2011 Financial Services Regional Seminar

Blurring the Line Between Portfolio Management and Collections

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Session overview

• Dynamic market conditions have driven lenders to rethink their credit portfolio management strategies, in effect, “blurring” the line between account management and collections.

• This holistic portfolio management approach views the aggregate customer population across the entire customer lifecycle to identify opportunities.

• In response, many lenders have leveraged a holistic portfolio management approach allowing them to gain economies of scale by:
  – Setting strategies based on sound analytics across lifecycle stages
  – Executing strategies across lifecycle stages that have improved portfolio performance and maximized customer relationships.

• Holistic portfolio management approaches have improved retention, reduced exposure and increased recoveries.
Market conditions have made it difficult for lenders to balance account management and collection activities

<table>
<thead>
<tr>
<th>Impact to Portfolio Management</th>
<th>Effect of Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Limited investment in account management infrastructure due to budget constraints</td>
<td>• Portfolio management strategies lack sophistication</td>
</tr>
<tr>
<td>• Portfolio growth is muted</td>
<td>• Retention efforts needed to achieve growth</td>
</tr>
<tr>
<td>• Treatment strategies lack analytically-based optimization</td>
<td>• Credit line increase and decrease strategies (CLI and CLD) are not optimized</td>
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<tr>
<td>• Competition for payment has increased</td>
<td>• Customer loyalty suffers</td>
</tr>
<tr>
<td>• Opportunities to collect are not always realized before other creditors start calling</td>
<td>• Recovery efforts are not optimized</td>
</tr>
</tbody>
</table>

These dynamics are driving lenders to deploy a holistic portfolio management approach.
Holistic portfolio management considers the entire customer population to identify and respond to opportunities.

- Holistic strategies generally share three common characteristics:
  1. Monitor all accounts regardless of payment status
  2. Respond to time-sensitive data
  3. Execute multiple treatments to address various business challenges

- This approach has several benefits:
  - Views every customer as an asset and opportunity
  - Leverages consistent processes and technology across the customer lifecycle
  - Provides economies of scale

- Holistic portfolio management strategy development and execution require a clear definition of objectives across the lifecycle.
Blurring the Lines Between Portfolio Management and Collections

Developing a holistic strategy
Holistic portfolio management strategies should be based on sound analytics that address specific concerns

<table>
<thead>
<tr>
<th>Strategy Development Tool</th>
<th>Account Management Applications</th>
<th>Collections Applications</th>
</tr>
</thead>
</table>
| Retrospective Analysis    | • Determine most predictive score for account management programs  
                            • Identify score cutoffs for CLI and CLD strategies | • Determine most predictive score for collection strategies 
                            • Identify opportunities to optimize treatment strategies |
| Segmentation Analysis     | • Identify attributes and combinations of attributes that are indicative of future performance | • Determine characteristics that indicate a likely response to a specific collection treatment strategy |
| Triggers Analysis         | • Determine triggers and attributes most predictive of performance  
                            • Identify “swap-in” and “swap-out” opportunities  
                            • Optimize treatment strategies and potential volumes | • Optimize treatment strategies that respond to daily changes in credit  
                            • Identify and take action on potential “rollers” quickly  
                            • Identify specific outcomes (e.g., likelihood of payment) |
Retrospective analyses are effective for evaluating specific customer objectives and performance outcomes to set strategy.

**Performance Period**
(Between 6 to 24 months)

- January 2009 Observation
  - Scores Accounts
  - Determines Worst Performance of Accounts

- January 2011 Performance

**Retrospective Analysis Applications**
- Develop or refine CLI and CLD strategies
- Set authorization requirements
- Create up-sell campaigns
- Prioritize activities
- Develop treatment and outsourcing strategies
A retrospective analysis includes a score distribution report that allows lenders to set cutoff strategies with rigorous justification.

