The Impact of Work-Out Options on Borrowers' Credit Reports and Scores

Life after Foreclosure;
Time to Reevaluate Lending Practices?

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Agenda

- "Great Recession" impact
  - Shock to repayment and credit use trends
- Comparison of "Troubled Borrowers" segments
  - Access to new credit
  - Subsequent performance on newly acquired accounts
  - Credit score improvement within Troubled Borrower segment
- Projection of emerging "Troubled Borrower" segments
  - Should Troubled Borrower dynamics be incorporated into lending strategies?

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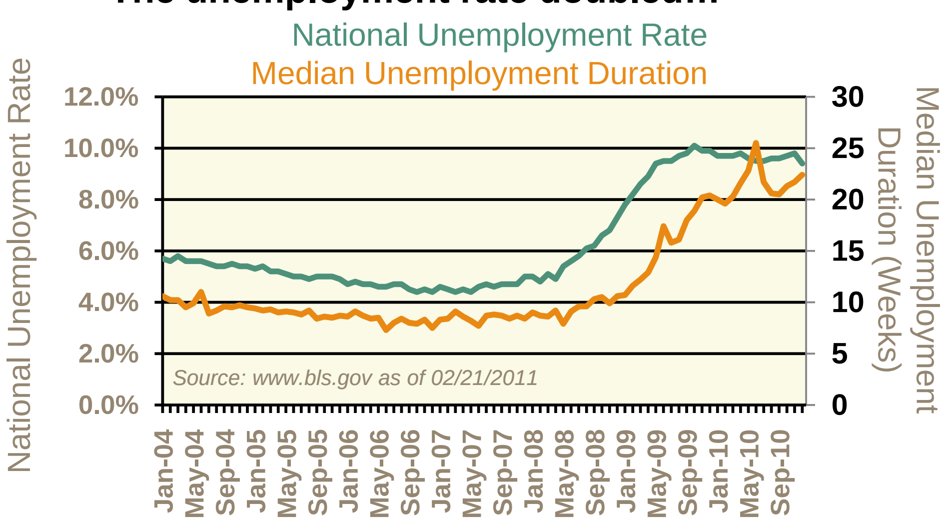
Impact of the “Great Recession”

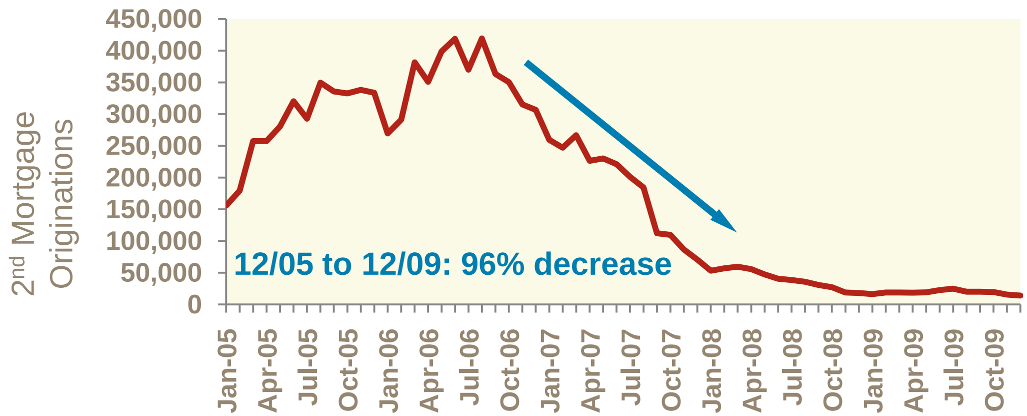
External forces exerted on consumers during the "Great Recession" were severe

