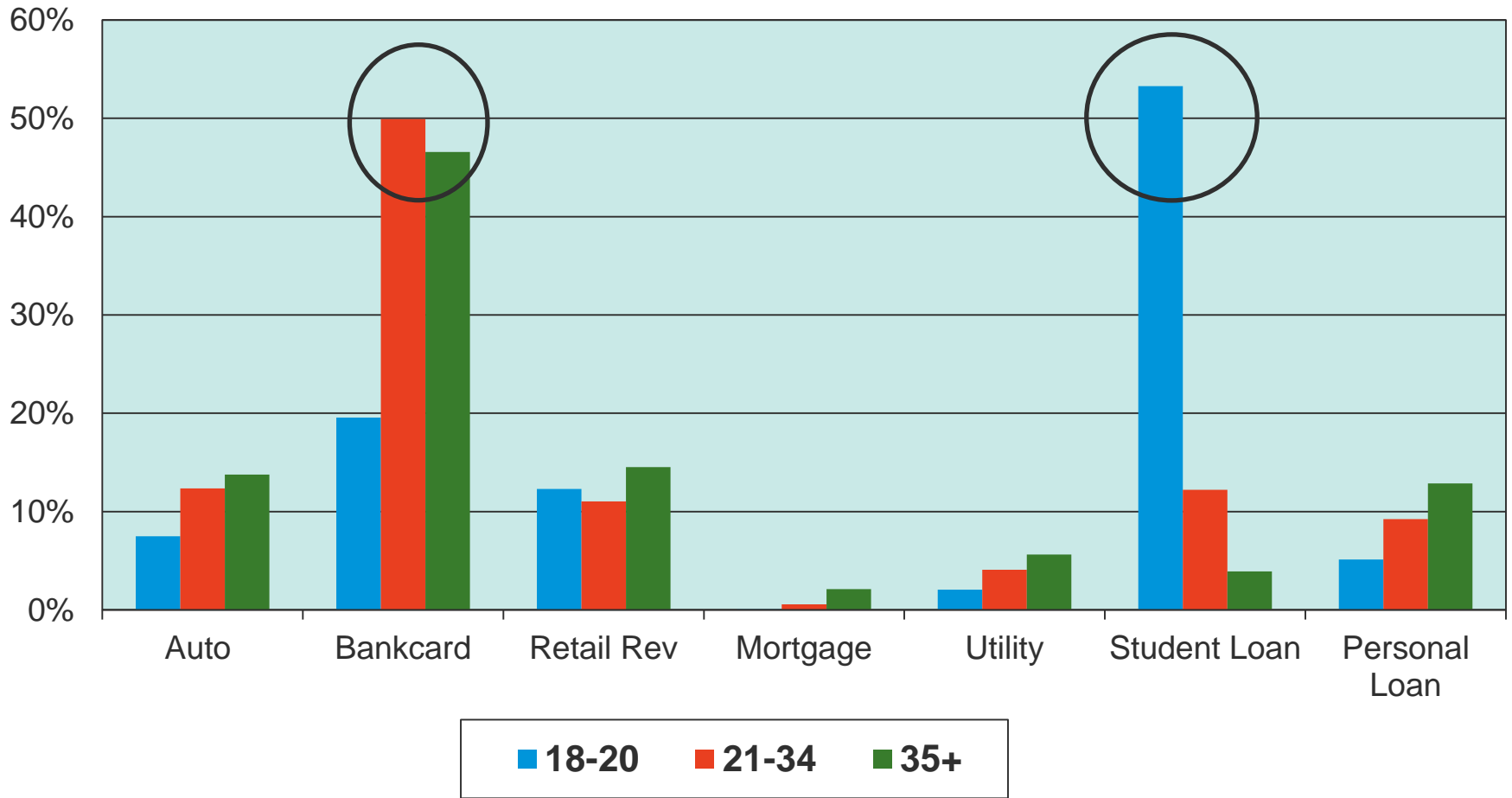
Generation 18-20 as of 12/20/2012		Percentage of consumers by VantageScore® 3.0 segment 12/2015			
ECOA of first trade opened		Super Prime/Prime	Near Prime	Subprime/Deep Subprime	No Score
	Individual	34%	24%	42%	0.2%
	Authorized user	65%	17%	17%	1.3%
	Joint	49%	20%	30%	0.3%
	Overall	36%	23%	41%	0.3%

Generation 21-34 as of 12/20/2012		Percentage of consumers by VantageScore® 3.0 segment 12/2015			
ECOA of first trade opened		Super Prime/Prime	Near Prime	Subprime/Deep Subprime	No Score
	Individual	50%	16%	33%	0.9%
	Authorized user	70%	14%	13%	2.8%
	Joint	54%	20%	24%	1.3%
	Overall	52%	16%	31%	1.1%

