



December 8, 2008

TRANSUNION BANKRUPTCY SCORE

# Making More Informed Decisions

**Thomas Higgins**

Director, Analytic Decision Services

[thiggins@transunion.ca](mailto:thiggins@transunion.ca)

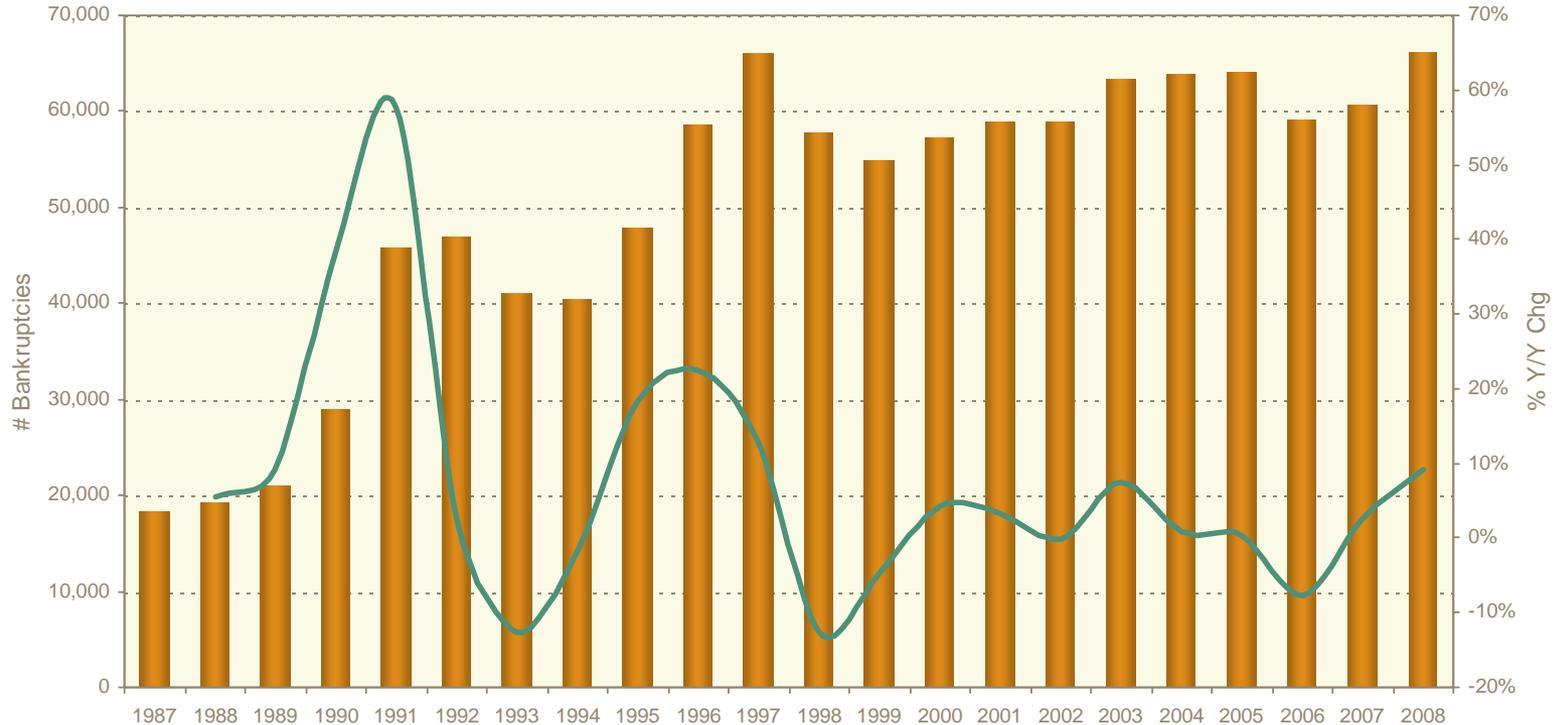
416-332-2438

# National Bankruptcy Trends

Consumer bankruptcies are trending to make 2008 the highest bankruptcy year recorded, up 9.2% vs. 2007