The unemployment rate doubled…



…and the duration of unemployment nearly tripled

Home value depreciation eviscerated the housing market



Source: TransUnion Credit Reporting Database

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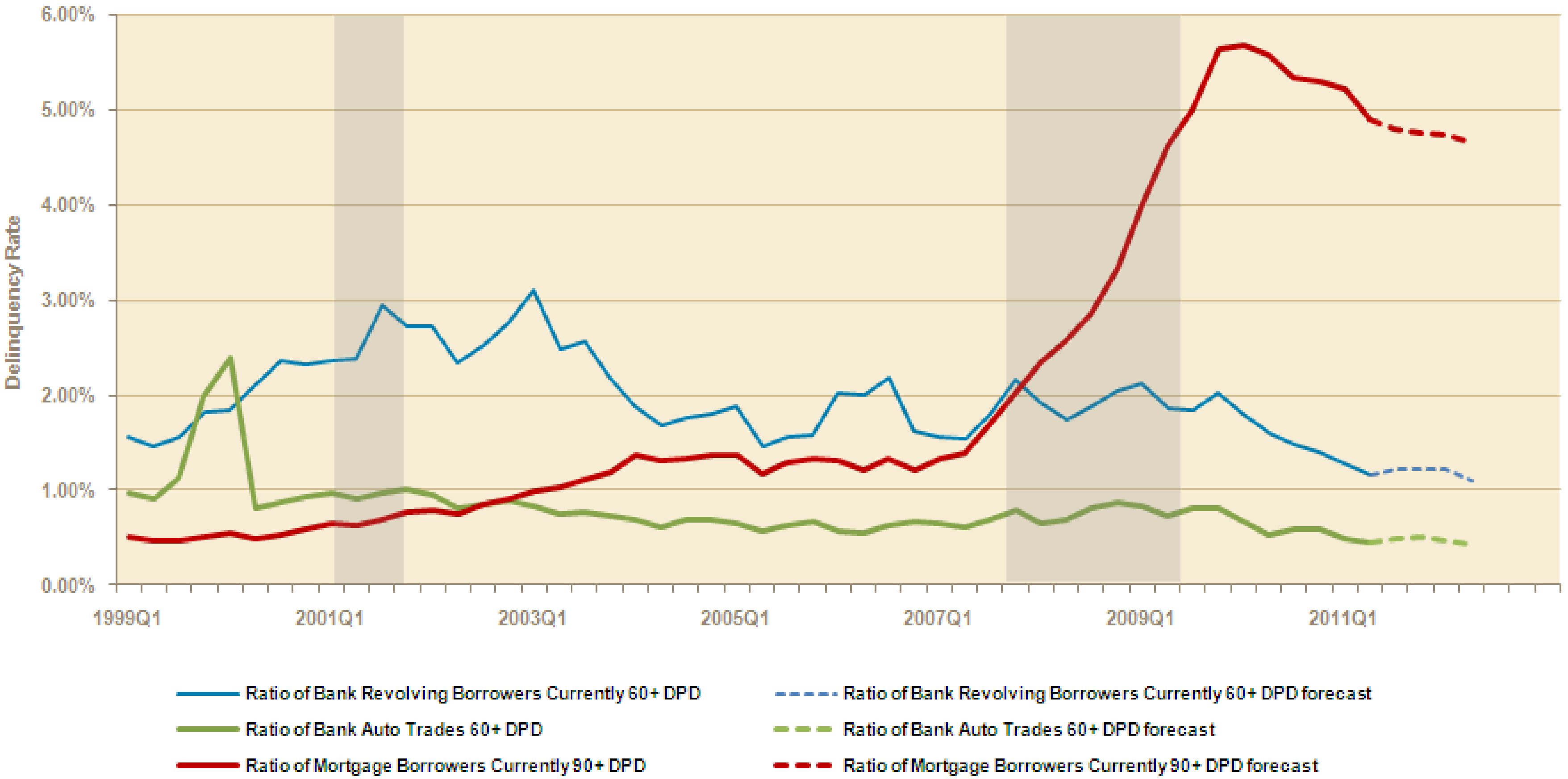
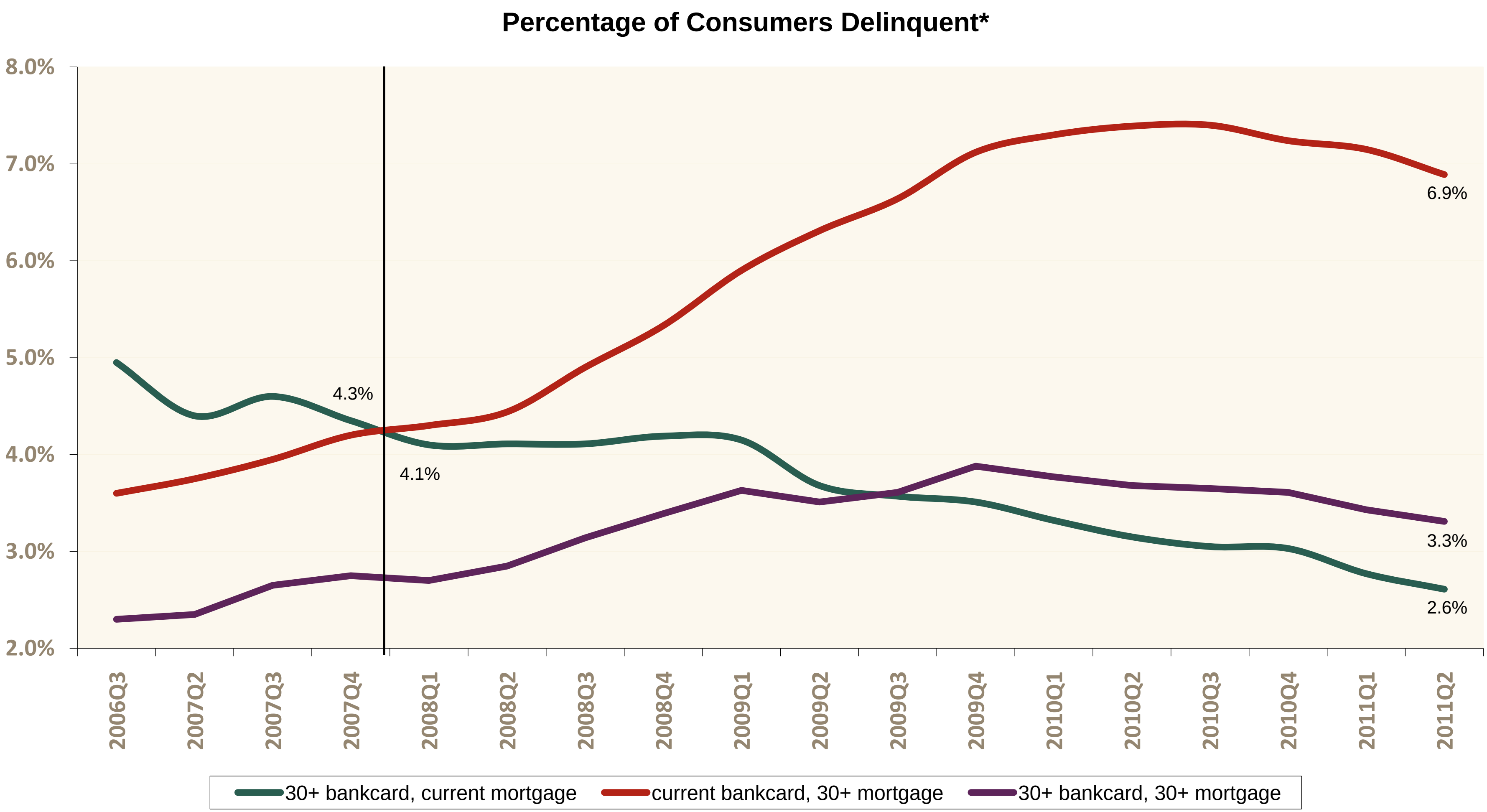
Sudden increase and slow recovery of mortgage borrower delinquency fundamentally altered the credit landscape

Ratio of Borrowers Delinquent on Bank Revolving, Auto, and Mortgage Accounts
Q1 1999 to Q2 2011 Actual and Q3 2011 to Q2 2012 Forecasted



Source: TransUnion Trend Data. (Economic Recessions: March 2001-November 2001 & December 2007-June 2009)

Changes regarding debt repayment hierarchy represent a fundamental change in borrower behavior



