

# VantageScore

## Nonprime Lending Conference

*Presented by:*

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# Credit is the oil in our economy

If America's \$14 trillion economy is a high-powered engine, credit is the motor oil that helps it run smoothly.

*Daniel Gross,  
Newsweek, Mar 3*

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# Two Important Questions

1. Is there still a market for you?
2. Can millions of Americans deemed 'Nonprime' achieve their dreams?

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# Is there still a market?

## YES

*Think differently about how to reach the market using new and innovative tools*

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# Can 'Nonprime' Americans Achieve their Dreams?

YES

*'Nonprime' doesn't always mean 'non-creditworthy'*

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# Can 'Nonprime' Americans Achieve their Dreams?

YES

*'Nonprime' doesn't always mean 'non-creditworthy'*

*Many fall into 'Nonprime' for reasons other than poor credit management behavior*

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# Three groups

1. People just entering the credit markets
  - New Entrants
2. Infrequent Users of Credit
  - “Some File” – people caught in the middle between Thin File and Full File
3. Thin File
  - Fewer than 3 active trades

# Reach nonprime consumers with traditional credit data

You can help many of these creditworthy, nonprime consumers achieve their dream using a credit score that that relies on “traditional” credit data with an analytical solution

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# VantageScore is a new credit score

- VantageScore is a new generic credit scoring model introduced to meet the market demands for a highly predictive consumer score.
- Developed as a joint venture among the three major credit reporting companies (CRCs) – Equifax, Experian and TransUnion.
- VantageScore offers more consistency across all three CRCs and has the ability to score a broad population
- Utilizes the data in a traditional consumer credit file

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# VantageScore is about Opportunity

- VantageScore is a highly accurate, more predictive and consistent scoring model across the three CRCs that is able to score more people.

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# VantageScore vs. Traditional Model

Overall 8.1% increase in total universe

- 11.4% increase in 'sub-prime' universe

Population of consumers with a mortgage trade-line and valid risk scores			
Experian Risk Score score intervals	VantageScore scored population	Experian Risk Score scored population	Lift in percent scored
< 840	37,200,879	35,650,730	4.3%
< 710	20,770,817	19,222,143	8.1%
< 690	18,905,850	17,361,704	8.9%
< 660	16,443,381	14,992,740	9.7%
< 675	14,743,723	13,403,763	10.0%
< 645	13,008,548	11,738,798	10.8%
<b>&lt; 620*</b>	<b>11,968,160</b>	<b>10,746,894</b>	<b>11.4%</b>
Total	133,041,358	123,116,772	8.1%

Source: Experian, *VantageScore Addresses Deficiencies in Traditional Scores in the Subprime Consumer Sector*, (May 16, 2007), p. 2

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# Result: Superior Risk Assessment

21% consumers re-classified out of sub-prime segments

Experian Risk Score		KS=11.2	
Subprime consumers			
%Total	%Bad	Interval bad rate	Cumulative bad rate
10%	9.9%	9.8%	9.8%
22%	17.8%	6.8%	8.2%
32%	25.5%	8.0%	8.1%
41%	34.1%	9.3%	8.4%
51%	41.3%	7.5%	8.2%
60%	52.1%	12.0%	8.8%
71%	63.2%	10.0%	9.0%
80%	73.9%	12.0%	9.3%
90%	86.4%	13.0%	9.7%
100%	100.0%	14.0%	10.0%

VantageScore		KS=15.7	
Subprime consumers			
%Total	%Bad	Interval bad rate	Cumulative bad rate
10%	5.0%	4.9%	4.9%
21%	11.5%	6.3%	5.6%
30%	19.1%	8.2%	6.4%
41%	28.6%	9.2%	7.1%
51%	37.8%	9.2%	7.6%
60%	47.6%	10.0%	8.0%
70%	59.1%	12.0%	8.5%
80%	71.6%	13.0%	9.0%
90%	84.8%	13.0%	9.5%
100%	100.0%	16.0%	10.0%

Source: Experian, *VantageScore Addresses Deficiencies in Traditional Scores in the Subprime Consumer Sector*, (May 16, 2007), p. 4