YTD September 2008

Source: Office of the Superintendent of Bankruptcies

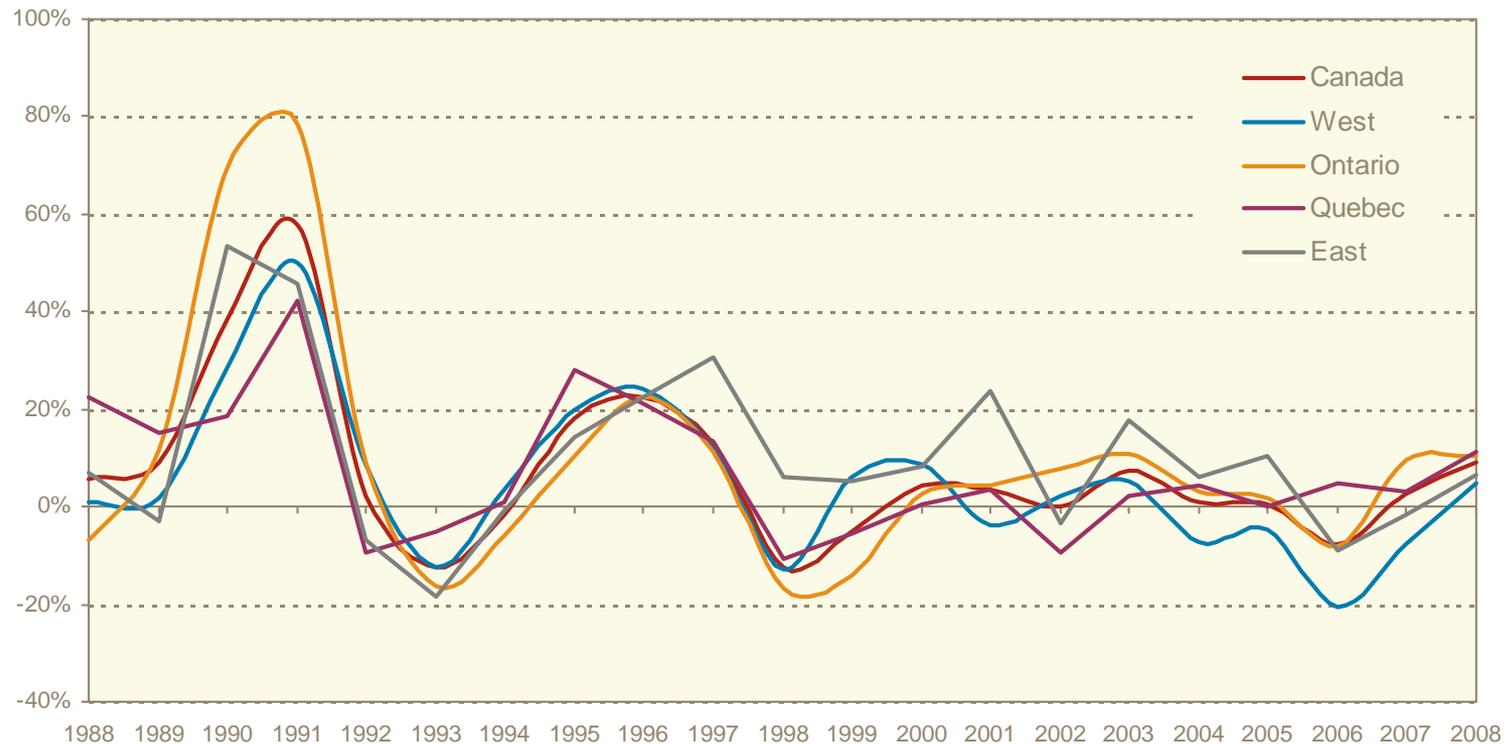


# Regional Bankruptcy Trends

Year-over-year changes in consumer bankruptcies reported has remained relatively consistent across all regions

% Y/Y Chg – YTD September 2008

Source: Office of the Superintendent of Bankruptcies



# TransUnion Bankruptcy Score

Make smarter, more strategic decisions  
about applicants and customers

**Reduce  
Losses**

**Take Fewer  
Adverse Actions**

**Approve & Keep  
More Good  
Customers**

- Better manage portfolio to avoid bad debts and write-offs
- Be proactive with high-risk accounts
- Avoid rejecting applicants who are likely to be profitable
- Take steps to reduce attrition of profitable accounts
- Better identify accounts that are likely to be profitable
- Develop offers and terms to attract and retain lower-risk customers