* For consumers with a bankcard and a mortgage

Source: TransUnion Trend Data database

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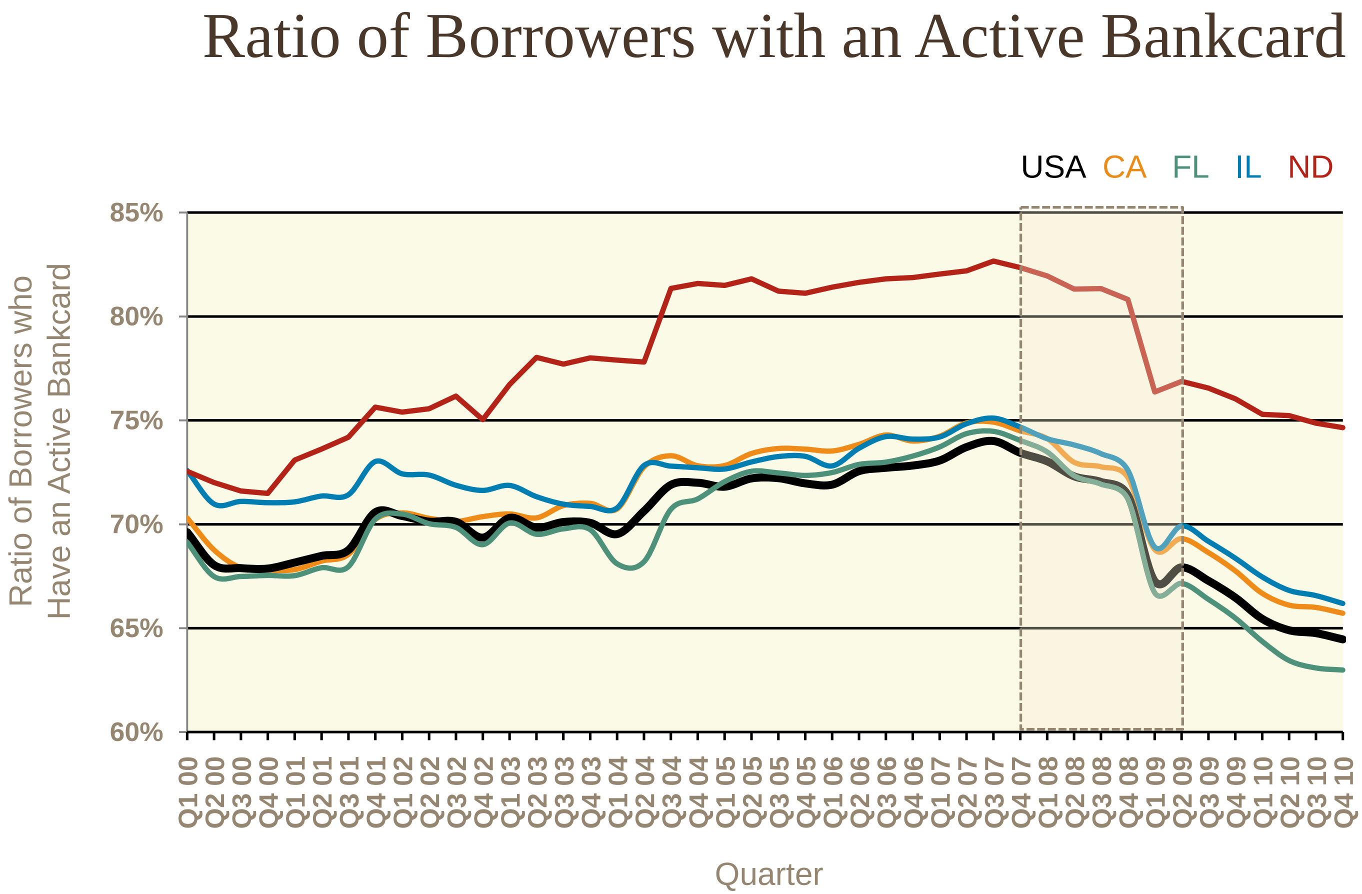
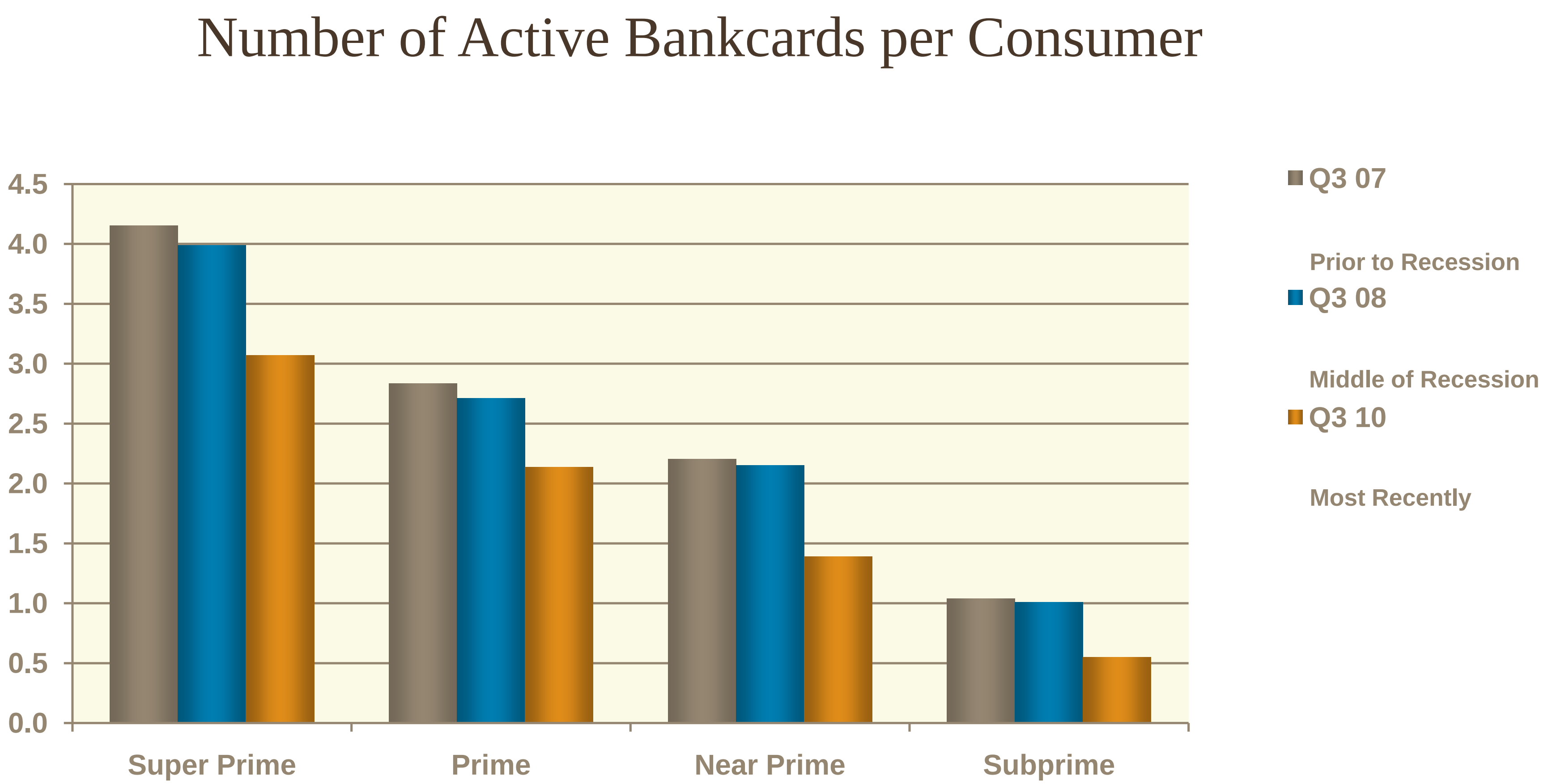
Credit card usage fell precipitously during the Great Recession and continues to drift lower



