

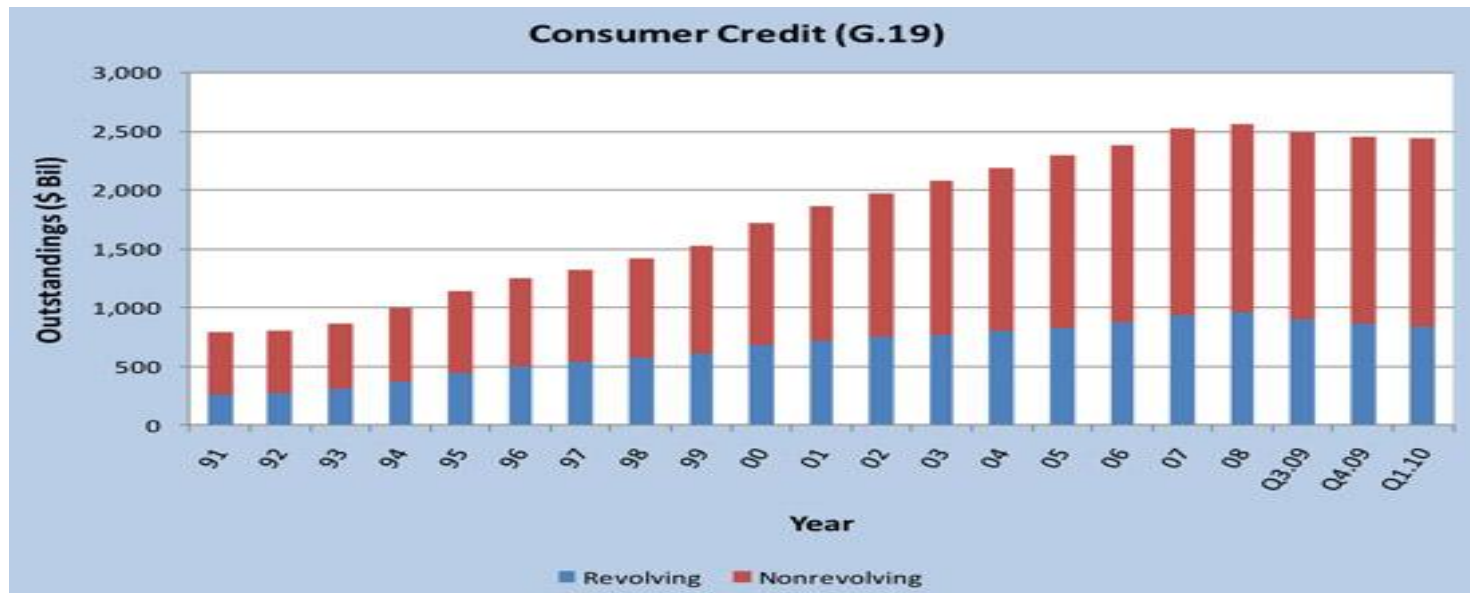
Credit Scoring in 2010 and Beyond

Credit Scoring 2010

- General Context is Important
- Consumers and Scores
- Lessons Learned – Underwriting and What's Next.

