TRENDED CREDIT DATA: PAST, PRESENT & FUTURE

Trended

A TransUnion Publication

> *We see information not for what it is, but for what it can help people achieve. And we believe, with the right information, people can achieve great things.*
>
> *-Jim Peck*
> *President and CEO, TransUnion*
> *CIO Review, Big Data Special*

Ours is a business of innovation and change. Five thousand years ago, the Sumerians divorced their calendar from the astronomical year in favor of a 360-day calendar that simplified interest rate calculation–an innovation that persists to this day in financial markets.

Discussing a more recent innovation, the Federal Reserve Board noted that, "All aspects of the consumer lending process–including the identification of prospective customers, loan underwriting and pricing, and account management–changed dramatically in the last third of the twentieth century. Advances in information technology have lowered the costs of credit, opened new markets to lenders, and increased the speed of lenders' decision-making."[1]

And yet, the fundamental tools on which this evolution is based–the consumer credit report and risk scores that analyze a consumer at a specific point in time–have remained relatively unchanged. Many businesses making consumer lending decisions continue to rely on point-in-time views and scores that reflect technological limitations of a very different time.

Moving from point-in-time views to dynamic views of consumers over time that track account balances, payments made, credit limits, and other factors to identify and predict hundreds of behaviors, has delivered impressive results in marketing and retention, acquisition, risk management, and even collections. Three years after introducing trended credit reports and analytics based on trended credit data to both consumers and lenders, thousands of TransUnion customers are using new insights to make better decisions.

[1]Board of Governors of the Federal Reserve System. Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit. August 2007

What is it?

TRENDED CREDIT AND ALTERNATIVE DATA

TransUnion's CreditVision® suite of solutions helps enhance consumer decisions by leveraging an expanded view of credit data that includes up to 30 months of historical payment amounts and credit performance on trade lines, where available. CreditVision risk scores include the addition of actual payment amounts and trended data on accounts, data that are new to the credit report and not included in any other traditional risk scores available today.

This expanded view of credit data can reveal trends and behaviors, such as consumers making on-time payments, paying more than the minimum amount due on credit cards and installment loans, reducing total amounts borrowed or decreasing utilization over time. These trends cannot be seen on standard versions of the consumer credit report or within any of the traditional risk scores that use the more limited credit report.

In October 2015, TransUnion released CreditVision® Link℠, the first credit score in market to combine both trended credit bureau data and alternative data sources—creating a more precise picture of consumer risk and their ability to manage financial commitments in a single point. CreditVision Link allows lenders to score approximately 95% of the U.S. adult population, including tens of millions of consumers who cannot be scored by traditional credit scores.

In a 2015 report, the Consumer Financial Protection Bureau noted that more than 19 million American adults have a credit file treated as unscorable by traditional risk models—and consumers in low-income neighborhoods and minority populations are much more likely to be unscorable.

Using a trended view of consumer credit, over 26 million Americans whose credit profile would traditionally not generate a credit score can now be scored confidently—and looked at favorably.

RESULTS

Setting a New Standard:

FANNIE MAE REQUIRES THE USE OF TRENDED CREDIT DATA

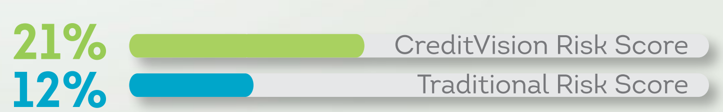
In what the National Consumer Reporting Association called "the greatest change to the mortgage credit reporting process since the adoption of the credit score,"[2] Timothy Mayopoulos, CEO of Fannie Mae, announced in October 2015, plans to require trended credit data when evaluating single-family mortgage applicants. Citing "smarter, more thorough analysis of a borrower's credit history," and an ability to "help creditworthy borrowers obtain access to mortgage credit and sustainable homeownership,"[3] the announcement followed careful analysis of consumer behavior. Fannie Mae points to the following findings to help illustrate the powerful insights made possible with trended data:

- A borrower who makes the minimum payment due is 2.5 times more likely to become delinquent on a mortgage than a borrower who pays their balance in full every month
- A borrower who exceeded their credit limit in the past year is four times more likely to become delinquent than a borrower who did not

While these statistics may not be surprising to those familiar with consumer credit, these are two examples of behaviors that cannot be examined using traditional credit reports and risk models.