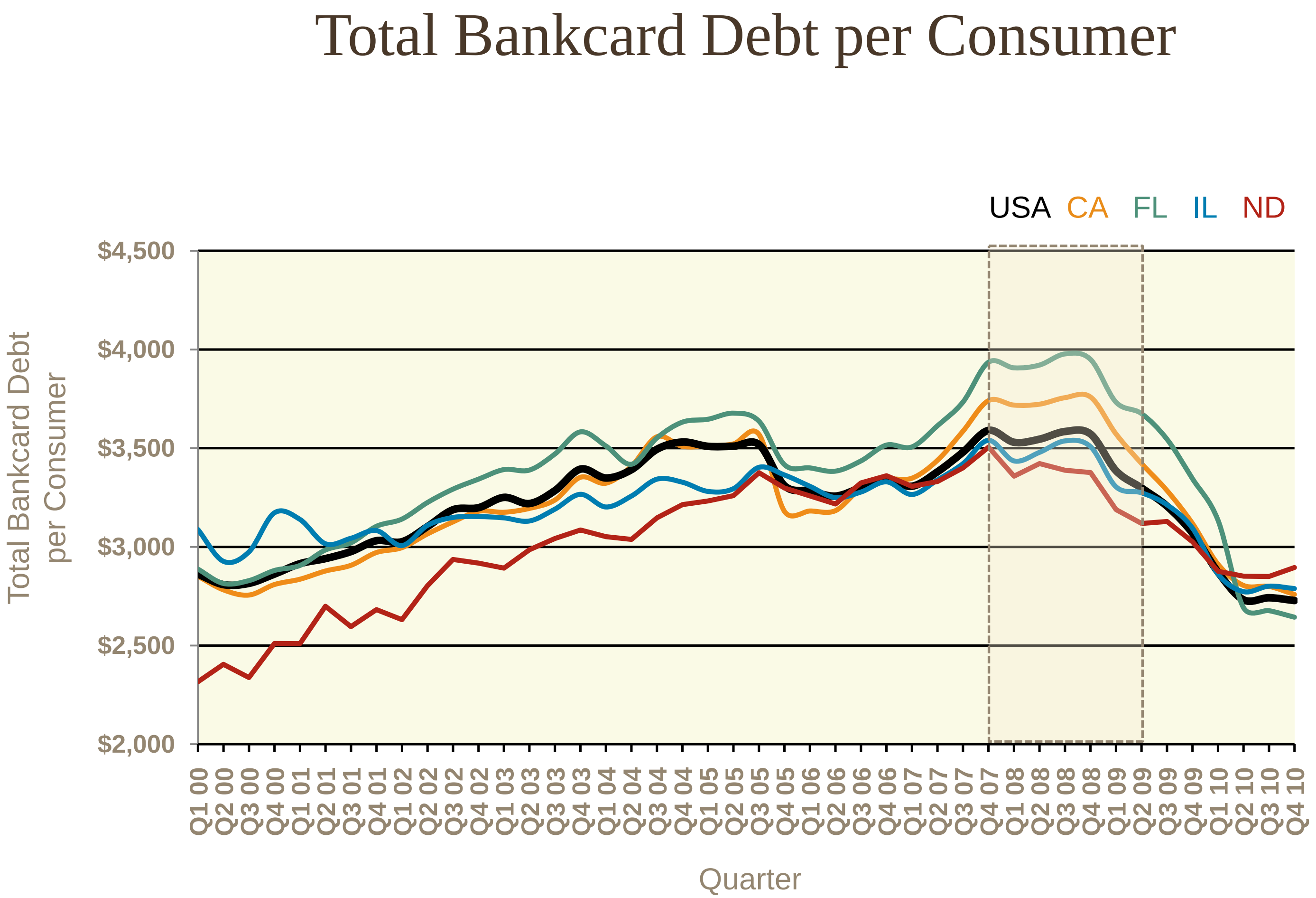
Source: TransUnion Trend Data database

Number of active bankcards per consumer dropped across the risk spectrum



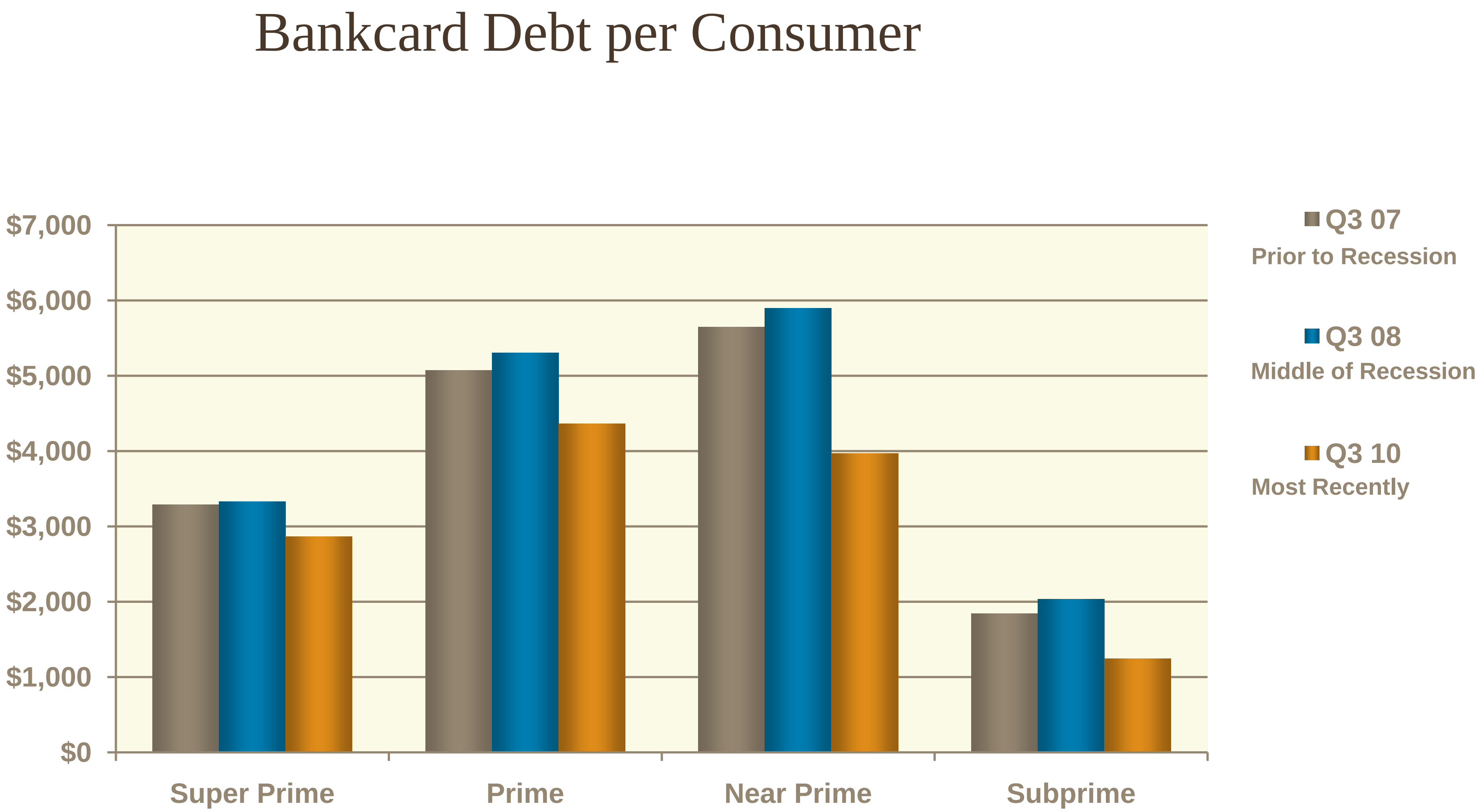
Source: TransUnion Trend Data database

Leading to a material drop in bankcard debt



Source: TransUnion Trend Data database

The reduction in bankcard debt occurred across the risk spectrum



Source: TransUnion Trend Data database

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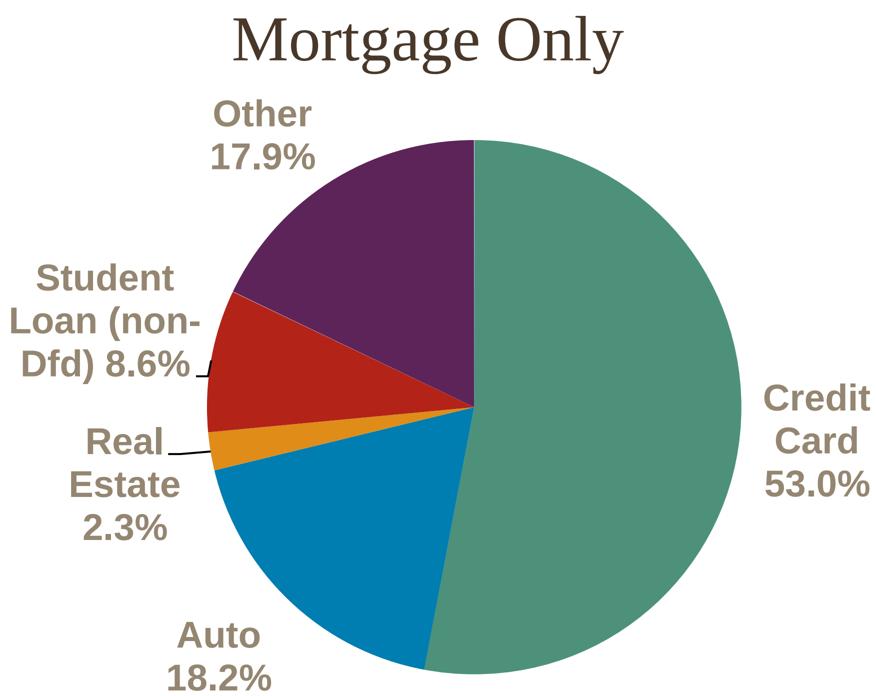
“Troubled Borrower” segments

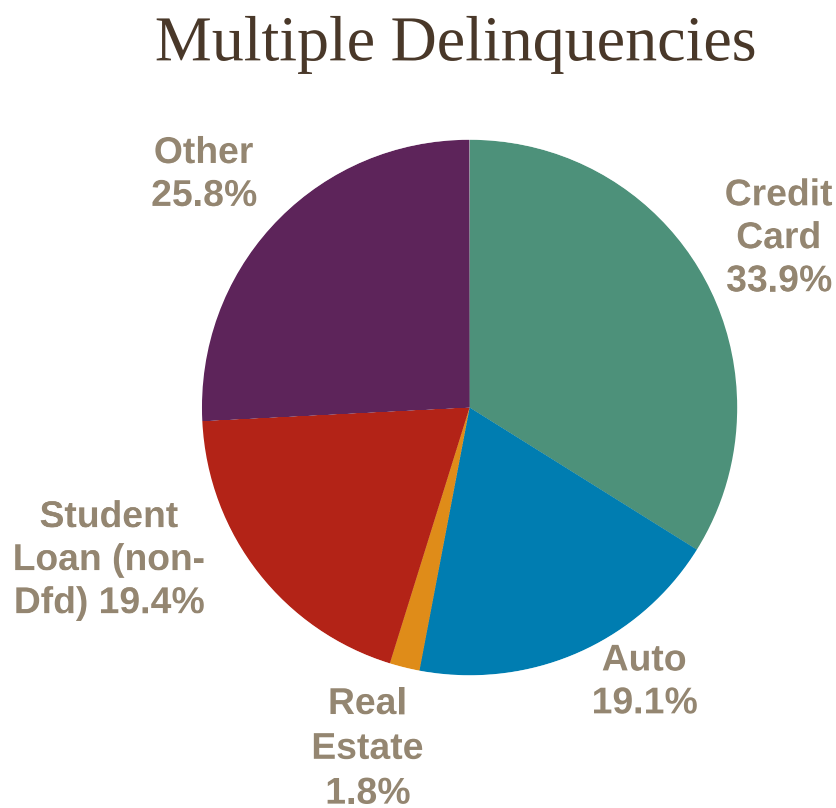
How did "Troubled Borrowers" rebound from the credit crisis?

- Sample of 5 million consumers with an open mortgage as of 1/08
- "Troubled Borrowers" segment
  - – Had at least 1 non-mortgage account open as of 12/2007
  - – Went 120+ days past due on the mortgage between 01/2008 and 06/2009
  - – Opened at least one additional account after the mortgage went seriously delinquent
  - – This left us with approximately 73,000 consumers
    - Created 2 "Troubled Borrower" segments Mortgage Only and Multiple Account
- Evaluated the new product mix for these consumers post-foreclosure
- Evaluated the delinquency rates of new accounts with 7-11 and 12-17 months of performance through 08/2010
- Monitored consumers' VantageScore® movement after new account opening

As expected, new account openings were not uniform between Mortgage Only and Multiple Delinquencies