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# 'New Entrants'

**Demographic:** Young, newly divorced, immigrant  
Greater ethnic concentration

**Defined as:** No trade older than 6 months

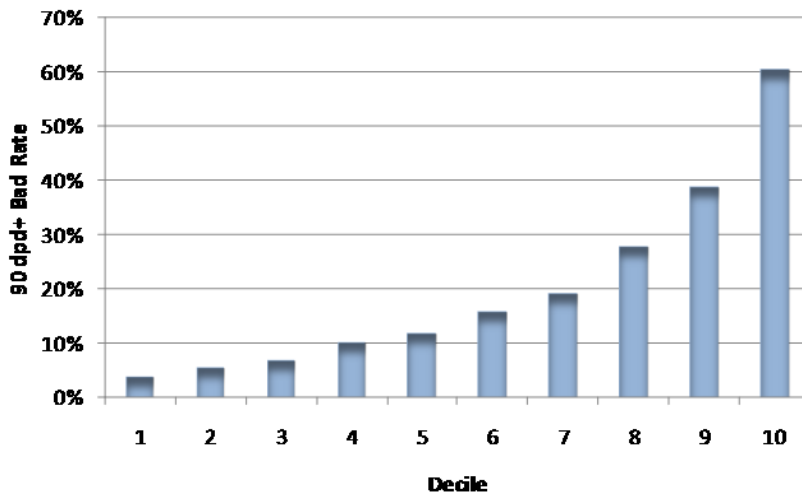
## Observations:

- Typically unscorable
- Significant improvement in predictive accuracy
- 81.7% of this population is scoreable with VantageScore
  - 26.5% are super prime or prime
  - Estimates based on volumes post standard exclusions

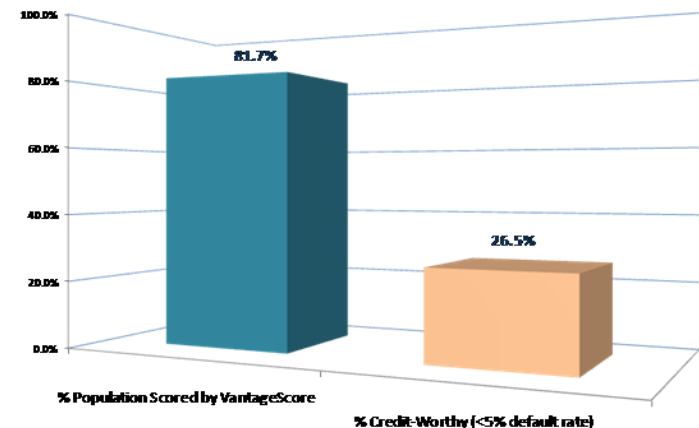
## 'New Entrants'

Group	90+ DPD Bad Rates	
	VantageScore	
	Interval	Cum.
1	3.55%	3.55%
2	5.45%	4.50%
3	6.75%	5.25%
4	10.17%	6.48%
5	11.82%	7.55%
6	15.71%	8.91%
7	19.15%	10.37%
8	27.70%	12.54%
9	38.53%	15.43%
10	60.49%	19.93%
<b>KS Value</b>	<b>43.09</b>	