<table>
<thead>
<tr>
<th>FICO Risk Score, Classic 88</th>
<th>Total</th>
<th>Current or 30 DPD</th>
<th>60 DPD and Worse</th>
<th>90 DPD and Worse</th>
<th>Charge-Off and Worse</th>
<th>Bankrupt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score Range</td>
<td># of Members</td>
<td>Cumulative %</td>
<td># of Members</td>
<td>Cumulative %</td>
<td>Cum. Rate</td>
<td># of Members</td>
</tr>
<tr>
<td>831 - 850</td>
<td>751</td>
<td>100.0%</td>
<td>746</td>
<td>100.0%</td>
<td>99.6%</td>
<td>3</td>
</tr>
<tr>
<td>821 - 830</td>
<td>756</td>
<td>94.9%</td>
<td>754</td>
<td>94.5%</td>
<td>99.7%</td>
<td>3</td>
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<tr>
<td>814 - 820</td>
<td>694</td>
<td>89.7%</td>
<td>691</td>
<td>88.9%</td>
<td>99.6%</td>
<td>3</td>
</tr>
<tr>
<td>807 - 813</td>
<td>721</td>
<td>85.0%</td>
<td>718</td>
<td>83.8%</td>
<td>99.6%</td>
<td>3</td>
</tr>
<tr>
<td>800 - 806</td>
<td>730</td>
<td>80.1%</td>
<td>728</td>
<td>78.5%</td>
<td>99.6%</td>
<td>2</td>
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<tr>
<td>792 - 799</td>
<td>704</td>
<td>75.1%</td>
<td>702</td>
<td>73.1%</td>
<td>99.7%</td>
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<tr>
<td>783 - 791</td>
<td>796</td>
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<td>785</td>
<td>67.9%</td>
<td>99.5%</td>
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<td>773 - 782</td>
<td>727</td>
<td>64.9%</td>
<td>724</td>
<td>62.1%</td>
<td>99.5%</td>
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<tr>
<td>763 - 772</td>
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<td>59.9%</td>
<td>682</td>
<td>56.8%</td>
<td>99.4%</td>
<td>10</td>
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<tr>
<td>751 - 762</td>
<td>760</td>
<td>55.2%</td>
<td>745</td>
<td>51.6%</td>
<td>99.3%</td>
<td>15</td>
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<tr>
<td>739 - 750</td>
<td>750</td>
<td>50.0%</td>
<td>725</td>
<td>46.3%</td>
<td>99.0%</td>
<td>25</td>
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<tr>
<td>720 - 730</td>
<td>580</td>
<td>44.3%</td>
<td>580</td>
<td>44.0%</td>
<td>99.0%</td>
<td>25</td>
</tr>
<tr>
<td>715 - 727</td>
<td>739</td>
<td>40.2%</td>
<td>702</td>
<td>36.0%</td>
<td>98.5%</td>
<td>37</td>
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<tr>
<td>700 - 714</td>
<td>740</td>
<td>35.1%</td>
<td>593</td>
<td>30.8%</td>
<td>92.2%</td>
<td>47</td>
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<tr>
<td>682 - 699</td>
<td>730</td>
<td>30.1%</td>
<td>563</td>
<td>25.7%</td>
<td>97.7%</td>
<td>67</td>
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<tr>
<td>662 - 681</td>
<td>758</td>
<td>25.1%</td>
<td>572</td>
<td>20.8%</td>
<td>97.1%</td>
<td>66</td>
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<tr>
<td>640 - 659</td>
<td>718</td>
<td>19.9%</td>
<td>608</td>
<td>15.8%</td>
<td>95.4%</td>
<td>110</td>
</tr>
<tr>
<td>610 - 639</td>
<td>731</td>
<td>15.0%</td>
<td>613</td>
<td>11.3%</td>
<td>95.7%</td>
<td>118</td>
</tr>
<tr>
<td>580 - 609</td>
<td>747</td>
<td>10.1%</td>
<td>545</td>
<td>6.8%</td>
<td>94.5%</td>
<td>202</td>
</tr>
<tr>
<td>500 - 565</td>
<td>729</td>
<td>5.0%</td>
<td>374</td>
<td>2.3%</td>
<td>92.3%</td>
<td>355</td>
</tr>
<tr>
<td>Total</td>
<td>14,665</td>
<td>100.0%</td>
<td>13,542</td>
<td>92.3%</td>
<td>1,126</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

Average Score: 732, 742, 611, 615, 632

Great concentration of “Bads” in lowest score band
A triggers analysis provides lenders the ability to analyze, model and develop solutions off of daily change data

- Gain insight into the most relevant score and characteristic changes by portfolio and outcome
- Develop or refine CLI and CLD strategies
- Predict account attrition to develop or refine retention strategies
- Examine accounts that will self-cure in order to prioritize resources
- Determine which accounts are more likely to roll to higher levels of delinquency for more effective resource allocation
Traditional model design usually leverages two static points in time, while a predictive triggers solution leverages daily change data.

Examples of Historical Predictors:
- Number of Trades 90+ Days Past Due
- Credit Limit Utilization

Example of Performance: (24-month)
- Bad: ≥ 90 DPD
- Good: ≤ 30 DPD
- Indeterminate: all other

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Static Point in Time

Historical Information
Observation Period
Performance Period

Calculate Daily or Weekly Changes

Multiple Points in Time

Examples of Historical Predictors:
- Δ - Number of Trades 90+ DPD
- Δ - Credit Limit Utilization

Example of Performance: (6-month)
- Bad: ≥ 90 DPD
- Good: ≤ 30 DPD
- Indeterminate: all other

Shorter outcome to take advantage of event-based trigger
Blurring the Lines Between Portfolio Management and Collections

Executing a holistic strategy
Holistic strategies should be executed by leveraging the appropriate application for the lender