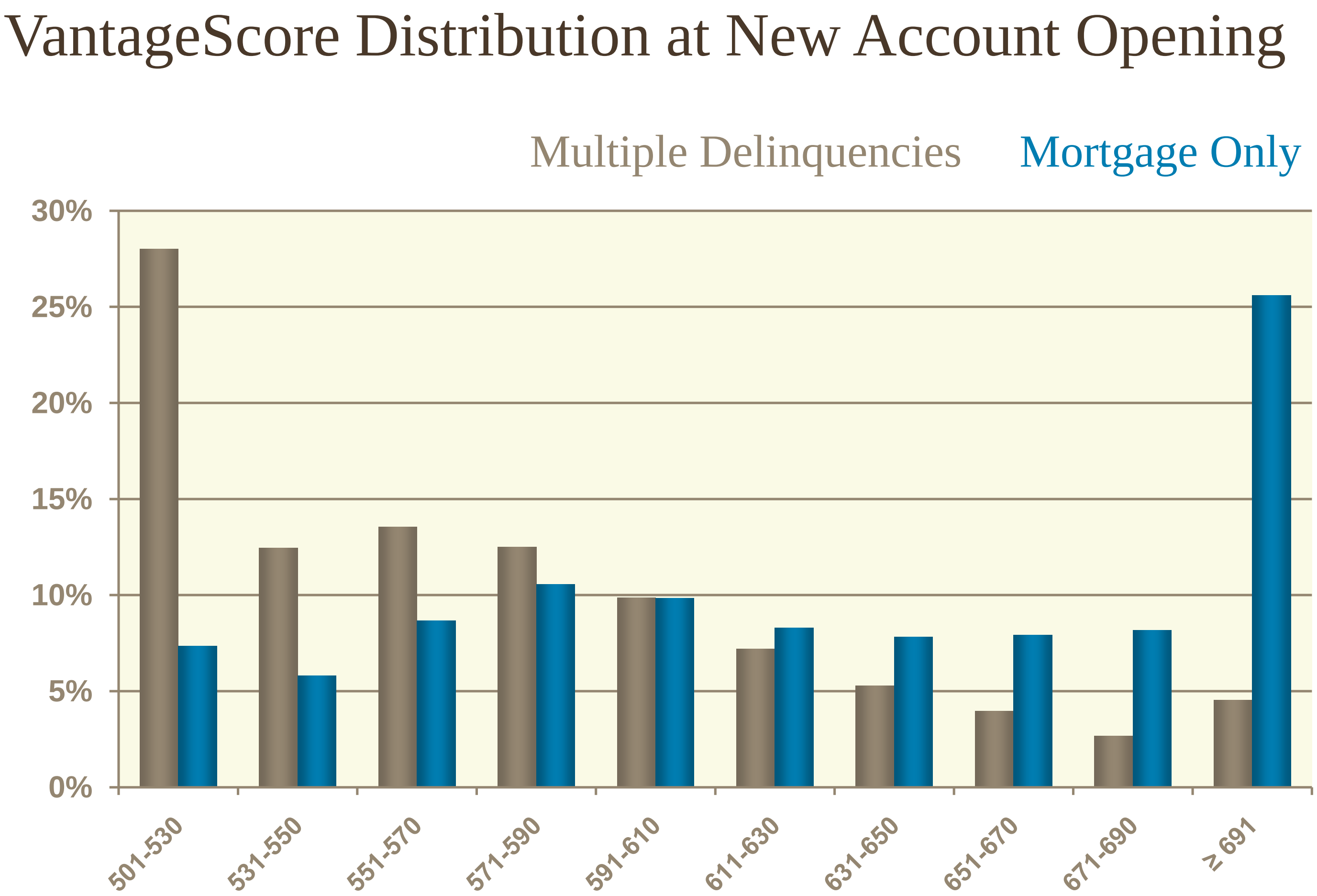


N = 64,500



N = 65,000

Nor was their distribution of VantageScores similar



When evaluating subsequent performance on new accounts the following nomenclature was developed

T1: The time between the mortgage 120+ DPD default and the opening of the new account

T2: The performance period of the new account (generally, T2 = 12 - 17 months in this study)

MO: "Mortgage Only": A consumer who goes 120+ DPD on a mortgage but has **no other delinquent** existing account at the time the new account is opened

MD: "Multiple Delinquencies": A consumer who goes 120+ DPD on a mortgage and has **at least one additional existing delinquent** account at the time the new account is opened

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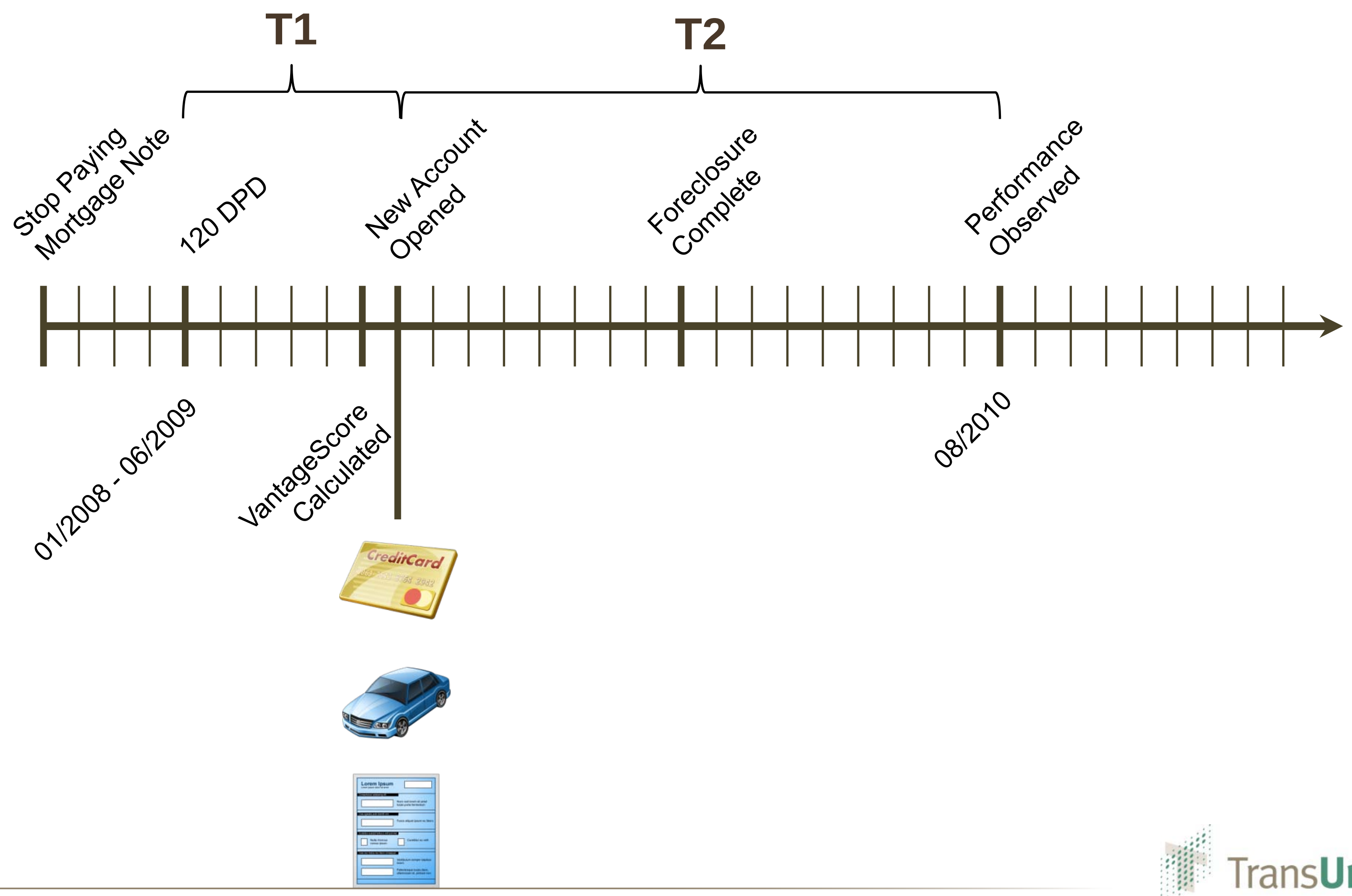
The study may be illustrated like this



Not surprising, Mortgage Only consumers obtained larger loans faster than consumers with Multiple Delinquencies

Bankard Credit Limit

Mortgage Only: $1,519

Multiple Delinquencies: $1,018

Bankcard After Default

Mortgage Only: 11.0 months

Multiple Delinquencies: 13.8 months

Auto Loan Amount

Mortgage Only: $16,028

Multiple Delinquencies: $13,975

Auto Loan After Default

Mortgage Only: 11.5 months

Multiple Delinquencies: 14.2 months

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Mortgage Only defaulters during the recession performed better, regardless of when the new account opens

60+ DPD Rates, Performance (T2) = 12-17 Months

Auto	T1—Time to Opening of New Tradeline			
Class	0 - 6 Months	7 - 11 Months	12+ Months	Overall
Mortgage Only	6.6%	4.3%	6.0%	5.8%
Multiple Delinquencies	14.1%	14.0%	12.1%	13.1%

