INSIGHT GUIDE

# SCORE SAVVY

## Trended credit scores to grow your portfolio

For the last 40 years, financial organizations have considered income, employment history and a consumer's credit score as critical inputs to lending decisions. As lenders face highly competitive markets, more savvy consumers and increased scrutiny of fair and inclusive lending practices, industry leaders are exploring how additional information can be leveraged to provide greater insights into the likelihood a person will pay his or her debts. Conventionally, credit scores have been calculated using consumer debt obligations at a single point-in-time. New scores include account history data, capturing more than two years of historical credit behavior, to help lenders make better-informed decisions to grow account volumes and profitability.

This guide provides insight into scoring a greater population of consumers and achieving better segmentation across risk bands, giving lenders the ability to confidently approve more consumers.

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## A new standard for mortgage lenders

Demonstrating the importance of historical data for lenders and the benefit for consumers, Fannie Mae–the leading source of funding for mortgage lenders–now requires the use of credit reports that support trended credit data when underwriting single-family mortgage applications through Desktop Underwriter® (DU®).

As of September 2016, Fannie Mae implemented DU Version 10.0–which will use TransUnion trended credit data–to enable greater confidence and efficiency in the origination process.

Both TransUnion and Fannie Mae analysis found that trended credit data empowers creditworthy borrowers. Fannie Mae's study revealed[1] that including trended credit data in DU will improve the accuracy of credit risk assessment and will benefit borrowers who regularly pay off revolving debt.

Trended credit data reports from TransUnion show up to 30 months of a borrower's credit history. This allows insights into trajectory and velocity of changes in consumer financial behavior over time, revealing important information, such as historical change in credit balances and actual payment amounts. These are two examples of behaviors that cannot be examined using traditional credit reports and risk models.

The Fannie Mae requirement marks another milestone in the adoption of trended credit data, as lenders from across industries see the value of deeper and broader consumer insights. In pursuit of industry leadership, other mortgage lending agencies will likely follow suit by analyzing the value of trended credit data.

## Consumers change; credit scores should too

If you're using a score developed years ago, you're making lending decisions based on only part of the picture and likely missing opportunities to grow your lending portfolio. Too often we hear lenders are losing revenue by turning away what could be the right consumers because conventional scores are calculated using credit report information from one point-in-time. Today's new trended credit risk scores give lenders a more precise scoring model with which to evaluate risk, based on more than two years of actual payment amount and balance information. Lenders can now score with more precision and score more applicants, while presenting the right offer and terms to increase usage and profits.

Scoring a consumer through the lens of these deeper and broader insights reveals a more accurate score for lenders, indicating how an individual has changed their credit usage and payment behaviors over time–a more accurate predictor of risk. Trended credit scores empower lenders with the ability to make more precise and profitable lending decisions, build trust and enhance the customer experience, ultimately gaining a competitive advantage.

**Trended credit scores incorporate up to 30 months of account history data for each tradeline, including:**

- Actual payment amount, as reported
- Account balance information

[1] Rosenblatt, Eric. March 8, 2016. Trended Credit Data Improves DU Risk Assessment and Supports Access to Mortgage Credit

## Are you saying no when you could be saying yes?

Scoring potential customers accurately is a critical aspect of growth for any financial services organization. The limitation of scores built with only a partial view of a consumer—their performance at a given snapshot in time—often results in the rejection of too many credit applications. Not only does this create a poor customer experience for a potentially creditworthy consumer, it can lead to the loss of life-long customers and revenue for the lender.

TransUnion estimates that 50-60 million Americans don't have sufficient information to be scored.[2] A TU study shows more than 26 million consumers who were previously considered unscorable, can now be effectively scored when using trended credit data.[3]

These creditworthy and credit-seeking consumers with low-risk behaviors can now be more accurately scored, many in higher score tiers. TransUnion's CreditVision® study shows consumers at the highest tiers, prime and super prime, are able to access a much broader range of loans at much lower interest rates than consumers in lower tiers. Millions of consumers can now benefit from better rates and terms on credit products—a win-win for both lenders and consumers. If you are able to score these creditworthy consumers when no one else can, you may have a loyal customer for life.

## Approve more consumers who meet risk cutoff

In addition, scores built on trended credit data improve segmentation across risk bands, classifying more consumers as prime or super prime—the segments least likely to go delinquent. The lending community benefits from "new" creditworthy prospects without compromising their risk profile.

For example, risk associated with a consumer who has two tradelines—an auto loan and a single credit card—may be difficult to score using conventional credit risk methodologies. The current snapshot doesn't offer enough insight to evaluate future payment behavior. Historical account data changes this because we can now see up to 30 months of history on each of those two tradelines. With this insight, we can effectively turn 2 data points into up to 60 data points, giving lenders more information that demonstrates credit behavior and likelihood to repay. Account history data over time, with payment amount and ratio, are new assets that influence a more advanced score, giving lenders the power to confidently score and say "yes" to more consumers. Turning away several customers each day is lost customer value that won't easily be recovered in today's competitive lending environment.

**What consumer account history data means to lenders:**

- More precise lending decisions
- Confidently scoring more creditworthy applicants
- Better risk management
- Building client base with new, profitable customers



[2] TransUnion Consumer Credit Database
[3] TransUnion CreditVision Study

## Deeper data insights influence better lending decisions

Trended credit scores incorporate historical credit information to generate insights into the consumer's trajectory of aggregate balance, indicating capacity and likelihood to pay new accounts. Account history and performance data trends over 30 months enables more precise scoring.