Generation 35+ as of 12/20/2012		Percentage of consumers by VantageScore® 3.0 segment 12/2015			
ECOA of first trade opened		Super Prime/Prime	Near Prime	Subprime/Deep Subprime	No Score
	Individual	47%	17%	34%	2.4%
	Authorized user	71%	14%	11%	3.6%
	Joint	54%	20%	24%	2.2%
	Overall	50%	17%	31%	2.5%



# First trade opened by generation



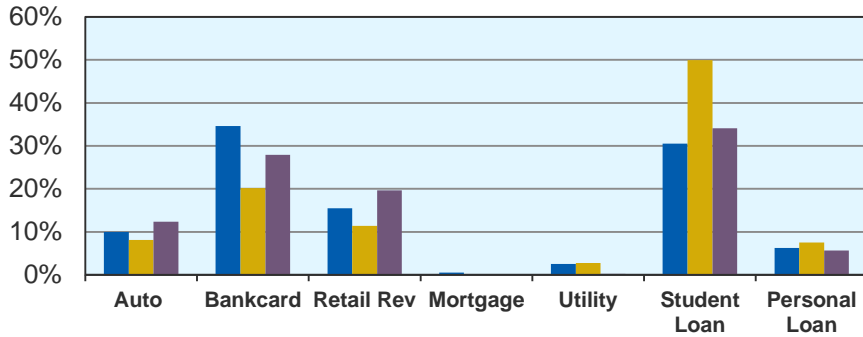


# Trades opened by generation

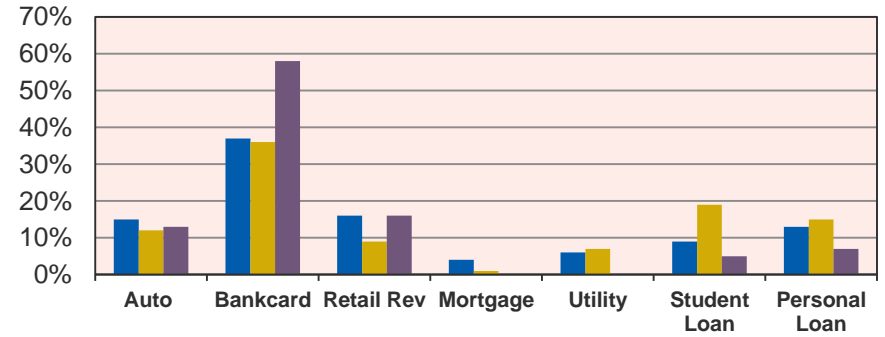
## Current, 5 years ago and 10 years ago



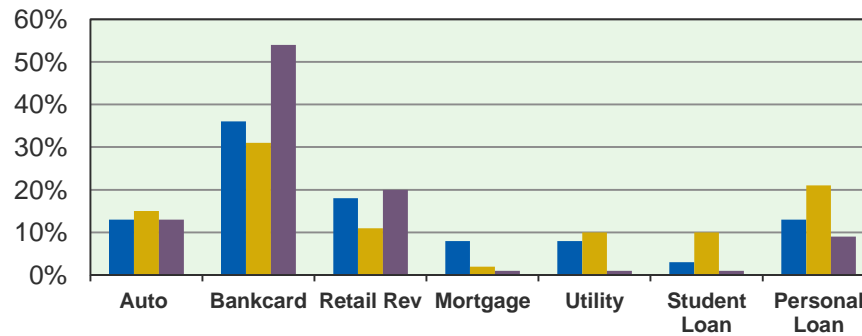
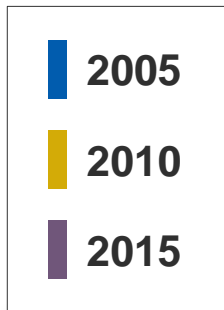
### 18-20 year olds



