2011 Financial Services Regional Seminar

Getting Beyond the Portfolio Review

Linda Moynihan Vance
Director, Product Development and Channel Management
Financial Services
TransUnion

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Session overview

• A discussion of our economic environment
• Some current practices and their associated challenges
• A new approach for your consideration
Getting Beyond the Portfolio Review

The environment
Card originations appear to have bottomed out nationally and are beginning to rebound. Delinquency has hit historic lows.

As we have demonstrated, consumers in part are protecting their available card credit—their primary source of liquidity in uncertain times.

Sources: TransUnion Trend Data and Credit Reporting Databases
Mortgage delinquency is slowly improving across the nation.

Despite the success of certain stimulus programs, originations remain generally stagnant.

Sources: TransUnion Trend Data and Credit Reporting Databases
Auto lending is beginning to rebound. Auto delinquency is controlled across the U.S.

“Cash for Clunkers” worked well; the market has stabilized

Sources: TransUnion Trend Data and Credit Reporting Databases
A brief digression: Do not use average credit scores to estimate average risk—you could get the wrong answer

<table>
<thead>
<tr>
<th>Consumer</th>
<th>Credit Score</th>
<th>P(90+ DPD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer #1</td>
<td>600</td>
<td>5.84%</td>
</tr>
<tr>
<td>Consumer #2</td>
<td>600</td>
<td>5.84%</td>
</tr>
<tr>
<td>Consumer #3</td>
<td>600</td>
<td>5.84%</td>
</tr>
<tr>
<td>Consumer #4</td>
<td>600</td>
<td>5.84%</td>
</tr>
<tr>
<td>Consumer #5</td>
<td>600</td>
<td>5.84%</td>
</tr>
<tr>
<td>Consumer #6</td>
<td>600</td>
<td>5.84%</td>
</tr>
<tr>
<td><strong>AVERAGE</strong></td>
<td><strong>600</strong></td>
<td><strong>5.84%</strong></td>
</tr>
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<td>1.55%</td>
</tr>
<tr>
<td>Consumer #3</td>
<td>700</td>
<td>1.55%</td>
</tr>
<tr>
<td>Consumer #4</td>
<td>500</td>
<td>13.69%</td>
</tr>
<tr>
<td>Consumer #5</td>
<td>500</td>
<td>13.69%</td>
</tr>
<tr>
<td>Consumer #6</td>
<td>500</td>
<td>13.69%</td>
</tr>
<tr>
<td><strong>AVERAGE</strong></td>
<td><strong>600</strong></td>
<td><strong>7.62%</strong></td>
</tr>
</tbody>
</table>
Here’s another illustration of what can go wrong

Credit scores are logarithmic, not linear

<table>
<thead>
<tr>
<th>TRAM Score</th>
<th>Corresponding Probability of Default</th>
</tr>
</thead>
<tbody>
<tr>
<td>415</td>
<td>38.48%</td>
</tr>
<tr>
<td>476</td>
<td>21.64%</td>
</tr>
<tr>
<td>682</td>
<td>1.55%</td>
</tr>
<tr>
<td>699</td>
<td>1.55%</td>
</tr>
<tr>
<td>815</td>
<td>0.30%</td>
</tr>
</tbody>
</table>

Average credit score = 617
P(90+DPD) = 5.01%

Average P(90+DPD) = 12.70%
Score of 524!
Risk of default increased markedly both before and during the course of the recession, finally peaking in Q4 2009.

Source: TransUnion Trend Data Database
In this environment, financial institutions face three key challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Causes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Continued risk due to external market conditions</strong></td>
<td>• A stubbornly volatile economy, a continued depressed real estate market and ongoing concerns around ARM resets&lt;br&gt;• Unable to measure risks unique to each customer&lt;br&gt;• Concentration risk (geographic, demographic or otherwise)</td>
</tr>
<tr>
<td><strong>Shifts in consumer performance</strong></td>
<td>• Unable to accurately forecast delinquency and losses and set appropriate loan loss reserves&lt;br&gt;• Difficulty isolating high-risk accounts when economic conditions shift</td>
</tr>
<tr>
<td><strong>Increased attrition</strong></td>
<td>• Highly competitive marketplace, including traditional and non-traditional channels, leading to customer migration&lt;br&gt;• Unable to actively monitor accounts and execute up-sell or retention efforts – before customers consider competitors’ products</td>
</tr>
</tbody>
</table>
The industry focus and concerns voiced by many of our customers can be broadly classified into five concepts:

- Customer growth and retention
- Controlled growth
- Consistent portfolio management
- Expanding wallet share
- Increased efficiency in portfolio management
Financial institutions seek account management tools that reliably differentiate good and bad accounts, scalable to constrained budgets.