A recent TransUnion analysis[4] found that the use of trended credit data can potentially impact vast numbers of consumers in the housing market through better pricing and access to mortgage loans. Research indicates that the percentage of consumers in the super prime risk tier, who generally have the greatest access to new loans at the lowest pricing, would increase from 12% of the population to nearly 21% using trended data solutions.

PERCENT OF U.S. CONSUMERS SCORED AS SUPER PRIME



[2] https://support.credittechnologies.com/kb/a1176/fnma-announces-trended-data-requirement_.aspx
[3] https://www.fanniemae.com/content/fact_sheet/desktop-underwriter-trended-data.pdf
[4] CreditVision Study: http://transunioninsights.com/CreditVisionStudy/

1955
First regional "bureaus" emerge, usually focused on derogatory data

1970
Fair Credit Reporting Act (FCRA) enacted, creating rules on the collection and use of consumer credit data

1972
Bureaus begin harnessing computers to maintain and report consumer files

1978
Majority of largest banks using credit scoring systems

1988
Lenders have the ability to purchase lists of credit-qualified consumers for the first time

1989
First general purpose credit score debuts

1994
Fannie Mae and Freddie Mac begin to use scores in automated underwriting systems

1995
The application of credit-scoring technologies in the 1990s lowered the costs of both underwriting and funding, and promoted greater competition as lenders extended their reach far beyond their traditional branch office locations

2003
Fair and Accurate Credit Transactions Act includes language permitting consumer free access to credit reports

2006
Three dominant bureaus announce the creation of Vantage Score

2013
TransUnion introduces trended credit data with CreditVision launch

2015
First combination of trended credit and alternative data introduced with CreditVision Link

INTERVIEW

BEHIND THE MOVE TO TRENDED CREDIT DATA

Tony Terrazas
Senior Vice President,
Innovative Solutions Group

Tony Terrazas now serves as senior vice president of TransUnion's innovative solutions group, after holding several leadership positions with the company during his 30+ year tenure. In his current role, Tony leads a team responsible for driving development of our CreditVision and alternative data suite of solutions across all verticals. Tony can be reached at aterraza@transunion.com.

In 2012, Tony was asked to lead the CreditVision launch, applying over three decades of insights from working directly with TransUnion customers.

Q: You've seen many advances in credit data and scores over your career; what do you think about the industry's move to trended data?

A: Undoubtedly, the credit reporting and analytics industry has enabled huge scale and more affordable credit, and that's been supported by something that's remained relatively static for the past 30 years: a point-in-time snapshot of a consumer's financial life.

In that metaphor—the last 30 years revolving around consumer snapshots—the advances in data and the new models have significantly improved the quality of the image, but it's still an image. Trended data propels us from a single point-in-time image to a moving picture. It provides a whole new depth of detail that just isn't possible to capture in a static image.

Q: What does that idea of picture-to-video look like in the real world?

A: The easiest way is to imagine that you're about to loan someone $10,000 of your money. You've got a credit report in front of you that shows his current balance on credit account, whether he's ever been delinquent, and some other details.

Next, imagine that you line up the last 30 months of his credit reports. Month by month, you can plot his credit balances, see if he has the capacity to pay his obligations in full or if he makes the minimum due, and visualize other measures of financial health.

Now, imagine that instead of spreading 30 pages across a desk, all of that information is captured and summarized in scores or easy-to-read formats. That's trended data.

Q: If it's so powerful, why haven't we been doing this all along?

A: It really has to do with technology. Our industry has grown up around very uniform standards in how data are reported and used, which has allowed for incredible scale and lower-cost decisions. But that hasn't changed much over the last 30 years, and the approach reflects the data storage, processing and computing power of 30 years ago.

All the data that used to fall to the floor every month when new data was reported is now being saved—and, we're getting new data from customers as well. Because of technology investments, all of those data and resulting insights can now be packaged for much more precise decisions.

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Q: That's trended data; how does alternative data fit in?

A: First, just using trended credit data, we're able to score so many more consumers—23 million individuals that are credit-active, but would have been unscorable in the past. But, there are still people who don't have a traditional credit footprint.

Using the same technology platforms, we're able to bring in other data sources that can help provide access or better terms for well-qualified consumers. Since it's all built on the same platform, we're able to define customer-specific strategies that bring in alternative data to complement trended credit data—according to what our customer is trying to accomplish.