### 21-34 year olds



### 35+ year olds



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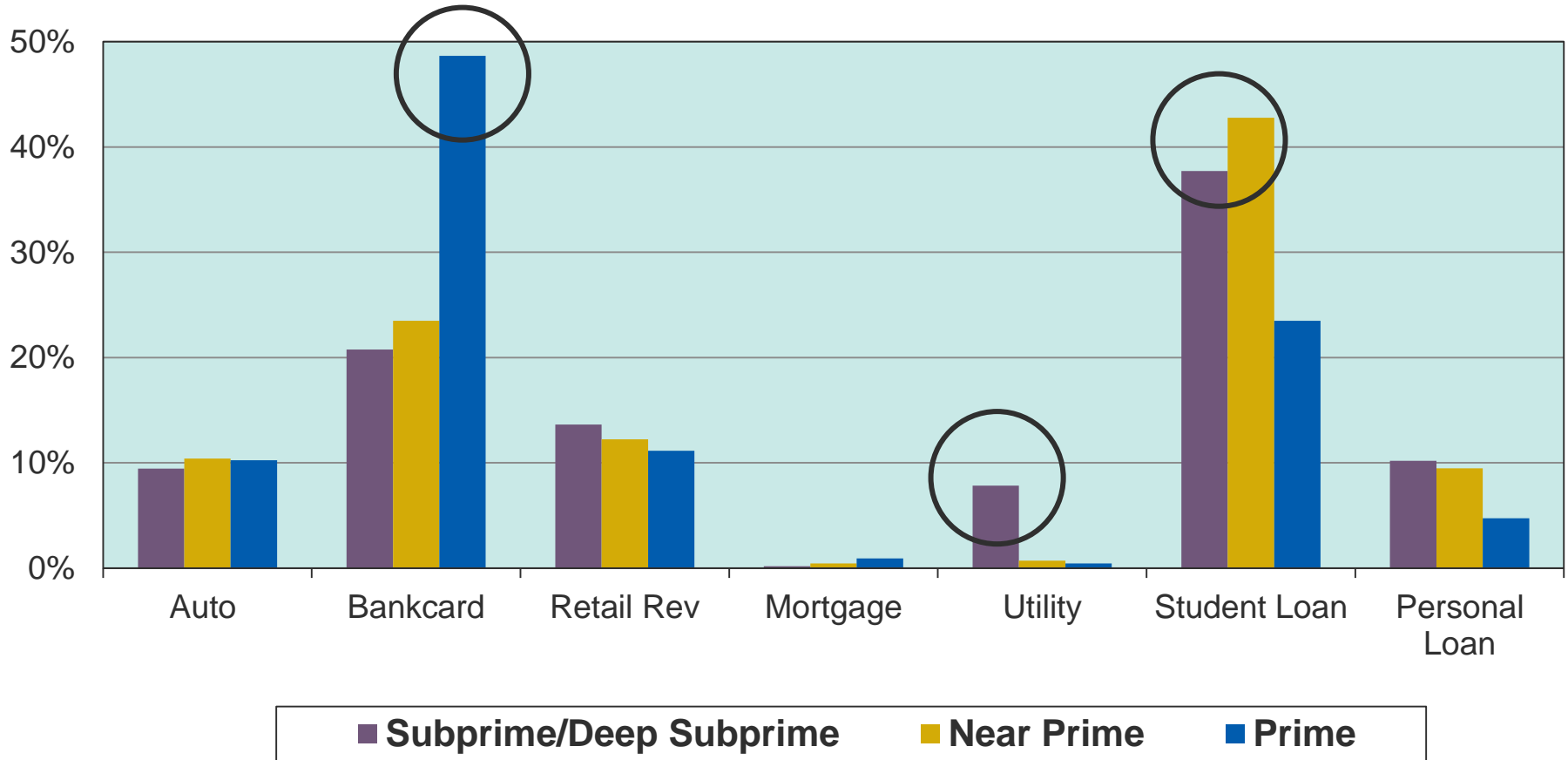
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# First trades opened by 12/2015 VantageScore® segment





# Top trades opened by generation and future VantageScore®



18-20 year olds

First account opened	Percentage
<b>Student loan</b>	<b>47.0%</b>
<b>Bankcard</b>	<b>28.9%</b>
<b>Retail revolving</b>	<b>11.5%</b>
Auto	8.7%
Personal loan	3.6%
Utility	0.2%
Mortgage	0.1%



21-34 year olds

First account opened	Percentage
<b>Bankcard</b>	<b>65.0%</b>
<b>Auto</b>	<b>11.0%</b>
<b>Retail revolving</b>	<b>9.3%</b>
Student loan	7.6%
Personal loan	5.2%
Utility	0.7%
Mortgage	0.7%



35+ year olds

First account opened	Percentage
<b>Bankcard</b>	<b>61.5%</b>
<b>Retail revolving</b>	<b>13.9%</b>
<b>Auto</b>	<b>12.3%</b>
Personal loan	6.5%
Mortgage	3.2%
Student loan	1.3%
Utility	0.8%

**Prime**

First account opened	Percentage
<b>Student loan</b>	<b>53.1%</b>
<b>Bankcard</b>	<b>14.8%</b>
<b>Retail revolving</b>	<b>14.0%</b>
Auto	6.7%
Personal loan	6.6%
Utility	4.6%
Mortgage	0.0%

First account opened	Percentage
<b>Bankcard</b>	<b>30.0%</b>
<b>Student loan</b>	<b>19.1%</b>
<b>Personal loan</b>	<b>13.8%</b>
Auto	13.1%
Retail revolving	12.4%
Utility	11.0%
Mortgage	0.3%