# Performance Definition

*Public Record Bankruptcy or  
Reported Tradeline Bankruptcy*

**18mth Performance Window**

## Observation

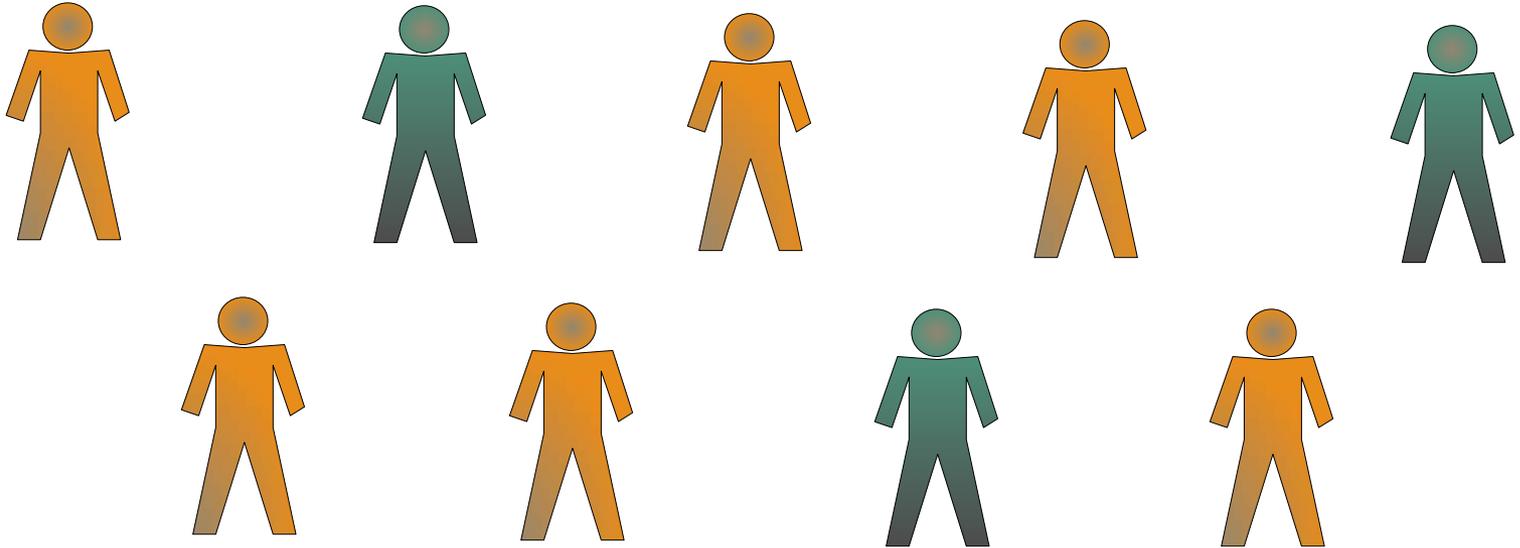
- June 1, 2005
- February 1, 2006
- 2.6M+ random sample
- TransUnion Credit Characteristics

## Performance

- June 1, 2005 thru November 30, 2006
- February 1, 2006 thru July 31, 2007
- 639k Bankruptcies