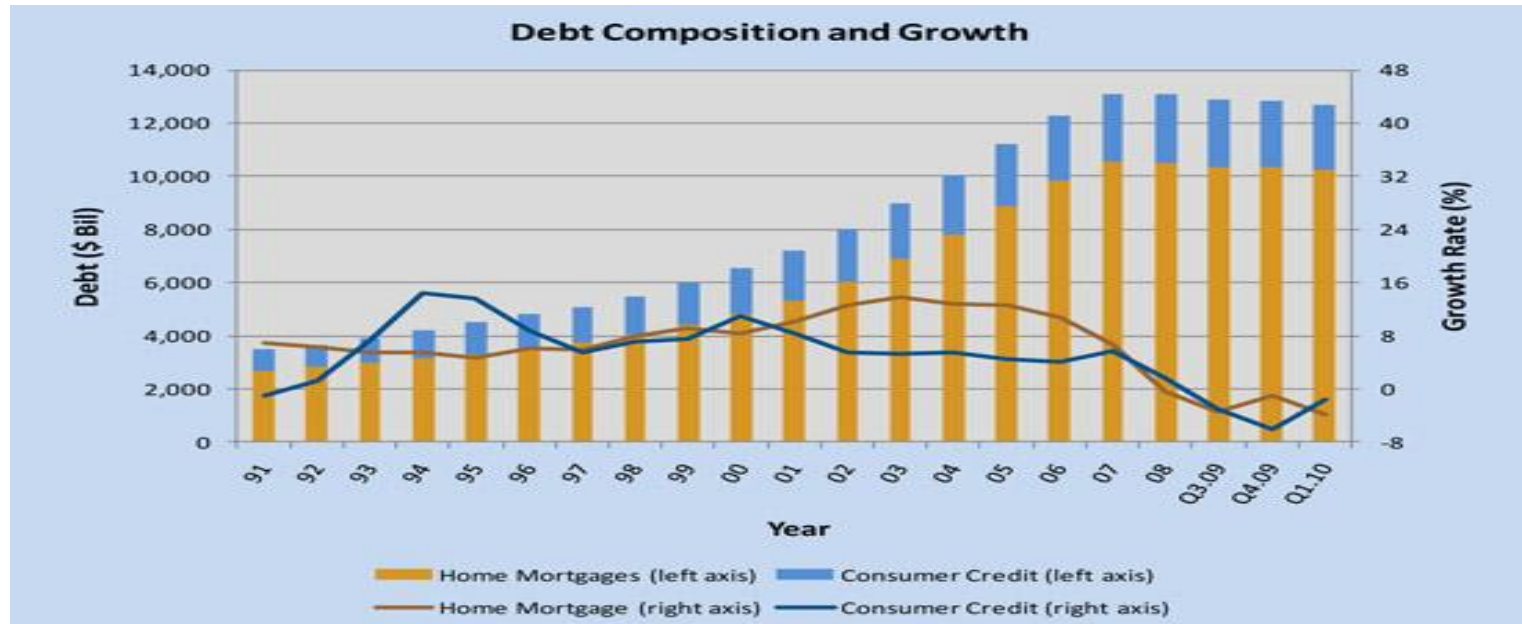
Credit Scoring 2010

- General Context is Important



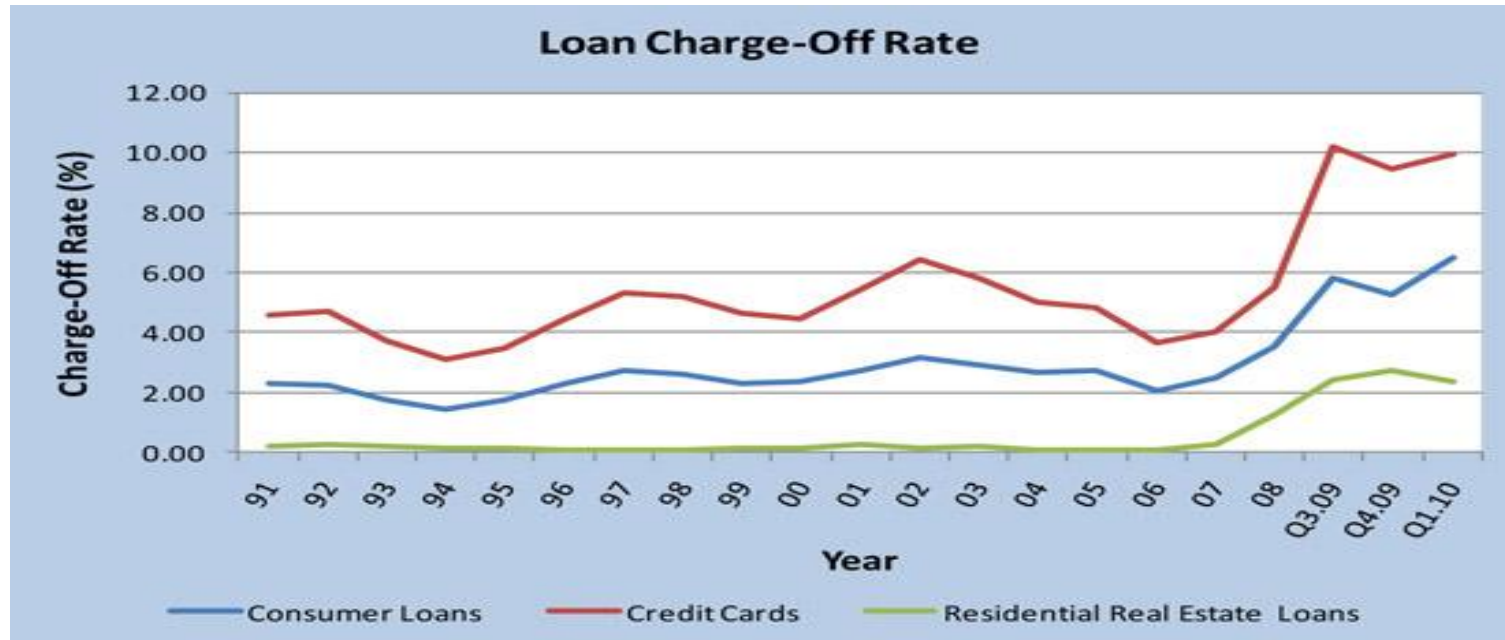
Credit Scoring 2010

- General Context is Important



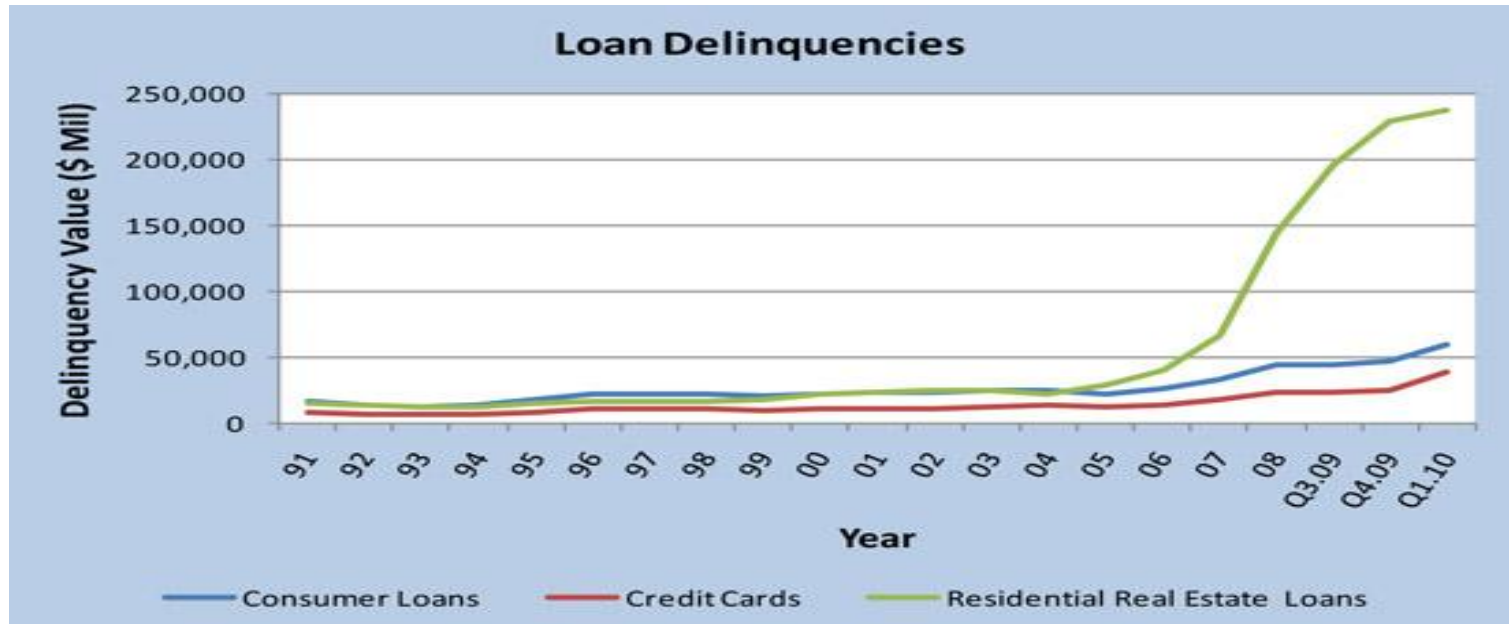
Credit Scoring 2010

- General Context is Important



Credit Scoring 2010

- General Context is Important



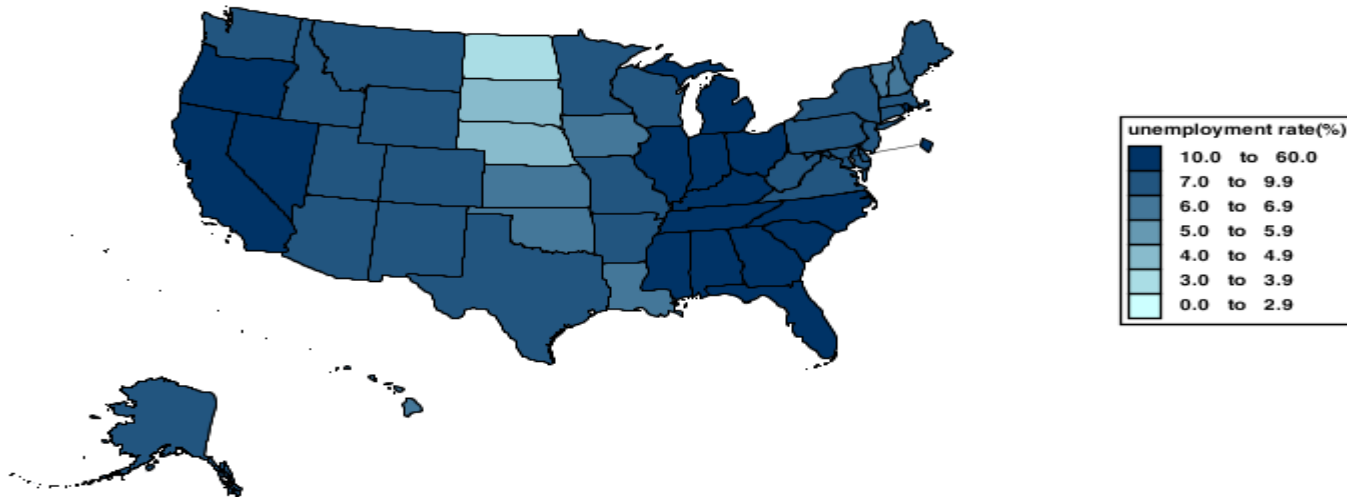
Credit Scoring 2010

- General Context is Important
- Bankcards – 90-days – trending down.
- Auto Finance – 60-days- trending down.
- Mortgage – 60-days – trending flat to up

Credit Scoring 2010

- General Context is Important

Unemployment rates by State, seasonally adjusted, May 2010



Credit Scoring 2010

- General Context is Important
- Credit cards cancelled.
- Credit card limits lowered.
- HELOCs cancelled.

Credit Scoring 2010

- General Context is Important
- Home foreclosures.
- Mortgage modification programs.
- Short sales.
- Strategic defaults.

Credit Scoring 2010

- General Context is Important
- Traditional bell-curve distribution of population remains.
- Some trending towards tails of the curve.
- Average score not changing dramatically.