First account opened	Percentage
<b>Bankcard</b>	<b>28.3%</b>
<b>Personal loan</b>	<b>18.6%</b>
<b>Utility</b>	<b>15.5%</b>
Retail revolving	14.4%
Auto	14.0%
Student loan	8.0%
Mortgage	0.8%

**Subprime**



# Extended View<sup>SM</sup> score

**Extended View<sup>SM</sup> was able to score between 77% – 84% of the first trade population**

Extended View <sup>SM</sup> as of 12/12	18-20	21-34	35+
400-499	0%	1%	1%
500-599	9%	16%	17%
600-699	60%	50%	48%
700-799	15%	11%	13%
800-999	1%	1%	0%
Unscoreable	16%	23%	21%

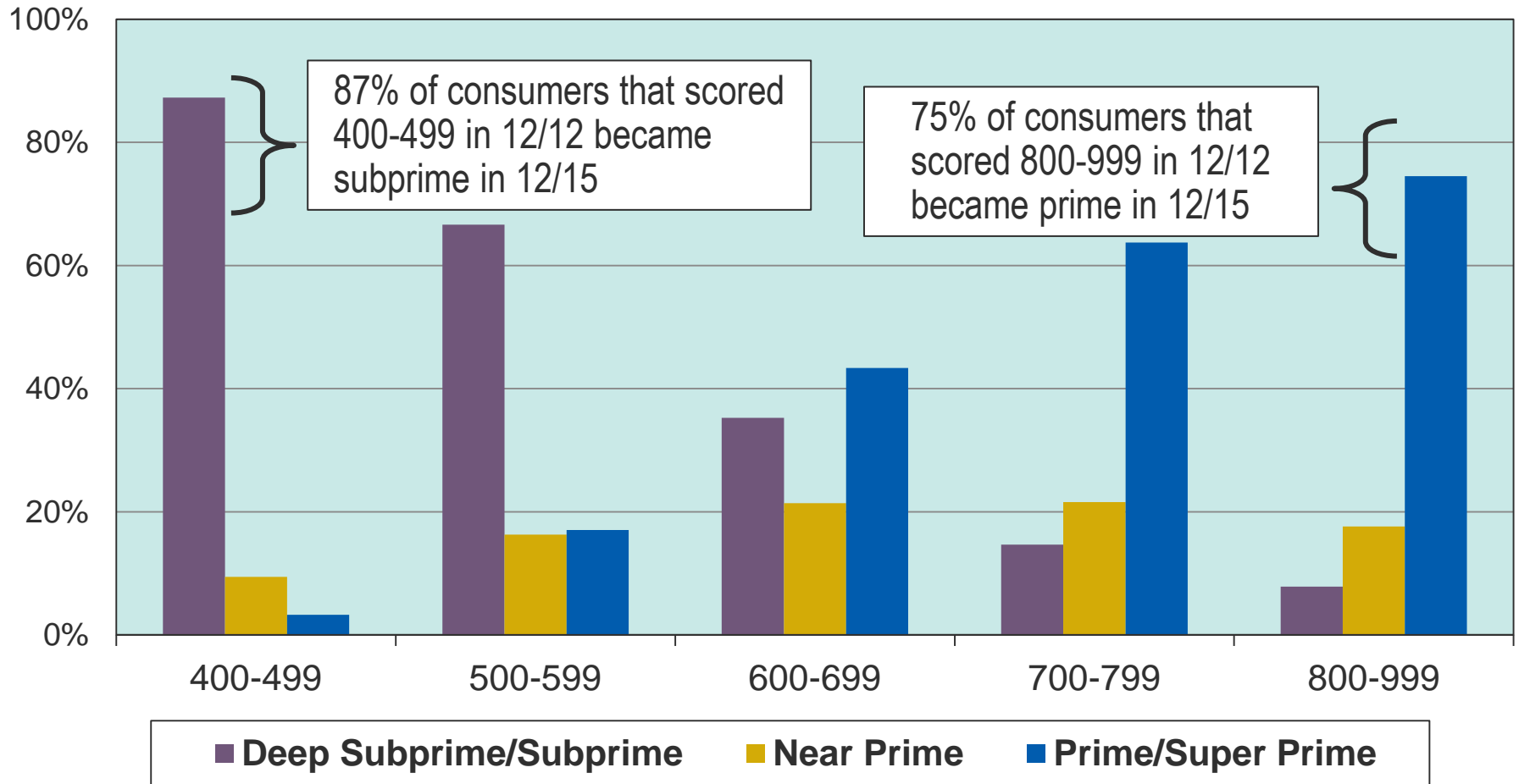
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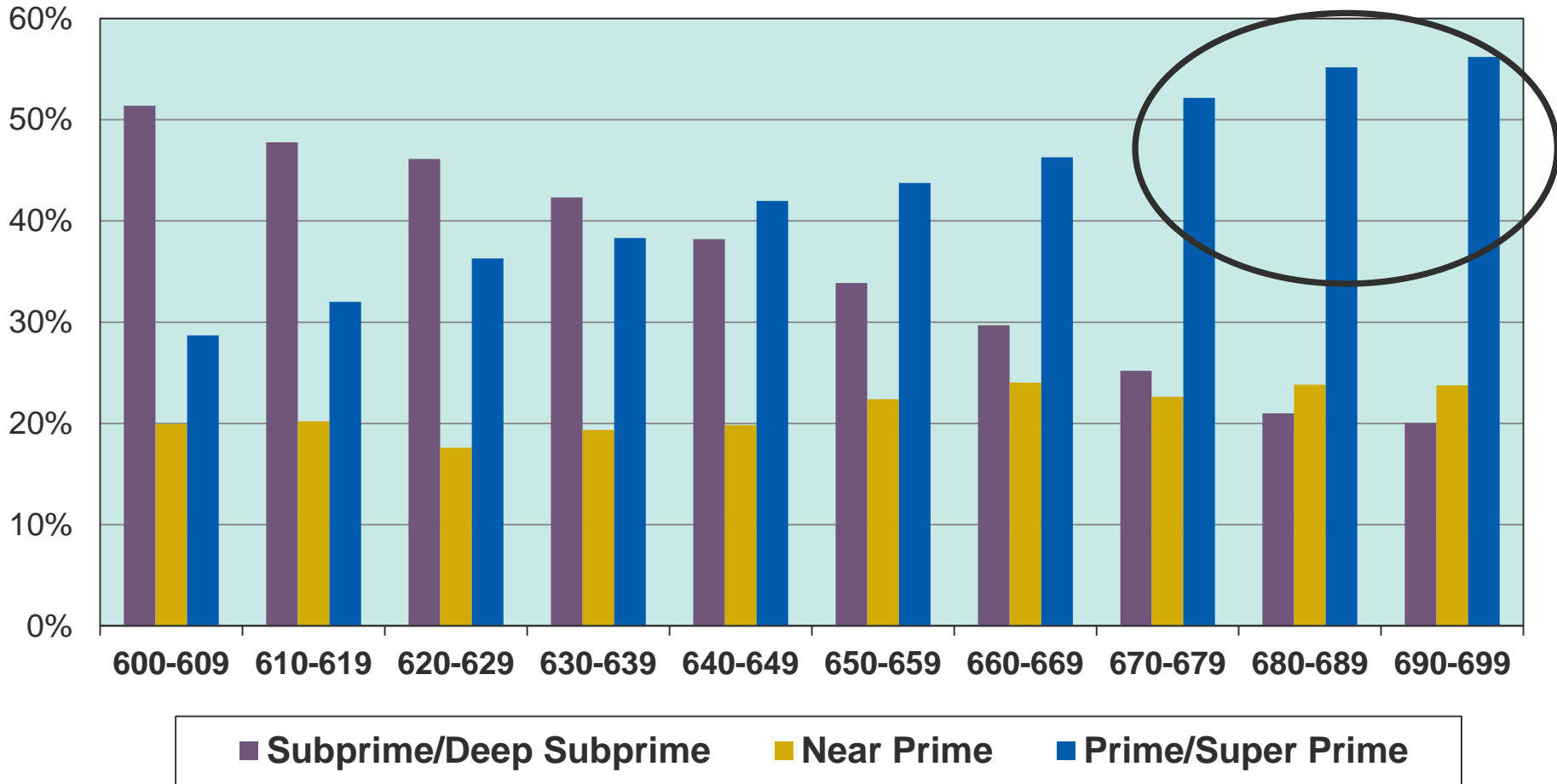
# 2015 VantageScore® 3.0 segment by 2012 Extended View<sup>SM</sup> score range