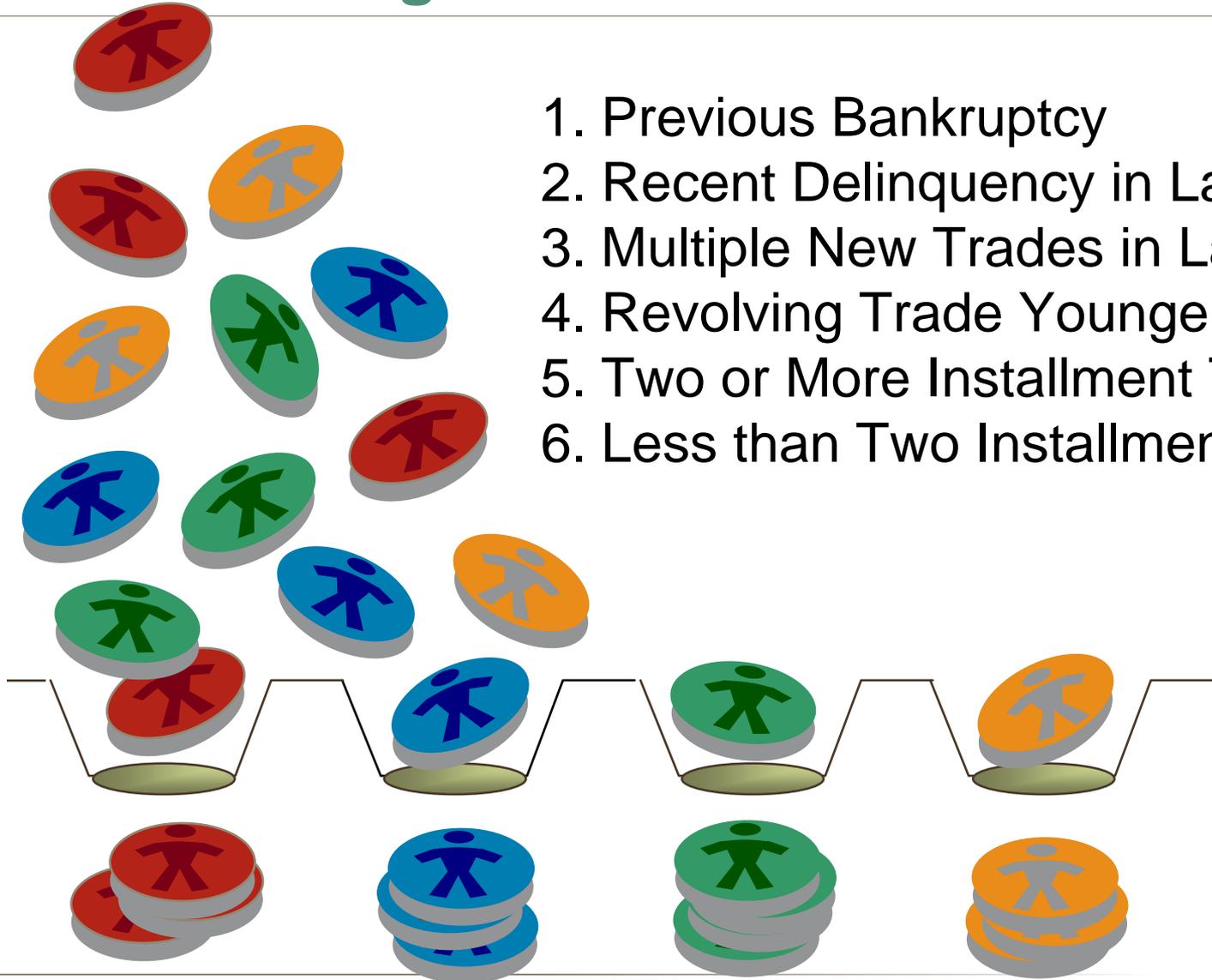
# Minimum Scoring Criteria

- At least one (1) trade on file
- Single trade files must not be a Deferred Student Loan
- Not Deceased



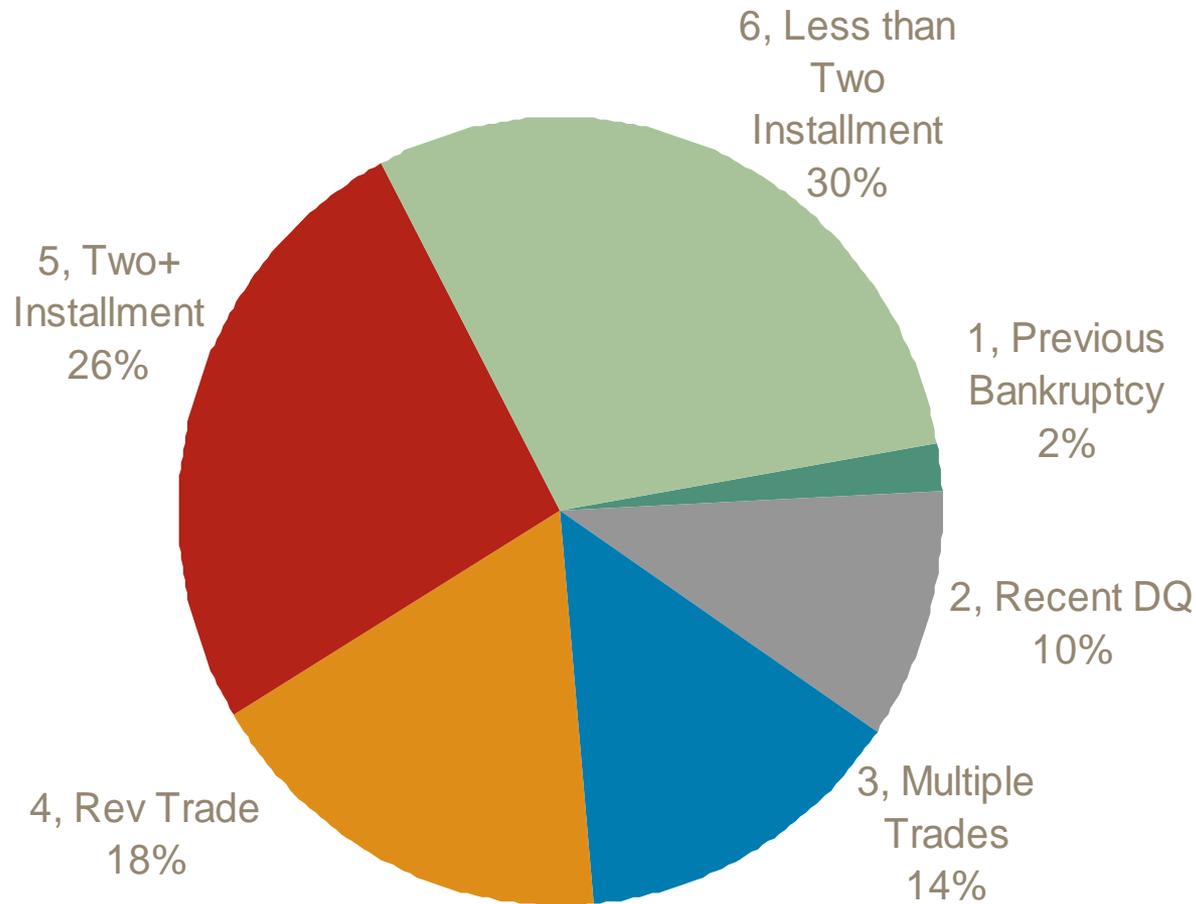
# Scorecard Segmentation

1. Previous Bankruptcy
2. Recent Delinquency in Last 7mths
3. Multiple New Trades in Last 24mths
4. Revolving Trade Younger than 10yrs
5. Two or More Installment Trades
6. Less than Two Installment Trades