**Age of Oldest Trade < 6 Months**



**Age of Oldest Trade < 6 Months  
- Superprime and Prime Population -**



# 'Infrequent Credit Users'

**Demographic:** Preference for alternative credit tools  
Greater ethnic concentration

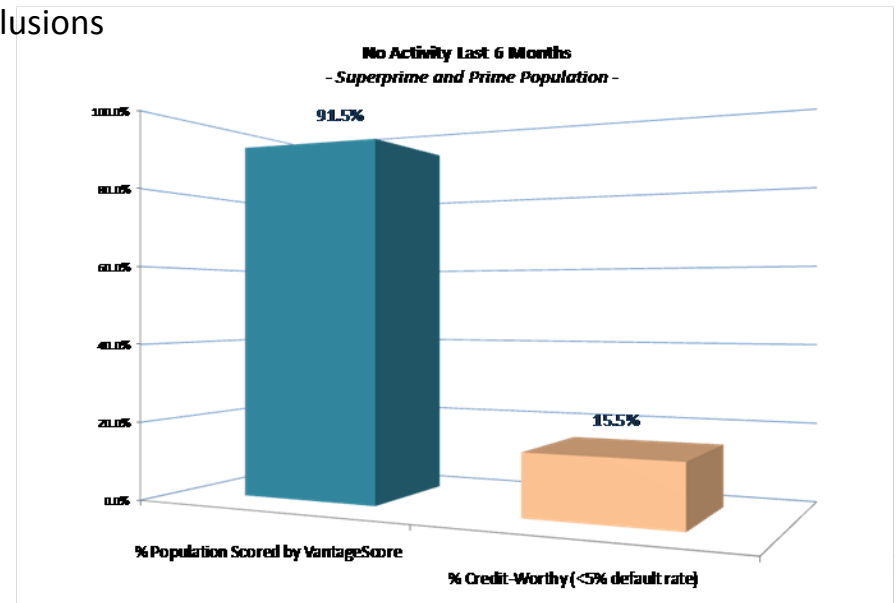
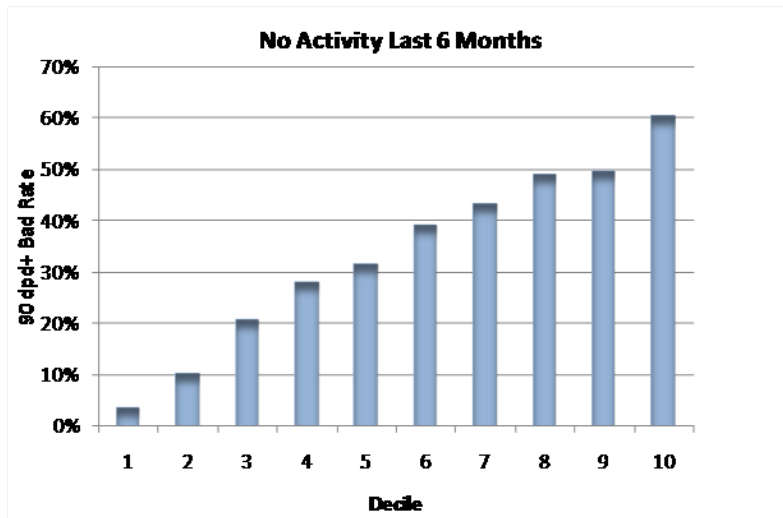
**Defined as:** No trades updated in last 6 months

**Observations:**

- Typically unscorable
- Significant improvement in predictive accuracy
- 91.5% of this population is scoreable with VantageScore
  - 15.5% are super prime or prime
  - Estimates based on volumes post standard exclusions

**'Infrequent Credit Users'**

Group	90+ DPD Bad Rates	
	VantageScore	
	Interval	Cum.
1	3.48%	3.48%
2	10.22%	6.85%
3	20.75%	11.49%
4	28.17%	15.66%
5	31.65%	18.86%
6	39.16%	22.24%
7	43.28%	25.25%
8	49.17%	28.24%
9	49.77%	30.63%
10	60.31%	33.60%
<b>KS Value</b>	<b>34.15</b>	