# Extended View<sup>SM</sup> score

Deeper look into 600-699



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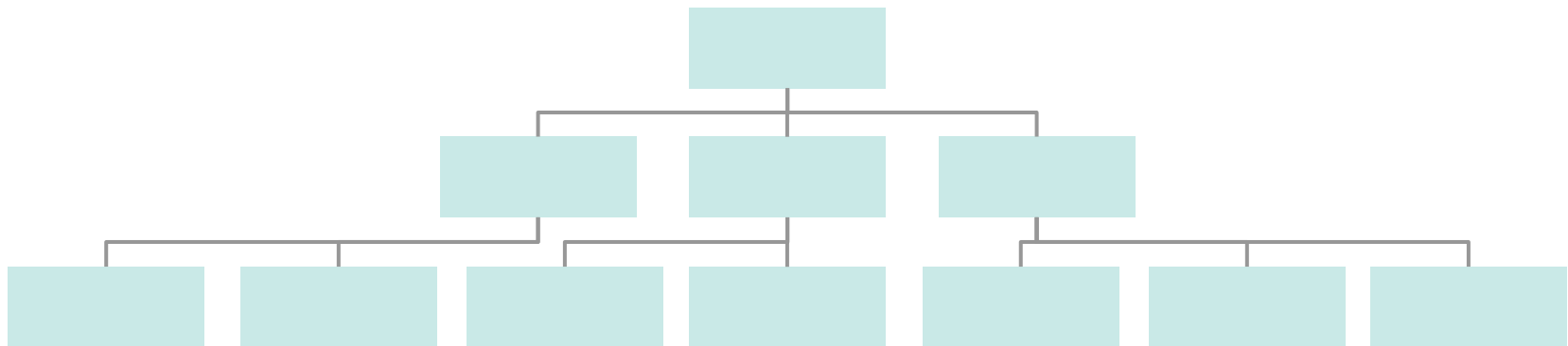
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# Profiling the future prime consumers

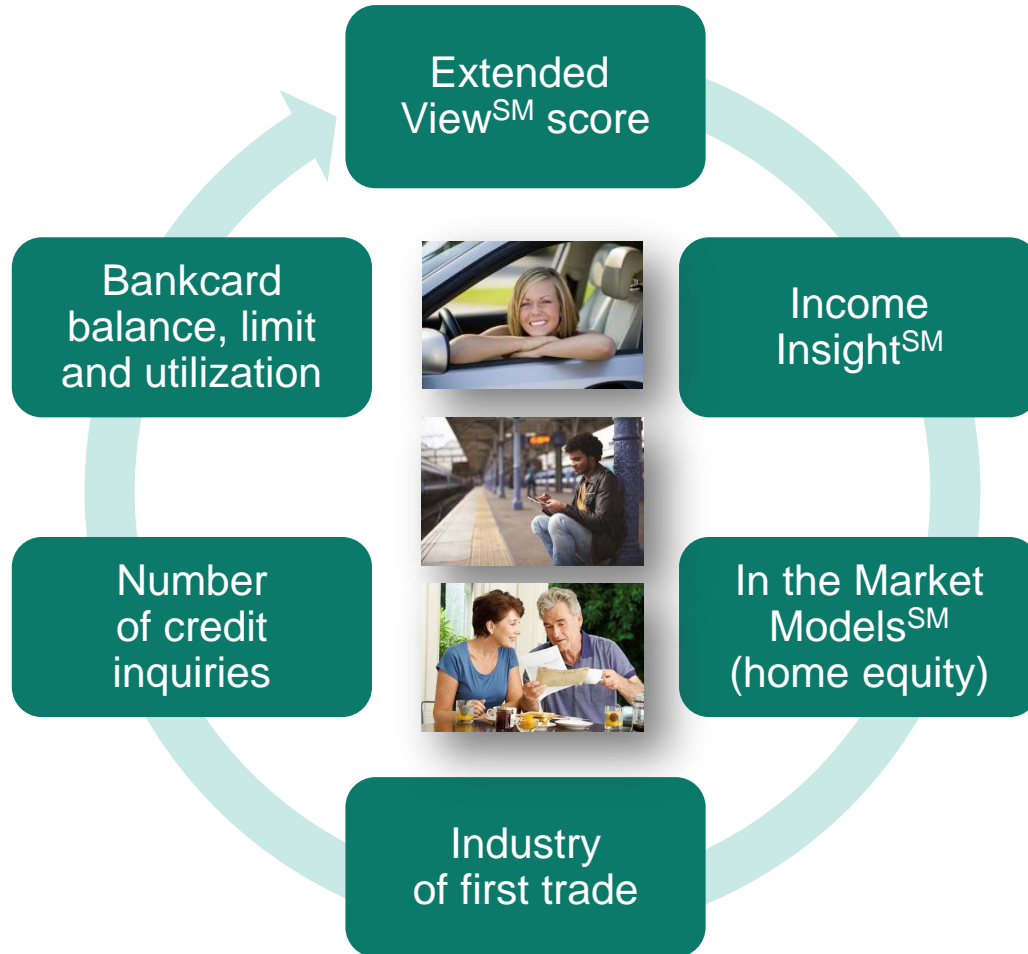
Use combinations of scores and attributes to identify consumer segments with increased likelihood to become future prime

- Further separation of future prime vs. subprime accounts
- Customization without the added time and expense of a custom model
- The attributes and thresholds applied will vary widely depending on type of account being worked, client portfolio make-up etc.