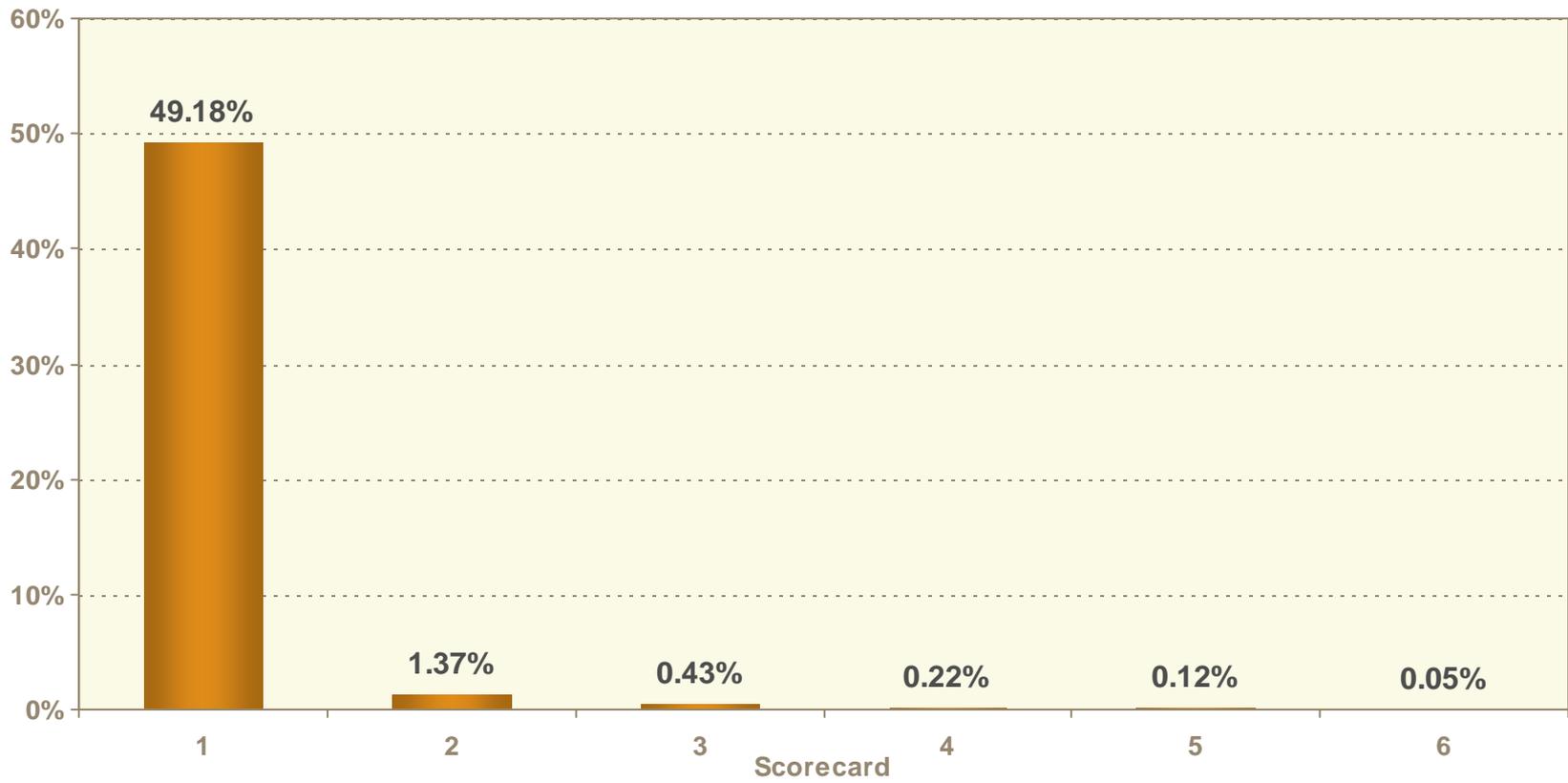
# Scorecard Segmentation

## Population Distribution



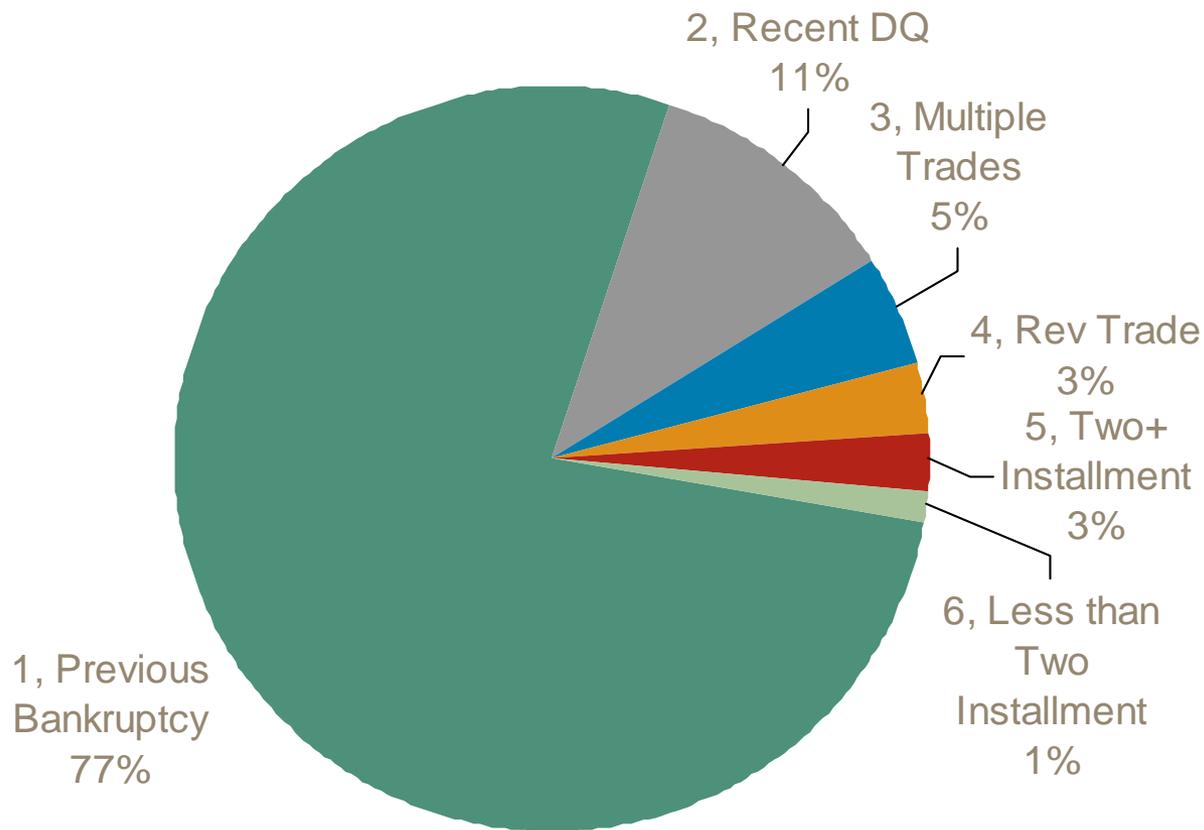
# Scorecard Segmentation

## Bankruptcy Rate over 18 months



# Scorecard Segmentation

## Distribution of Bankruptcies



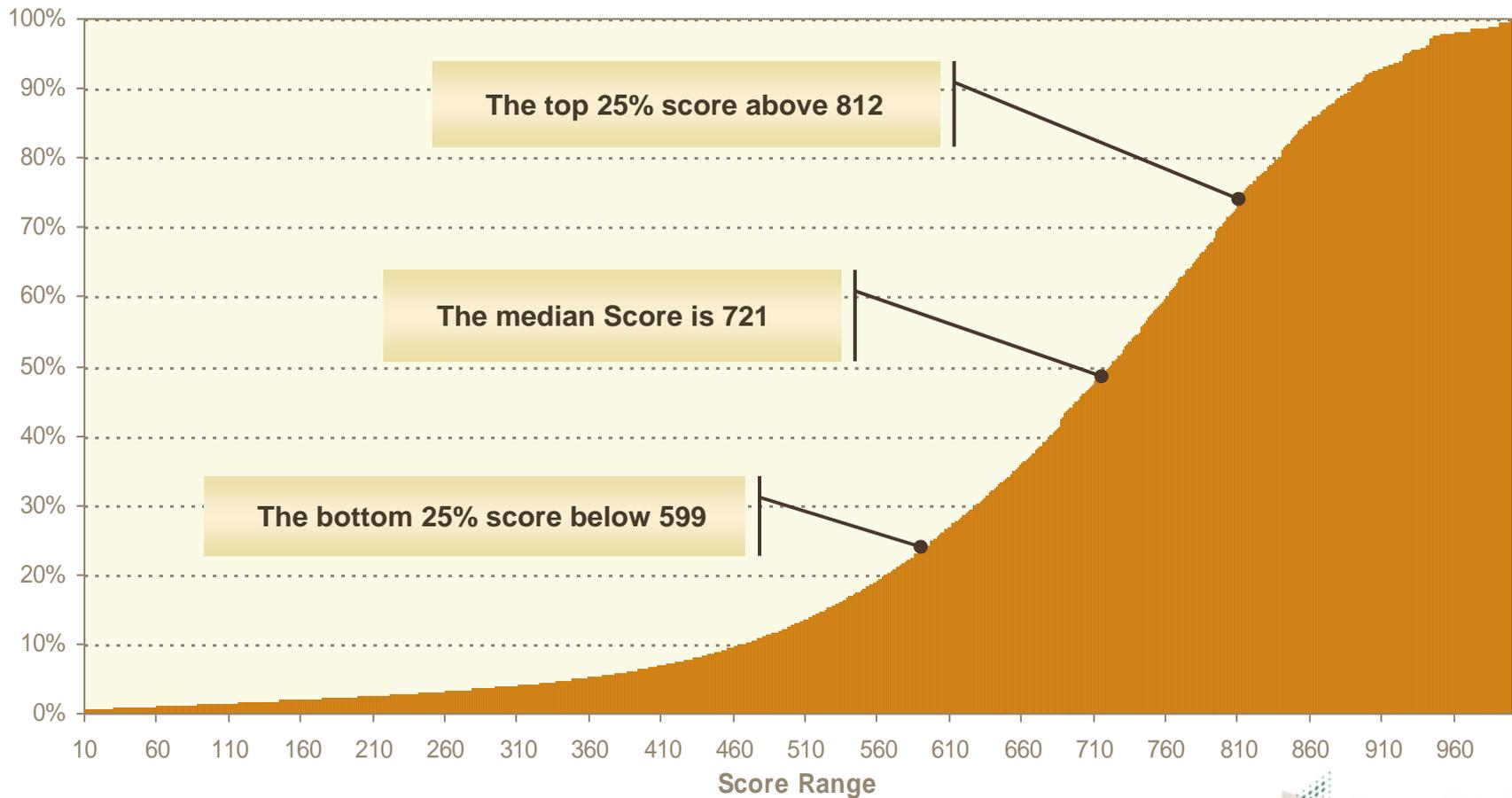
# Scoring Output

- Score range: 10 to 999
- TransUnion Bankruptcy Score delivers three (3) reason codes and a scorecard indicator with every score

Output	Code	Description
<b>Reason Codes</b>	05	Number of Revolving Trades w/ Balance > 0
	10	Ratio of Total Balance to High Credit/ Credit Limit for All Trades
	01	Total Balance of All Personal Finance Trades
<b>Scorecard Indicator</b>	SC3	

