

Trended Solutions

Historical risk score changes can differentiate current credit risk

Lenders have been challenged to understand the trajectory of risk scores. Is a consumer's score improving or worsening? Experian used trended data — all displayable to the consumer — to develop a historical proxy score within each of the prior 18 months. Using the trend, you can see if a consumer's risk score has been increasing, decreasing or has remained stable over time. Figure 7 shows that consumers with stable scores present less risk than others.

Figure 7: Consumers with stable risk scores over time are less risky.

Bad rates for average change over 18 months						
Current VantageScore	Overall bad rate	Very stable	Stable	Moderately unstable	Unstable	Severely unstable
600–700	9.67%	6.20%	7.88%	10.07%	11.00%	12.58%
700–800	2.35%	1.89%	1.95%	2.29%	2.87%	3.33%

Any risk strategy will be substantially improved by incorporating the history of consumer balance changes, payment behavior, and score changes. As the pioneer of developing and delivering compliant solutions using trended data, Experian can easily aggregate and deliver these important data elements.

Part two — portfolio profitability

Spend: Portfolio management extends beyond traditional risk assessments

Safety and soundness in lending practices reaches beyond managing risk — there is also a component of delivering a profitable return. How do you know if a consumer will use the credit you are issuing? Wouldn't you want to know the right amount of credit to provide based on a consumer's spending history? Insight into spending levels provides a unique understanding of a consumer's credit needs. Knowing how much a consumer spends on credit cards allows you to make the right product offers, provide appropriate credit limits and optimize wallet share. It will enable you to assign high lines to the right set of customers yet still reduce a portfolio's contingent liability, limiting volatility during market downturns.

Experian uses trended data in a complex algorithm that calculates a consumer's last 12 months of credit card spend.