Other	T1—Time to Opening of New Tradeline			
Class	0 - 6 Months	7 - 11 Months	12+ Months	Overall
Mortgage Only	15.2%	13.2%	11.4%	13.1%
Multiple Delinquencies	21.2%	19.3%	19.8%	20.1%

Credit Card	T1—Time to Opening of New Tradeline			
Class	0 - 6 Months	7 - 11 Months	12+ Months	Overall
Mortgage Only	9.7%	11.9%	12.5%	11.4%
Multiple Delinquencies	26.5%	28.0%	27.0%	27.1%

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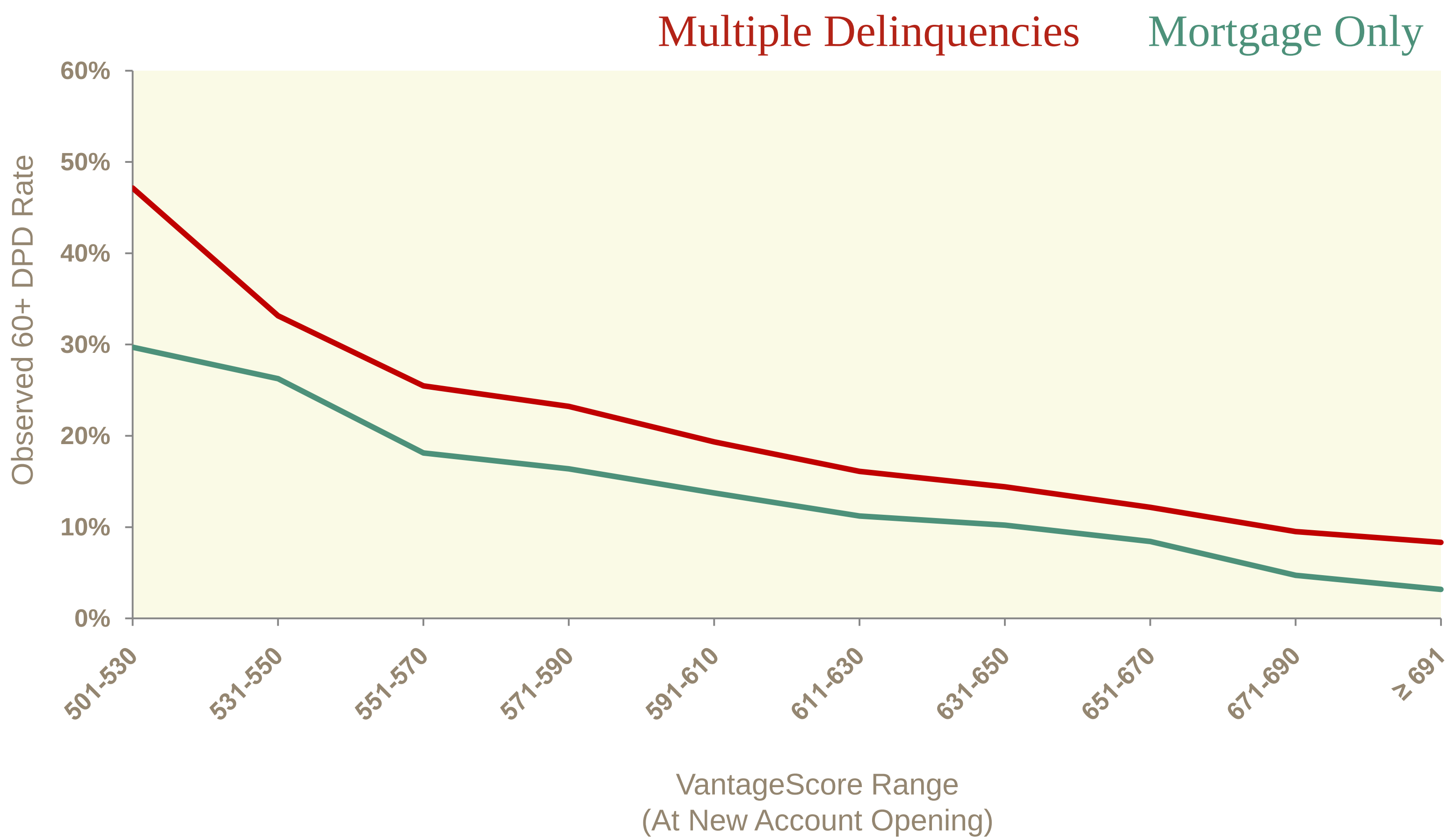
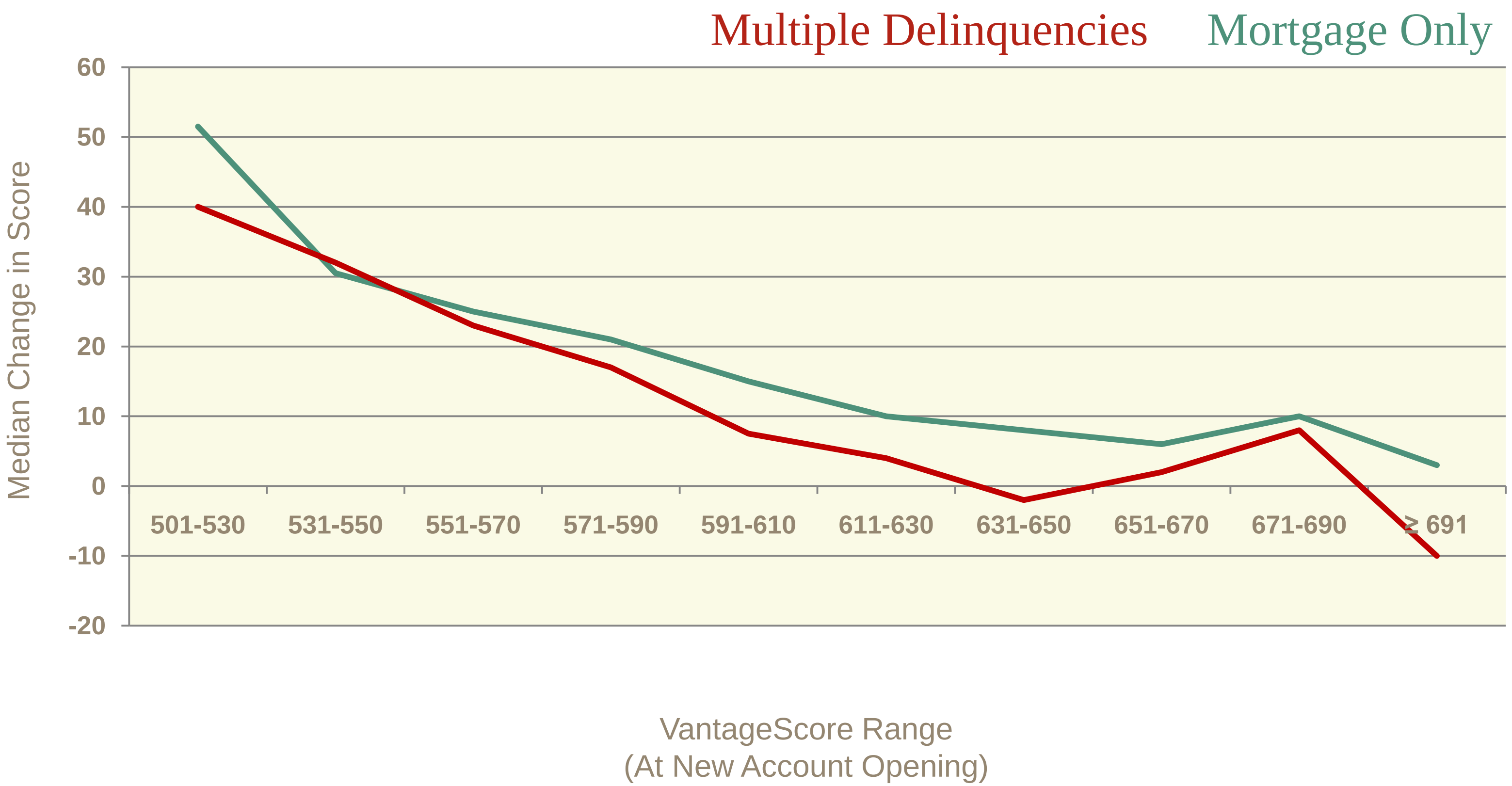
Performance holds true across VantageScore risk tiers