Q: What's been the most surprising aspect to you in the past three years?

A: Speed. The speed at which our customers have embraced trended data. I've been working in this field for a long time and can't recall anything else that has so quickly gone from idea to approaching industry standard.

Q: What's been the most rewarding?

A: Probably that this is something within reach of customers of all sizes. Many times, new innovations are only available to large companies because of technology, cost or analytic requirements. Because trended data rides the rails of our established credit systems, it's been great to see so many smaller companies gain a competitive edge with trended data.

> CreditVision is an innovation that has had a dramatic impact on how lenders utilize credit information within their lending strategies. The use of trended credit data has the potential to help millions of people access the opportunities that lead to a better quality of life.[5]

-Jim Peck,
President and CEO, TransUnion

[5] http://finance.yahoo.com/news/transunions-trended-data-support-fannie-134429707.html

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Setting a global standard

Trended credit data is not only a U.S. phenomenon. TransUnion has a global presence in more than 30 countries and a leading role in several international markets across North America, Africa, Latin America and Asia. Based on customer success using trended data in the United States, CreditVision has been introduced as the future of consumer credit decisions in Canada and Hong Kong, and is also being pursued in many additional markets across the globe.

What people have to say...

> "Seeing community-based institutions—not just the top-tier lenders—grow portfolios and make more informed risk decisions has been incredibly rewarding."

-Ross Minervini, Director, CreditVision Solutions, TransUnion

> "We're planning a fall mail campaign and will be using the CreditVision attributes once again. We also hope to begin utilizing the CreditVision score in our day-to-day card underwriting operation, as we believe it will provide a significant bump in approval rates and balance growth." -Vice President, Lending at a large credit union

Five Consumers Assessed with CreditVision

Gina has been working hard to improve her financial health after heavy reliance on credit cards.

Traditional View

- 55% utilization of credit card limits and an auto loan she has always paid on time

CreditVision

- Credit card balance has steadily declined from nearly 100% utilization one year ago
- Excess payment on auto loan, showing additional sign of excess capacity

What you can do

With these new data, we know that Gina is a low credit risk. She may be interested in a lower interest consolidation loan as she pays down her remaining balance.

Martin takes pride in not having to use his credit card since graduating college 18 months ago.

Traditional View

- A single trade that hasn't been used in nearly two years would make Martin unscorable

CreditVision

- Martin hasn't used his card in a while, but when he did carry a balance, he always paid more than the minimum due or paid it in full
- As a result of this trended data, he has a good credit score

What you can do

Due to historical data, we can now see that Martin is treating credit carefully. Because of this, lenders can confidently lend to Martin at competitive rates.