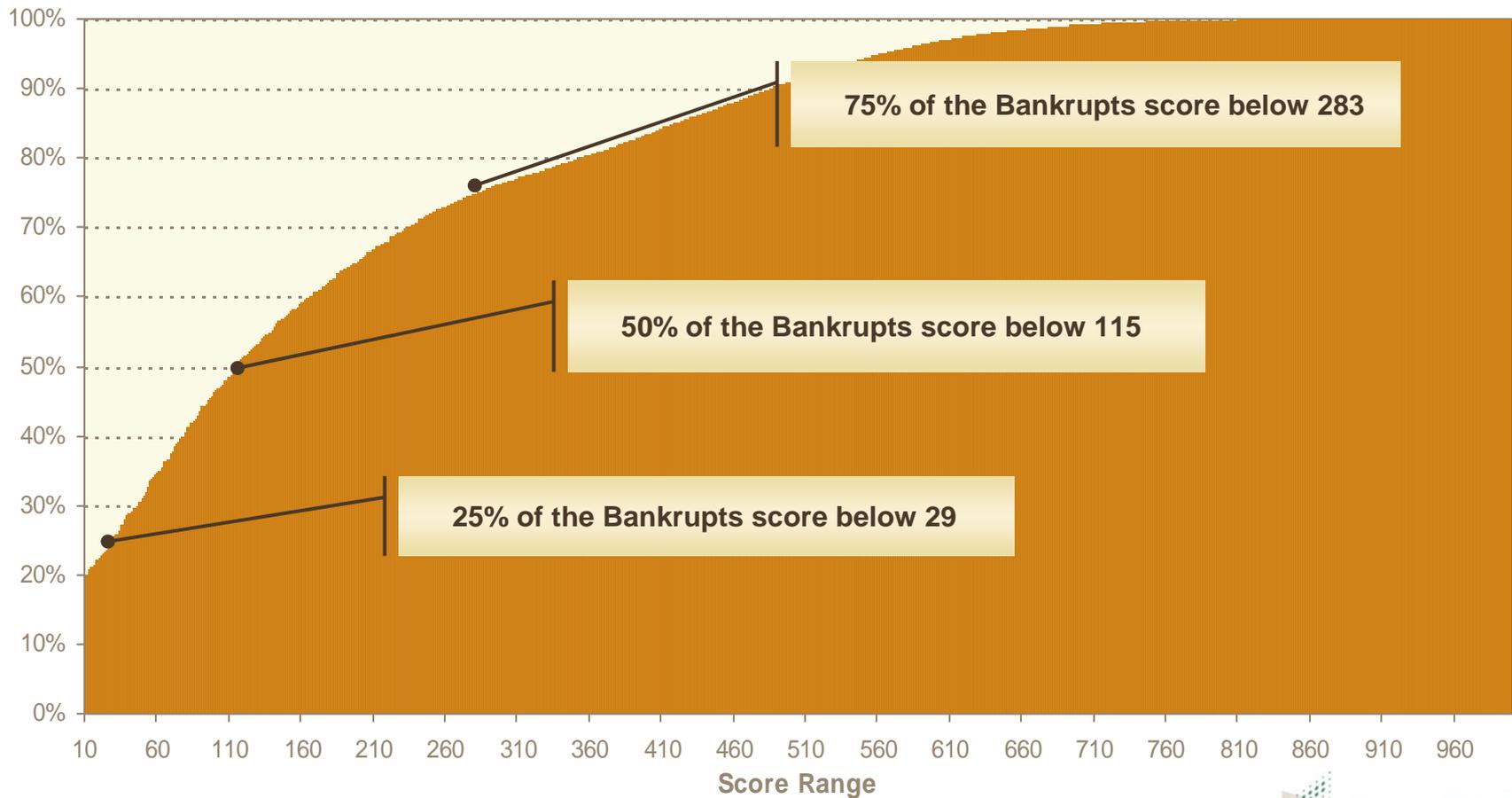
# Development Sample

## Cumulative Population Distribution



# Development Sample

## Cumulative