<table>
<thead>
<tr>
<th>Strategy Execution Application</th>
<th>Account Management Applications</th>
<th>Collections Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Review</td>
<td>• Deploy cycle-based CLI and CLD strategies</td>
<td>• Optimize dialer strategies</td>
</tr>
<tr>
<td></td>
<td>• Execute predetermined authorization strategies</td>
<td>• Prioritize account queuing</td>
</tr>
<tr>
<td></td>
<td>• Provide cycle-based convenience checks</td>
<td>• Optimize contact strategies</td>
</tr>
<tr>
<td></td>
<td>• Execute up-sell* strategies</td>
<td>• Determine internal treatment and outsourcing strategies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Evaluate portfolios for sale</td>
</tr>
<tr>
<td>Portfolio Management Triggers</td>
<td>• Deploy intra-cycle CLI and CLD strategies</td>
<td>• Optimize dialer strategies</td>
</tr>
<tr>
<td></td>
<td>• Execute dynamic authorization strategies</td>
<td>• Prioritize account queuing</td>
</tr>
<tr>
<td></td>
<td>• Analyze and deploy change data strategies within processing systems</td>
<td>• Optimize contact strategies in immediate response to new information</td>
</tr>
<tr>
<td></td>
<td>• Execute dynamic up-sell strategies</td>
<td>• Determine internal treatment and outsourcing strategies</td>
</tr>
</tbody>
</table>

* Example: Gold card migration to Platinum card
Account management strategies are dependent on data—most institutions refresh credit data monthly through portfolio reviews.

- **Internal data** is generally refreshed instantaneously:
  - Payment information
  - Transaction information
  - Internal models (risk, profitability, etc.)

- However, credit data is typically updated on a monthly basis, leading to decisions based on historical views of the consumer.
Portfolio reviews can be executed quarterly or monthly, gaining insights to credit changes within your customer base.

Consumer records with score and attributes changes

- Quarterly Portfolio Review
- Monthly Review
- Monthly Review
- Quarterly Portfolio Review

Portfolio Review Applications

- Execute risk management strategies, including CLI and CLD
- Predict account attrition to develop or refine retention strategies
- Examine accounts that will self-cure in order to prioritize resources
- Determine which accounts are more likely to roll to higher levels of delinquency for more effective resource allocation
Consumer profiles and associated risk can shift day to day as a result of how institutions report their credit data.

TransUnion receives millions of updates from institutions every day.

Daily consumer credit changes in June 2011
Deployment of a triggers solution enables the ability to leverage recency of data across the full customer lifecycle

- Prove value of time
- Develop custom models, attributes and triggers
- Determine trigger volumes and outcomes

- Target unique prospects
- Deploy predictive models to anticipate marketing opportunities

- Prioritize opportunities with generic and custom predictive models
- Optimize customer relationships

- Execute timely credit line increases and decreases
- Enhance customer contact execution
- Target potential attritors and develop swap sets

- Determine customer contact optimization
- Enhance relationship management strategies
- Execute proactive treatment activities

- Prioritize customer contact execution
- Optimize treatment effectiveness
In this example, a lender prevents balance build by leveraging daily monitoring of customers, thereby saving $600.

**Monthly Portfolio Review**

**March 26**
- Customer #1
  - Risk Score: 656
  - # of 30 delinq: 0
  - Card bal: $1,800
  - Credit limit: $2,500

**April 26**
- Risk Score: 605
- # of 30 delinq: 2
- Card bal: $2,400
- Credit limit: $2,500

Later action results in balance build.

**Account Management Triggers**

**March 26**
- Customer #1
  - Risk Score: 656
  - # of 30 delinq: 0
  - Card bal: $1,800
  - Credit limit: $2,500

**March 30**
- Customer 1 is reported by other lender 30 days late resulting in a score change to 605, triggering a CLD strategy.

**April 26**
- Risk Score: 605
- # of 30 delinq: 2
- Card bal: $1,800
- Credit limit: $1,800

Eliminated $600 in balance build.
Lenders can also deploy triggers to identify collection opportunities, increase recoveries and retain relationships.

**Monthly Portfolio Review**

**March 26**
- Risk Score: 605
- # of 30 delinq: 2

**Customer #2**
- Skip Account
  - Card bal: $2,500
  - Credit limit: $2,500

**April 26**
- Risk Score: 655
- # of 30 delinq: 0
- Card bal: $2,300
- Credit limit: $2,500

Later action results in missed collection opportunity.

**Monthly Monitoring of Customers**

**Daily Monitoring of Customers**

**March 30**
- Customer 2 is now current with other lender, resulting in a score change to 655, triggering collection prioritization.

**April 12**
- A new address and phone # for Customer 2 was reported by another lender, triggering collection activity.

Collected $1,000; account now current.

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Summary

• There is an opportunity to reevaluate your portfolio management strategies and deploy a holistic approach that views the aggregate customer population across the entire customer lifecycle

• This holistic portfolio management approach can allow you to gain economies of scale

• Your approach should consider setting and executing strategy across account management, collections and recovery functions

• Holistic portfolio management approaches have improved retention, reduced exposure and increased recoveries