Traditional View

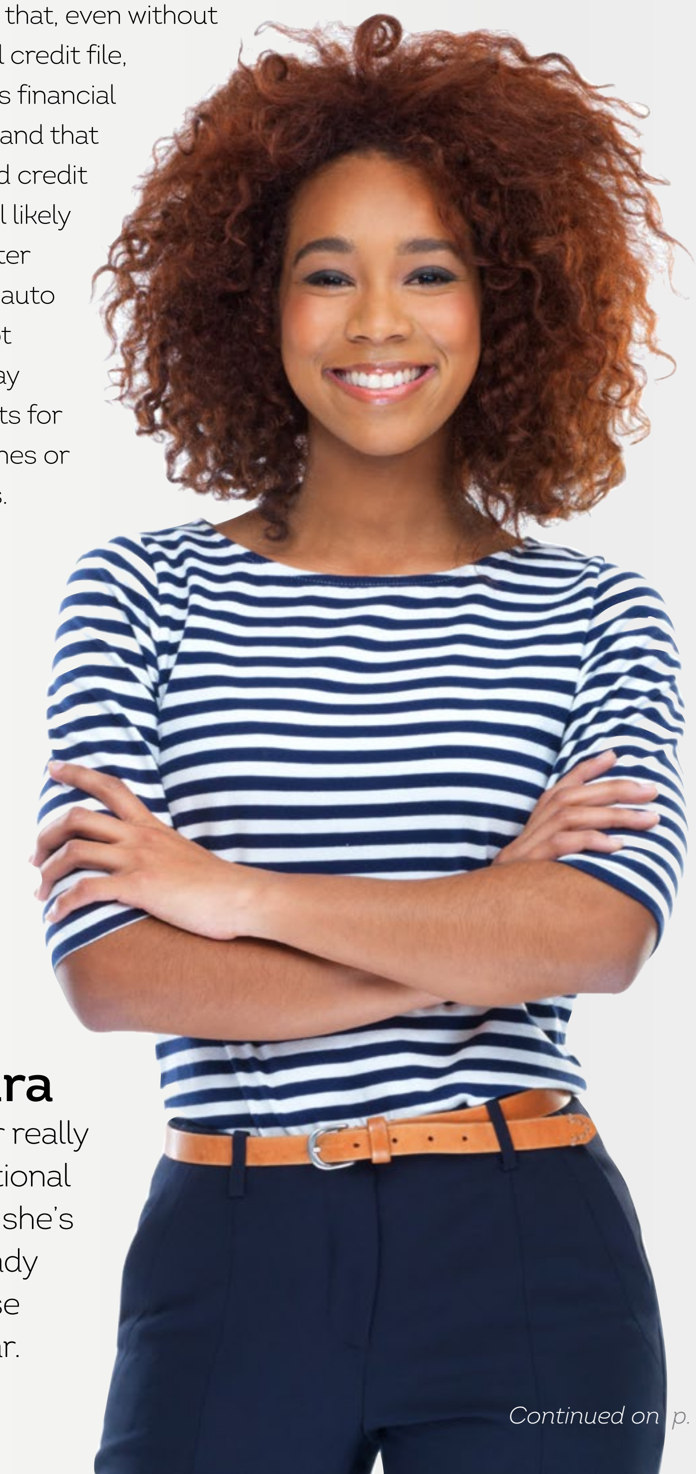
- Shandra doesn't have a credit file

CreditVision

- Alternative data shows a well-managed deposit account
- She pays subscriptions on time, and she doesn't have a history of using liquidity loans
- This additional information is enough to generate a prime credit score

What you can do

We can see that, even without a traditional credit file, Shandra has financial experience and that she's a good credit risk. This will likely mean a better rate on her auto loan and not having to pay high deposits for mobile phones or apartments.



Shandra hasn't ever really used traditional credit, but she's getting ready to purchase her first car.

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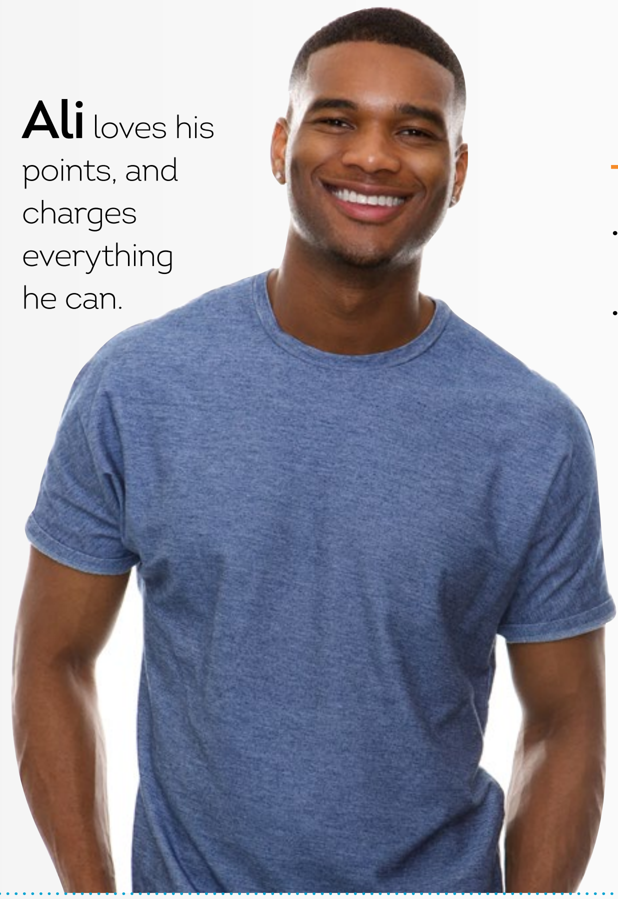

Ali loves his points, and charges everything he can.