Credit Scoring 2010

- Consumers and Scores
- Basic building blocks of a traditional credit score remain:
 - Payment history
 - Available credit
 - Credit used
 - Credit balances
 - Recent credit

Credit Scoring 2010

- Consumers and Scores
- Basic building blocks of a traditional credit report remain:
 - Identifying information
 - Data on loans and payments
 - Data on public records (liens, bankruptcies, judgments)
 - Data on collection activity
 - Inquiries

Credit Scoring 2010

- Consumers and Scores



Credit Scoring 2010

- Consumers and Scores



Credit Scoring 2010

- Consumers and Scores
- FACT Act Mortgage Disclosure
- FACT Act access via consumer reporting agencies.
- FACT Act Risk-based Pricing – score disclosure option.
- Regulatory Reform – score disclosure mandated for risk-based pricing and for adverse action.

Credit Scoring 2010

- Consumers and Scores

“Currently, there appears to be an extensive and dynamic market for credit score products. In addition, several sellers are developing and introducing diverse new scoring products. Many of these sellers are not consumer reporting agencies... Consumers can buy scores from several companies, including subsidiaries of nationwide consumer reporting agencies and Fair Isaac and Company (FICO), the company that initially developed credit scoring. Other companies have also entered the market.”

Federal Trade Commission

Credit Scoring 2010

- Consumers and Scores
- The myth of a single score:

“One commenter indicated, for example, that an issuer may have one scorecard that it uses for new applicants and another scorecard that it uses for account reviews.”

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FEDERAL RESERVE SYSTEM

12 CFR Part 226

Regulation Z; Docket No. R-1384

Truth in Lending

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final

Credit Scoring 2010

- Consumers and Scores
- The myth of a single score:

“[Lender X] uses a blend of internally derived and externally available consumer data to develop its own credit scoring models.”

House Financial Services Committee Testimony
2008

Credit Scoring 2010

- Consumers and Scores
- Consumers have more access than any time in history.
- Consumers have more information than any time in history.
- Consumers still making sense of what they read and what they experience.

Credit Scoring 2010

- What's Next?

“Workman [FL Mortgage Broker] still thinks credit scores alone play too big a role. ‘The pendulum has swung too far,’ he said. ‘We absolutely swung way too far in the liberal lending, but did we have to swing so far back the other way?’”

Associated Press Story
July 12, 2010

Credit Scoring 2010

- What's Next?
- Underwriting criterion is changing.
- Still want to know the rank-ordering of a consumer's likelihood of repayment.
- But also want to measure a consumer's ability to repay a loan/assume responsibility for a new debt.

Credit Scoring 2010

- What's Next?
- Why are there changes?
 - The buyers of debt – secondary market.
 - The Credit CARD Act – determining a consumer's ability to pay.
 - Financial Regulatory Reform - Title XIV – Mortgage Reform and Anti-Predatory Lending Act

Credit Scoring 2010

- What's Next?
 - Credit
 - Capacity
 - Collateral

Credit Scoring 2010

- What's Next?
 - Credit/Liabilities/Management
 - Traditional credit report data.
 - Alternative data sets:
 - Essential services – Telco/Utilities
 - Other?

Credit Scoring 2010

- What's Next?
 - Capacity
 - Income or income estimators.
 - Debt-to-income ratios.
 - More?

Credit Scoring 2010

- What's Next?
 - Collateral
 - Assets
 - Wealth
 - Investments

Credit Scoring 2010

- What's Next?
 - Setting a lending decision in the context of general economic conditions and not just the consumer's "home economy."
 - Better data/more data on identity verification
 - Strategic default data
 - Alternative data

Credit Scoring 2010

- What's Next?
- Both law and the market are, by the requirements being set, requiring more data to be deployed for risk management.
- Secondary markets are working to stay more connected with loans included in the tranches they own.
- Credit rating agencies may also have more opinions about how securities are priced relative to the underlying underwriting standards.

Credit Scoring 2010

- What's Next?
- A 360-degree view of the transaction.
 - Consumers being given credit for assets held, investments made,
 - Consumers given credit for their incomes, in addition to how they manage their current loan responsibilities.
 - Consumers with thin files or no files given credit for their credit-like on-time payments to essential services such as those made to telecoms and utilities

Credit Scoring 2010

Questions?

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www.consumerdatareporting.org

www.cdiaonline.org