60+ DPD Rates, All Products, Performance (T2) = 12-17 Months



VantageScores for Mortgage Only defaulters “rebounded” faster than those with Multiple Delinquencies

Median Improvement in Credit Score over 12-17 Month Performance Window



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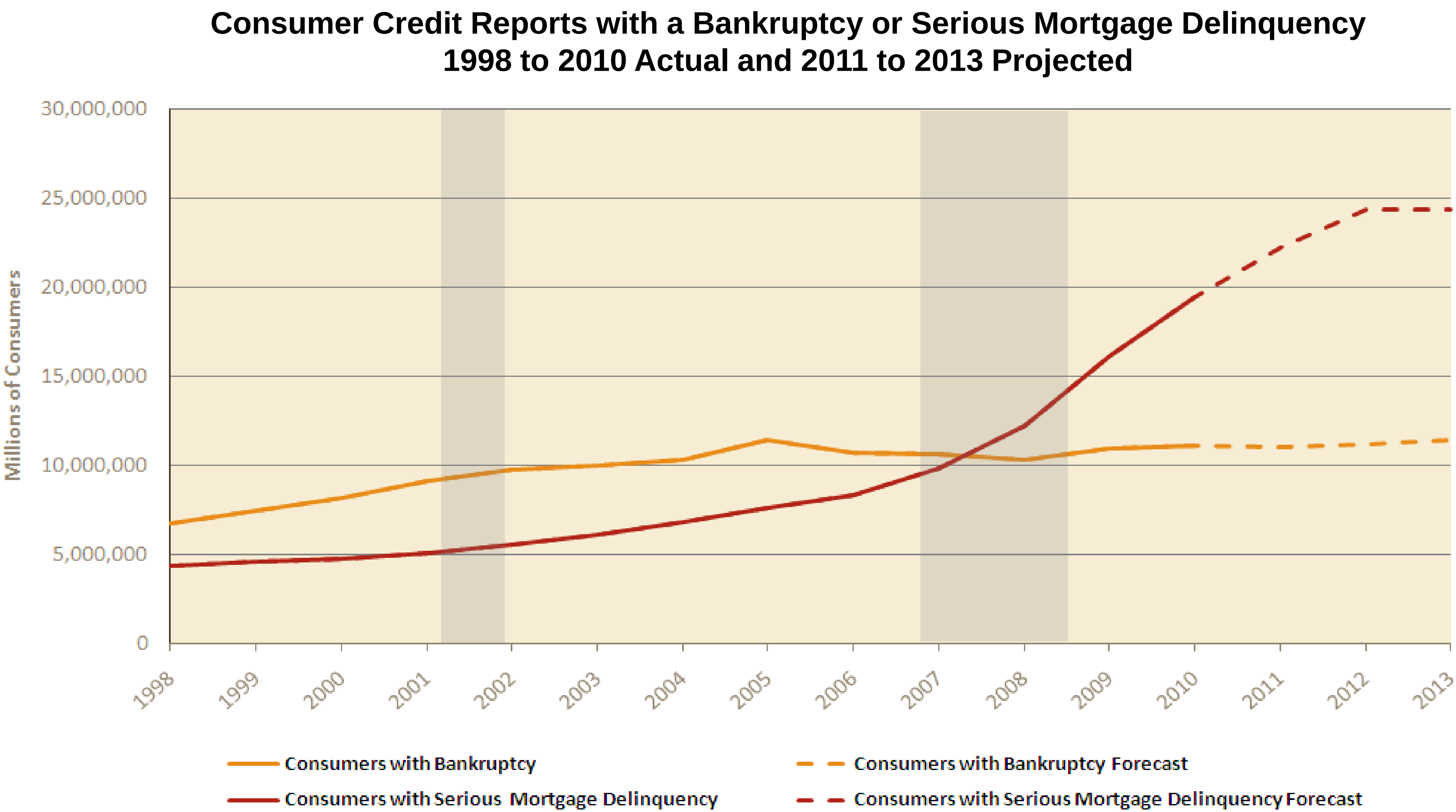
How are lenders dealing with “Troubled Borrower” segments?

The mortgage crisis established a new and much larger segment of credit-challenged consumers



Source: TransUnion Trend Data. (Economic Recessions: March 2001-November 2001 & December 2007-June 2009)

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Similar to bankrupt consumers, lenders are not ignoring this large, fast growing segment

Including Troubled Borrowers into a marketing strategy is not difficult

- Identify MOs—a relatively simple task at the credit file level
- Adjust score cut-offs for MOs in prescreen
- Adjust pricing for MOs in offer

The benefits may be material

- Buying deeper without the accompanying delinquency rates
- Avoiding tough competition vying for “cleaner” segments
- Targeting a segment that does not normally get attractive pricing
- Potentially higher risk-adjusted margins available in other “cleaner” segments
- Build loyalty when consumer dissatisfaction is relatively high

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Summary

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- The “Great Recession” exerted a huge amount of stress on consumer credit behavior with long-term, far reaching effects across all risk tiers
  - **The sudden increase and slow recovery of mortgage borrower delinquency fundamentally altered the credit landscape for many years to come**
  - **Reliance upon and extensive use of bankcards may no longer be the norm**
- Consumer-driven changes regarding debt repayment hierarchy modified consumer credit behavior such that what was once considered high risk may no longer hold true
  - **Mortgage-only defaulters may not be as bad as once thought**
- Similar to the practice of marketing directly to bankrupt consumers, lenders are not ignoring the large, fast growing Mortgage Only default segment
  - **Potentially offer better pricing**
- A focus towards the rehabilitation of Multiple Delinquency consumers may offer more societal benefits
  - **More challenging, possibly requiring more time**