# Most predictive scores and attributes for future prime



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# Future prime segmentation results

## 18-20 year olds



**Overall population**

**36% prime rate**

**Good / bad ratio of 0.56**

	1	2	3	4	5	6	7
	Low risk			Avg risk		High risk	
Prime %	80%	62%	54%	42%	32%	26%	20%
GB ratio	4.01	1.62	1.17	0.72	0.43	0.35	0.25
% of Total	1%	5%	12%	21%	32%	25%	4%

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# Future prime segmentation results

## 21-34 year olds



**Overall population**

**52% prime rate**

**Good / bad ratio of 1.10**

	1	2	3	4	5	6	7
	Low risk			Avg risk		High risk	
Prime %	80%	76%	72%	61%	46%	26%	8%
GB ratio	4.16	3.13	2.58	1.36	0.85	0.35	0.09
% of Total	4%	10%	12%	39%	15%	13%	7%

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# Future prime segmentation results

## 35+ year olds



**Overall population**

**50% prime rate**

**Good / bad ratio of 1.05**

	1	2	3	4	5	6	7
	Low risk		Avg risk			High risk	
Prime %	80%	72%	58%	52%	37%	19%	7%
GB ratio	4.14	2.74	1.55	1.16	0.61	0.24	0.08
% of Total	7%	15%	29%	17%	13%	13%	6%

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## Use cases / best practices





# Extended View<sup>SM</sup>

Harnessing the power of emerging consumers

**Extended View<sup>SM</sup> is an FCRA-compliant credit model designed to assess the risk of consumers with limited – or no – credit history**

Extended View<sup>SM</sup> can:



**Help lenders expand** their prospecting and underwriting population



**Provide underserved consumers** more access and choices



**Help satisfy regulatory directives** for more inclusionary lending

NOTE: Supplements, does **not** replace a lenders traditional scoring models

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# Extended View<sup>SM</sup> score

Value proposition

Up to **95%**  
coverage

Superior data and best-in-class attributes scores  
up to 95% of previously unscorable:

Premier attributes | Rental data | Full file public records

**Strong**  
performance

A 30% higher KS than competition allows clients  
to decision more – *with less risk*

**Ultimate**  
connectivity

Score runs at the bureau – waterfall to capture  
all through the door population

FCRA **compliant**

Fair Credit Reporting Act infrastructure eliminates  
regulatory concerns

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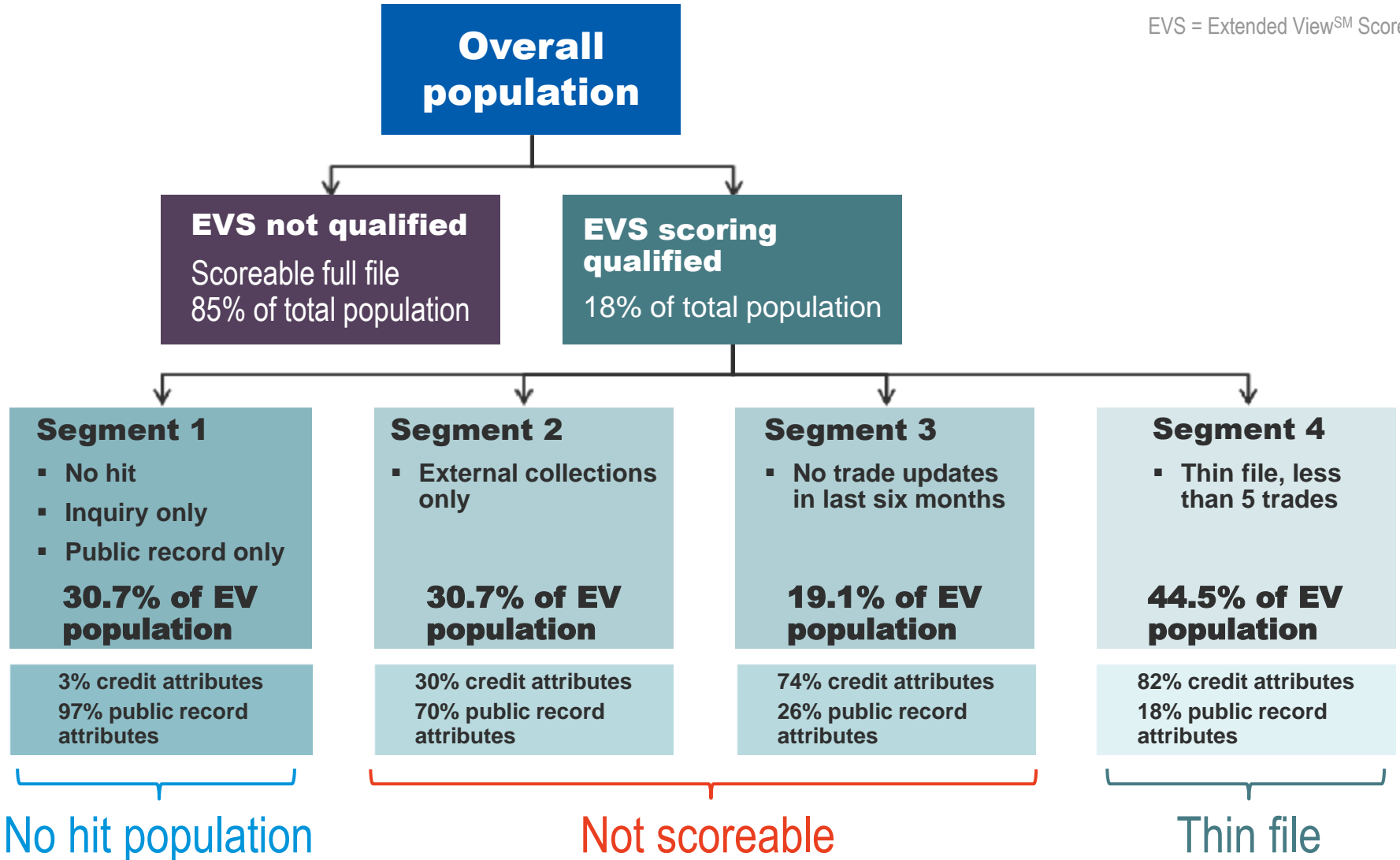
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# Extended View<sup>SM</sup> score