<table>
<thead>
<tr>
<th>Challenges with traditional practices and technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Unable to measure risks unique to each customer and portfolio</td>
</tr>
<tr>
<td>▪ Executing on portfolio management strategy</td>
</tr>
<tr>
<td>▪ Current tools do not identify potential delinquency early enough</td>
</tr>
<tr>
<td>▪ Difficulty isolating high-risk accounts</td>
</tr>
<tr>
<td>▪ Limited resources available to actively monitor accounts</td>
</tr>
<tr>
<td>▪ Current tools do not scale down to resource or price requirements</td>
</tr>
</tbody>
</table>
The need for a hybrid solution

<table>
<thead>
<tr>
<th>Investment Size</th>
<th>Analytic Complexity</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMALLER</td>
<td>LOW</td>
</tr>
<tr>
<td></td>
<td>Express Portfolio Review</td>
</tr>
<tr>
<td>LARGER</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td>Custom Portfolio Review</td>
</tr>
<tr>
<td></td>
<td>Account Management Triggers</td>
</tr>
</tbody>
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For many financial institutions, the process has been labor intensive and vulnerable to breakdown.

Current process for portfolio reviews

- Work: Submit file for portfolio review
- Work: Receive file back and append internal attributes
- Work: Compare to previous file
- Work: Identify action to be taken
- Work: Action taken

Quarterly Portfolio Review

Q2 11 July August Q3 11

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More frequent portfolio reviews can help financial institutions take action sooner—balance complexity, investment, portfolio volatility, etc.

Identify both negative and positive changes to your customer’s condition, and respond with more effective treatment strategies.

- **Internal:** New bankcard trade
- **External:** 30+ delinquency

**Quarterly Portfolio Review**
- Account reviewed, no action taken

**Monthly Portfolio Review**
- New collection

**Internal:** Bankcard open to buy – $4,500

**Q2 11**
- July
- August
- Q3 11
A quarterly portfolio review strategy with a monthly compare can accommodate strategy execution on key data changes.

Key Comparisons:
- Score drop
- CC utilization
- CC balance
- New derogatory

Key indicators in a month-over-month comparison

Additional data allow for better decision making

TREATMENT 1: Credit line increase
TREATMENT 2: New overlimit cash authorization level
TREATMENT 3: Credit line decrease
TREATMENT 4: Collection prioritization
TREATMENT 5: No change
Using a portfolio compare tool can help financial institutions take action sooner.

- **Internal:** New bankcard trade in Q2 11.
- **External:** 30+ delinquency.
- **Monthly Portfolio Compare:**
  - August, account compared, no action taken.
  - July, account compared, credit line decreased.
- **Quarterly Portfolio Review:**
  - August, account reviewed, no action taken.
  - Q3 11, account reviewed, no action taken.
  - Q2 11, account compared, no action taken.

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Getting Beyond the Portfolio Review

Examples of successful applications
Portfolio management at a regional financial institution

**Challenge**
- Infrequent portfolio reviews
- Need for timely/actionable data
- Surprise bankruptcies

**Solution**
- Monthly compare for LOC, HELOC, CC
- Used Express Portfolio Compare to complement continued standard portfolio review
- Identified consumers much earlier to take action

**Result**
- Client proactively managed lines to minimize risk earlier
- More focused attention and action on consumers with “off-us” delinquency
Retain your best customers through proactive marketing efforts with event-based data

- Set monitoring criteria specific to customer retention objectives
- Monitor customer accounts including those with other institutions
- Identify the best customers who are ready to respond to up-sell offers
- Focus efforts on accounts that are most at risk of attrition
- Send the right up-sell offer at the right time to improve response
- Focus efforts on accounts that are most at risk of attrition
- Take action to reduce both account and balance attrition

TransUnion
Customer retention at a (different) regional financial institution

**Challenge**
- Customer attrition
- Need for timely/actionable data
- Return to competitive marketing

**Solution**
- Retention of consumers brought on during challenging economic environment
- Monthly compare for LOC, HELOC, CC
- Express Portfolio Compare delivered focused data of improving consumers
- Up-sell with line increase – use of TransUnion Income Estimator and Debt-to-Income Estimator for ability to pay

**Result**
- Maintain loyalty
- Create opportunities for stronger performance
Summary

• Review your portfolio management strategy with consideration of external market conditions, shifts in consumer performance and specific financial institution risk points

• Leverage external capabilities to provide both technical and analytic bench strength to overcome internal resource and process challenges

• Apply a hybridized portfolio management philosophy to move more effectively from strategy development to strategy execution