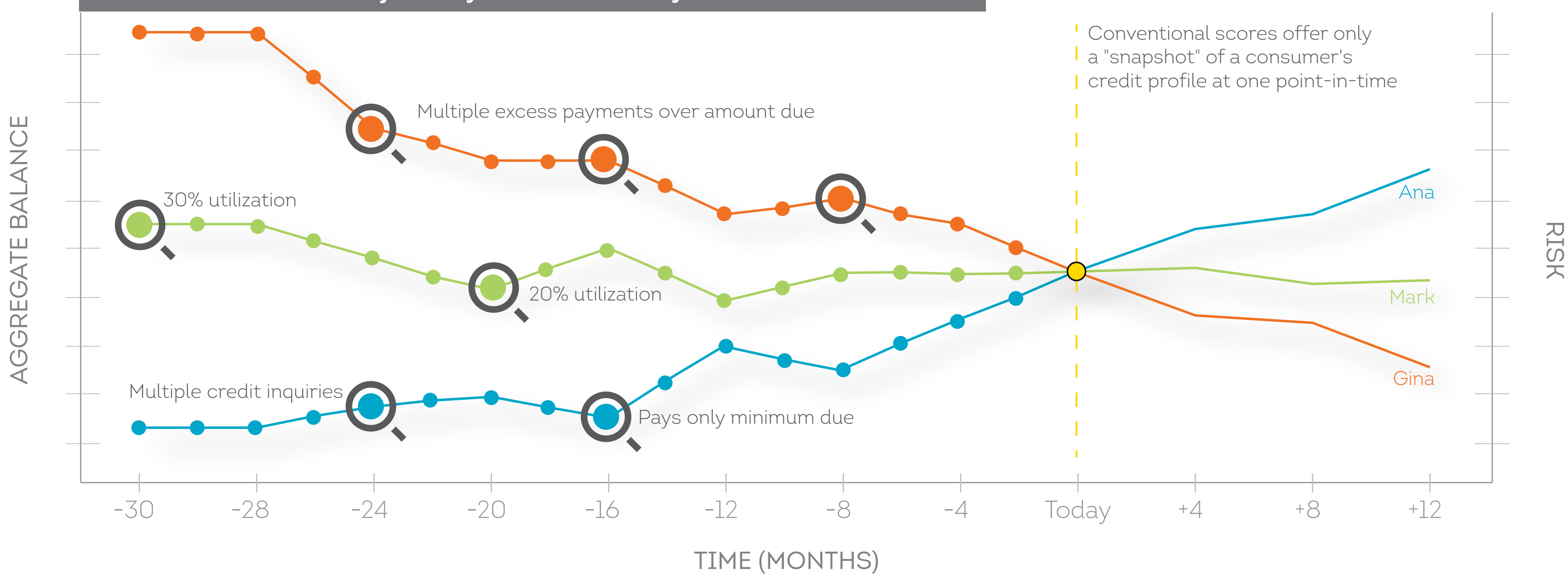
Consider three consumers with completely different histories:

- Gina has slowly but consistently paid down formerly high balances
- Mark has been a steady user and payer of credit and loans
- Ana has been building balances and holds more debt than ever before

Using a traditional credit score, the single point-in-time snapshot generated today may yield similar scores, leading lenders to believe these three consumers have equal risk profiles.

However, trended credit performance presents new considerations when scoring the likelihood these consumers will pay off new accounts. Trended credit data gives us a way to distinguish a consumer's credit balance trajectory. With all else being equal, data shows us that Gina is the lowest risk consumer of the three, since her trajectory is trending toward a lower aggregate balance. With the expanded view of historical performance data, the real story of credit use emerges to help create a more accurate risk score. New credit scores powered by trended credit data can account for Gina's trajectory, unlike conventional scores created by one snapshot in time.

Balance and risk trajectory as revealed by trended credit data



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| CONVENTIONAL RISK SCORES AND CREDIT DATA | TRENDED CREDIT RISK SCORES AND DATA |
|---|---|
| Static, point-in-time view of consumer credit data | Dynamic trended account history of consumer credit performance and data spanning up to 30 months |
| No insights into consumer credit trends | Scores are powered by key consumer trends including balance migration, utilization trends, payment levels and wallet share movement |
| Account balance and credit limit data, but no view into historical balances | Actual payment amount data, as reported, enabling better understanding of a consumer's ability to pay |
| Historical view of delinquency patterns only | Trended credit data enables scores to identify consumers trending to higher score tiers (e.g., non-prime to prime) |
| Unable to score as much as 1/5 of U.S. population | Expanded credit report data enables millions more consumers to be scored |
| No information on actual payment amount | Score created with historical data and current credit spending and payment behaviors |
| Conventional scores don't incorporate trended data | Industry-optimized scores, including card, mortgage, auto and consumer finance |

## A more complete picture for financial inclusion

With risk scores powered by trended credit data, lenders can strategically grow their loan portfolio by more confidently assessing the ability of a consumer to repay a prospective debt. With a single score, we gain a clearer picture of how consumers manage their credit, good and bad, by examining how a consumer has performed over time. This clarity yields a more precise risk score giving lenders greater control and confidence to grow accounts. In addition to better risk scoring, historical consumer behavior enables the ability to score consumers with limited credit history.

**Using a trended view of consumer credit, more than 26 million Americans whose credit profile would traditionally not generate a credit score can now be scored confidently.**

Lenders can now assess new applicants and existing accounts with a more powerful credit score built on some of the most current credit data available. Historical trended credit data brings consumers into full view, enabling millions more consumers to be scored. A clear and robust picture of more consumers creates the opportunity for better lending decisions, giving lenders the ability to confidently say "yes" more often.

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For more information, or to speak to an expert at TransUnion directly, email us at scoresavvy@transunion.com.

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