# 'Thin File'

**Demographic** : Rarely use traditional credit, may prefer alternative tools; Greater ethnic concentration

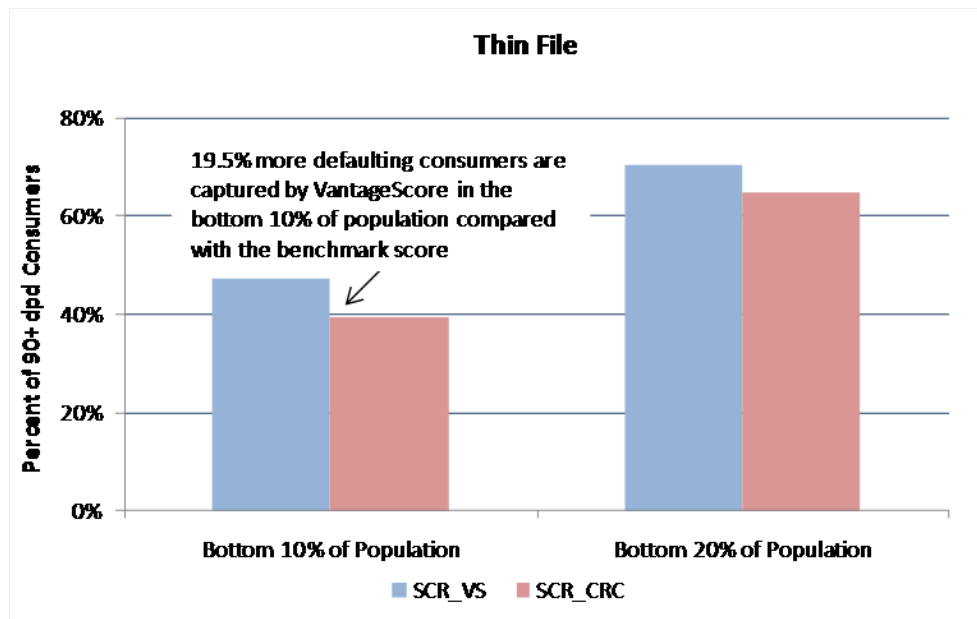
**Defined as:** Less than 3 trades

**Observations:**

- Improvement in predictive accuracy
- Places more defaulting consumers into the lower score deciles
- 2% universe expansion opportunity.

**'Thin File'**

Group	90+ DPD Bad Rates			
	VantageScore		Risk Score	
	Interval	Cum.	Interval	Cum.
1	0.52%	0.52%	0.41%	0.41%
2	0.69%	0.61%	0.52%	0.47%
3	0.92%	0.71%	0.90%	0.61%
4	1.69%	0.95%	1.78%	0.90%
5	2.71%	1.31%	3.43%	1.41%
6	4.80%	1.89%	5.58%	2.10%
7	8.52%	2.83%	10.01%	3.23%
8	14.76%	4.33%	18.36%	5.13%
9	26.98%	6.84%	29.55%	7.84%
10	55.03%	11.66%	46.06%	11.66%
<b>KS Value</b>	61.29		58.73	



# VantageScore is about Opportunity

- Two major outcomes:
  1. **For the consumer – facilitates greater access to credit**
    - Greater accuracy and consistency for the “full file” consumer
    - Especially for the underserved, who deserve access to credit at fair terms, conditions and pricing

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# VantageScore is about Opportunity

- Two major outcomes:
  2. **For the lender – enables mainstream lenders to be able to score more consumers more effectively**
    - Due to the sophistication of the underlying algorithms and the consistency across the three credit reporting companies, credit grantors using VantageScore are better able to delineate risk in a predictive manner, thereby reducing:
      - overall portfolio risk
      - operational costs (via more insightful, automated decisioning)
      - credit losses
    - Choice in credit scoring

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The Strategic Dilemma:

Gaining Access to the Capital Markets

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# VantageScore in the Market

Equifax – On a recent earnings conference call, Rick Smith, CEO:

- The top 8 out of 20 banks are either using it or testing it
- The Telcos are using or testing
- Hundreds of our customers are using or testing it

Experian – Kohl's/Chase announced on October 15

- July 12 earnings conference call, Peg Smith, EVP, Investor Relations:
  - 1,500 clients who are buying VantageScore
  - Up from 800 clients as of January, with 400 repeat users

Federal Reserve Board and the Federal Trade Commission

- VantageScore used as the score in their joint study titled *“Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit”*

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# The Wrap

- Gaining access to credit
- VantageScore has effectively addressed the market needs for generic credit scoring in today's world
- The design methodology and management framework ensures that VantageScore will continue to deliver superior predictive capability

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# Barrett Burns



Barrett Burns is president and CEO of VantageScore Solutions. Over the course of a career spanning more than three decades, he has held national and international risk and credit management plus executive leadership positions at several of the nation's most prestigious financial services companies, including U.S. Trust, Ford Motor Credit, Bank One, and Citibank.

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