Traditional View

- 30% utilization of a $25,000 limit credit card
- $200,000 in five-year-old student loan balances show him having a high debt load

CreditVision

- Balance paid in full every month
- Income estimation tools show income is in excess of current obligations–even when paying his card in full and paying extra on student loans

What you can do

With these insights, we can now see that Ali isn't likely to be motivated by rate, but may take note of rewards offers.

Traditional View

- Marc has a couple of credit accounts that are moderately utilized, and auto, student, and mortgage loans he's always paid on time
- He has all the characteristics of a low-risk borrower

CreditVision

- We can see that 30 months ago, Marc was paying his revolving balances in full, then started to pay less and most recently paid only the minimum payment due
- Trended credit data shows Marc's moderate balances aren't just holiday spend–Marc's balances are building
- Excess amounts paid on auto and mortgage loans are no longer being made

Marc lost his job seven months ago. He's found another, but it doesn't pay nearly as well, and he's having some trouble adjusting his lifestyle accordingly.

What you can do

The additional data show a less stable financial position. With a view of building balances, lenders may want to minimize their risk, and help him avoid becoming overextended.

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RETURNING THE ROI TO DIRECT MAIL

Like many institutions, a regional bank had seen returns from direct mail campaigns fall steadily campaign after campaign. Significant sums were spent blanketing mailboxes, but the resulting consumer applications were dismal. With consumers having more choices and providers competing intensely for those seeking credit, they had all but stopped direct mail campaigns 2 years ago, after experiencing less than 1 response per 100 pieces of direct mail.

But, growth in the bank's unsecured line of credit was stagnant. With the branch channel seeing fewer customers to drive cross-sell, they reluctantly decided to reevaluate direct marketing and turned to TransUnion for help.

Instead of taking the approach that had been used in the past–soliciting almost all existing customers that met the bank's credit criteria–the bank used propensity models built off of trended credit data. By looking at balances, payment behaviors, account activity, and other factors over 30 months, a propensity model helped the bank narrow down its target list of qualified prospects to those that showed strong buying signals.

Identifying customers with a high likelihood of applying for a line of credit, the response rate from this campaign was 371% higher than what the bank had experienced in the past. And, not only was the bank spending less on direct mail costs, they were approving more applicants: in the first week of the campaign, 81% of the applicants were approved for the unsecured line of credit.

With the ability to see and understand consumer credit behavior over time, institutions are better able to achieve whole new levels of understanding. This understanding helps anticipate consumer needs and behaviors, and has generated significant returns, improving the performance of marketing programs.

Based on what the bank described as "unheard of" results, direct marketing again became a focus for driving new business.

Customer Experiences Point to Value Across the Lifecycle

The use of trended credit data by Fannie Mae is another validation of the growing recognition about the power of trended data to improve risk decisions. In addition, TransUnion customers are also improving bottom-line performance and better serving their customers. Here are a few brief examples of how trended credit data has been used across our customer base.

IMPROVE BOOKINGS WITH BETTER DECISIONS AROUND THE EDGES

Booking auto loans requires quick decisions with competitive pricing. A major auto lender had long lent to exclusively prime consumers, but noticed many of the people declined were funded by competitors. To remain competitive, the lender sought to increase bookings without reaching into lower credit bands.

Using trended and alternative data in combination with advanced analytics to help underwrite applicants—slightly above and below their former cutoff—the lender was able to approve 37% of the loans that had previously been declined. And with better insights from the improved data and analytics, these approved loans had a delinquency rate 25% lower than would have been experienced were traditional data and scores used to approve these consumers. Funding even a mere 20% of these newly approved loans would result in portfolio growth of up to 25%.

SAFELY EXPANDING THE BORROWER UNIVERSE IN A COMPETITIVE ENVIRONMENT

In a competitive auto finance market, a top-tier auto lender faced a choice: either become more competitive by lowering rates, or find a way to approve borrowers who were less rate sensitive. Given the already narrow margins, there was no appetite for reducing yields. But the institution did not want the costs associated with higher levels of delinquency.

Using a traditional approach, the approval rate for near prime consumers (those with a slightly-worse-than prime credit score) had hovered around 14%. With the additional consumer insights available through trended data, the lender was able to boost its approval rates for the near prime credit tier to 42%—without a meaningful increase in delinquencies. The net impact to the lender was a 13% boost in total loan approvals, a significant lift in a hypercompetitive market.