## Population distribution and segmentation

EVS = Extended View<sup>SM</sup> Score





# Extended View<sup>SM</sup> in action

## Use cases

### List append

- Take a list of recently declined prospects due to limited / no credit history
- Run the list through **Extended View<sup>SM</sup>** batch prescreen to target prospects that meet your lending criteria
- Send prospects pre-approved credit offers

#### Key benefit

Target previously declined consumers who want your product

### List extract

- Find a new universe of viable consumers
- Requires less manual review of applications
- Promotes more inclusive lending practices
- Instill loyalty by providing services previously unavailable to them

#### Key benefit

Identify and capture new, emerging consumers *before your competitors*

- Integration into custom model to maximize coverage and minimize bads
- **ACTION: 13% acceptance rate to 17% acceptance rate**

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1 Select the Survey button and complete

2 Select the breakout session you attended

Vision Conference  
Breakout Session Survey

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1. How would you rate the presenters' knowledge?  
 Excellent  Above average  Average  Below average  Poor

2. How would you rate the presenters' delivery?  
 Excellent  Above average  Average  Below average  Poor

3. How would you rate the presenters' time management?  
 Excellent  Above average  Average  Below average  Poor

4. How useful was the session information?  
 Very useful  Somewhat useful  Neutral  
 Somewhat not useful  Not useful

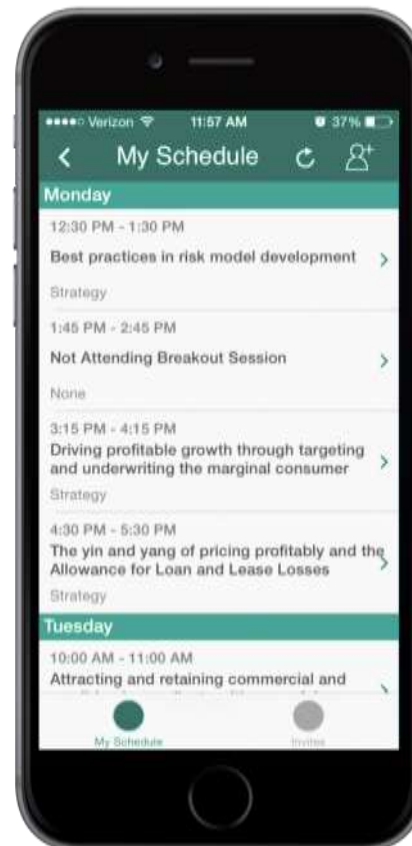
5. How would you rate the session on being current?  
 Very current  Somewhat current  Neutral  
 Somewhat not current  Not current

6. How relevant was the session content to the title and description?  
 Very relevant  Somewhat relevant  Neutral  
 Somewhat not relevant  Not relevant

7. How would you rate the level of content?  
 Too advanced  Just right  Too basic

8. Why did you attend this session? (Check all that apply)  
 Relates to my business  The presenter(s)  Interest in new product  
 Compelling session description  Increase product knowledge

9. Do you have any additional comments?  
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