BRINGING YOUR CARD TO TOP OF WALLET

Having an account and using an account are two different things, as a large credit union customer was painfully aware. In an attempt to bring its card to top of wallet, effort began to encourage members to transfer expensive card balances to their lower-rate credit union card, but was plagued by low response rates.

With trended balance and payment details, the credit union was able to focus on a member population for whom balance transfers would solve a meaningful problem. By targeting their efforts and messages to this segment, the credit union was able to lower promotional and marketing costs by 75%, effectively boosting the campaign response rates by 300%. Spending just one-fourth of what was spent previously, the credit union could re-deploy those dollars through more meaningful offers and communications, to engage members not part of the targeted campaign.

IMPROVING COLLECTIONS EFFICIENCY

Collections can be a costly endeavor, and a consumer's ability to pay can change over time. Predictive models help first- and third-party collectors focus their efforts on consumers who show signs of capacity and a likelihood to pay. Using traditional collections models, collections on a bankcard portfolio were labor intensive. While 29% of recovered dollars came from consumers with the top 10% of collections scores, the lender wanted to see improvement.

Using trended data, with insights into capacity, payment behavior and balance trends, the top 10% of scored consumers yielded 48%–a 66% increase in efficiency. Ninety-five percent of all dollars collected came from the top 50% of scored consumers, creating significant opportunities to focus collector efforts on the most likely consumers.

REDUCING MARKETING COSTS AND IMPROVING CAMPAIGN PERFORMANCE

Like many community-based institutions, a credit union in the upper Midwest was watching the return of its direct marketing dollars diminish. For every new personal loan booked, the marketing team had to increase acquisition spend to find interested members.

Using trended data, this TransUnion customer was able to identify customers who had significant revolving credit debt, along with the capacity to pay these balances down over time. By targeting their marketing to members who would benefit from a personal loan, the credit union was able to cut its direct marketing spend in half, and still generate 90% of its historical openings.

THE ROAD AHEAD

By Dane Mauldin, Chief Product Officer

Dane Mauldin is executive vice president and chief product officer at TransUnion. He's responsible for content acquisition, product development, analytics and decisioning solutions for TransUnion. Dane can be reached at rmauldi@transunion.com.

"There's a reason the windshield is bigger than the rear-view mirror." So I was told by a driver's education teacher, and it's stuck with me. With that in mind, these pages aren't about reveling in our customers' past successes; they're about understanding why industries notoriously slow to change are quickly adopting new technology and the perspective it gives us on what lies ahead.

Three years ago, we launched CreditVision, our trended credit data solution made possible by and designed to take advantage of advances in analytic capabilities and processing technology. In those three years, customers have shared examples of dramatic results, whether it's finding and approving consumers who are a good match for a product, making smarter account management decisions, or improving the efficiency of collections.

Our mission is to help people access opportunities that lead to a higher quality of life. Building on the success of trended data, we saw a need to extend those opportunities to consumers with limited credit profiles in traditional systems. Our 2014 acquisition of a pioneer in alternative data risk scoring delivered the first commercially available credit score built on trended and alternative data, providing customers the ability to score 95% of the U.S. adult population.

Opportunities to transform consumer decisions exist in financial services, insurance, healthcare and other sectors. This change–relying on trended insights and mainstreaming "alternative" data–is the largest shift in consumer credit underwriting since the adoption of credit scores and automation over 30 years ago.

We're confident that, in a short number of years, the traditional credit report we've known for 40 years will have all but gone away. For that to happen, TransUnion is committed to making innovations available to the full industry, and you've read accounts of adoption from government-sponsored enterprises to top-tier lenders to technology-driven startups.

To those of you who have experienced the power of trended and alternative data, thank you for helping us begin a movement. For those who have not, be in touch; we want to better understand your pressures and opportunities across the customer lifecycle.

TransUnion®

(NYSE: TRU)

Information is a powerful thing. At TransUnion, we realize that. We are dedicated to finding innovative ways information can be used to help individuals make better and smarter decisions. We help uncover unique stories, trends and insights behind each data point, using historical information, as well as alternative data sources. This allows a variety of markets and businesses to better manage risk and consumers to better manage their credit, personal information and identity. Today, TransUnion has a global presence in more than 30 countries and a leading presence in several international markets across North America, Africa, Latin America and Asia. Through the power of information, TransUnion is working to build stronger economies and families and safer communities worldwide.

We call this Information for Good.

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