Bankruptcy Distribution





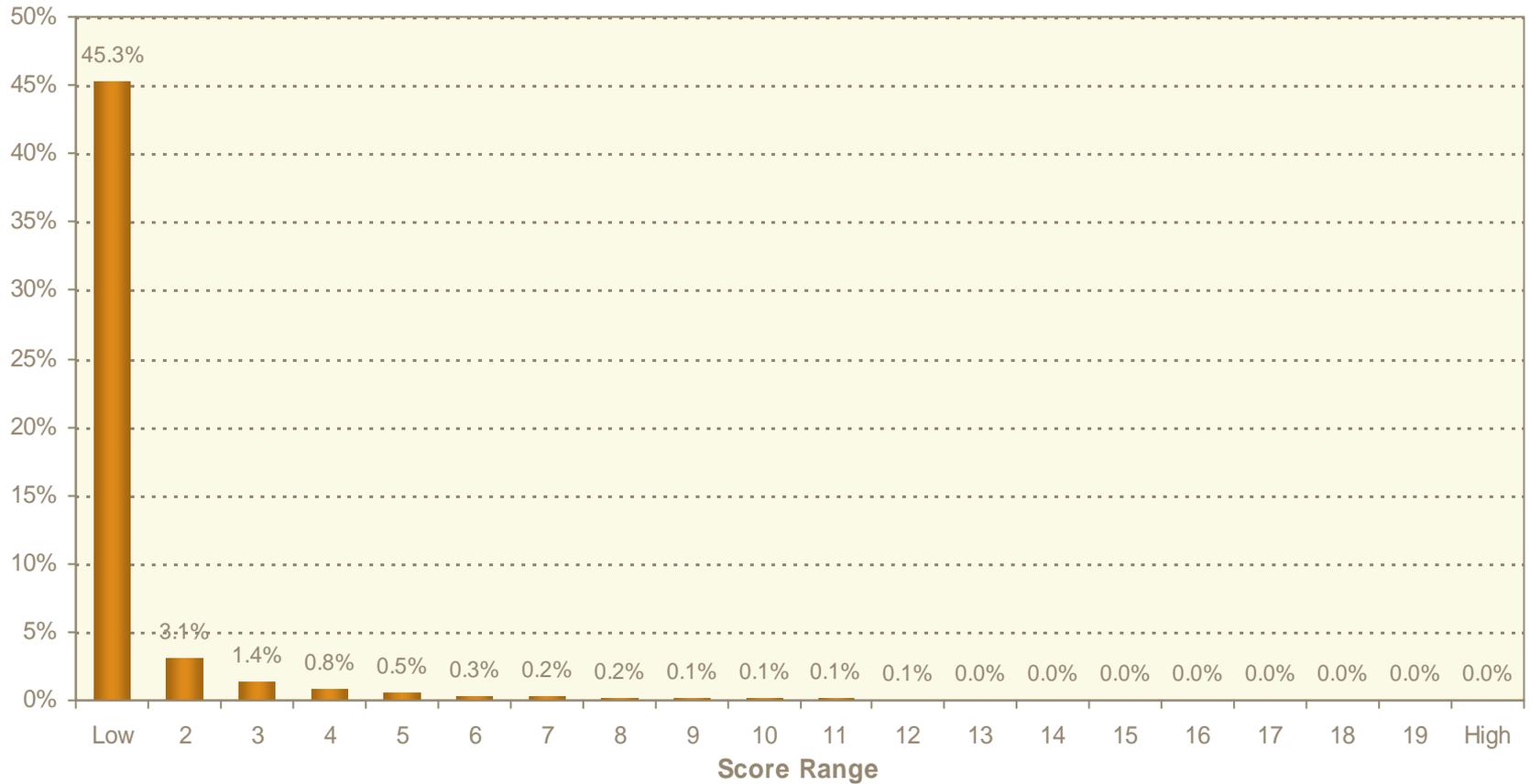
December 10, 2008

TRANSUNION BANKRUPTCY SCORE

# Performance Statistics

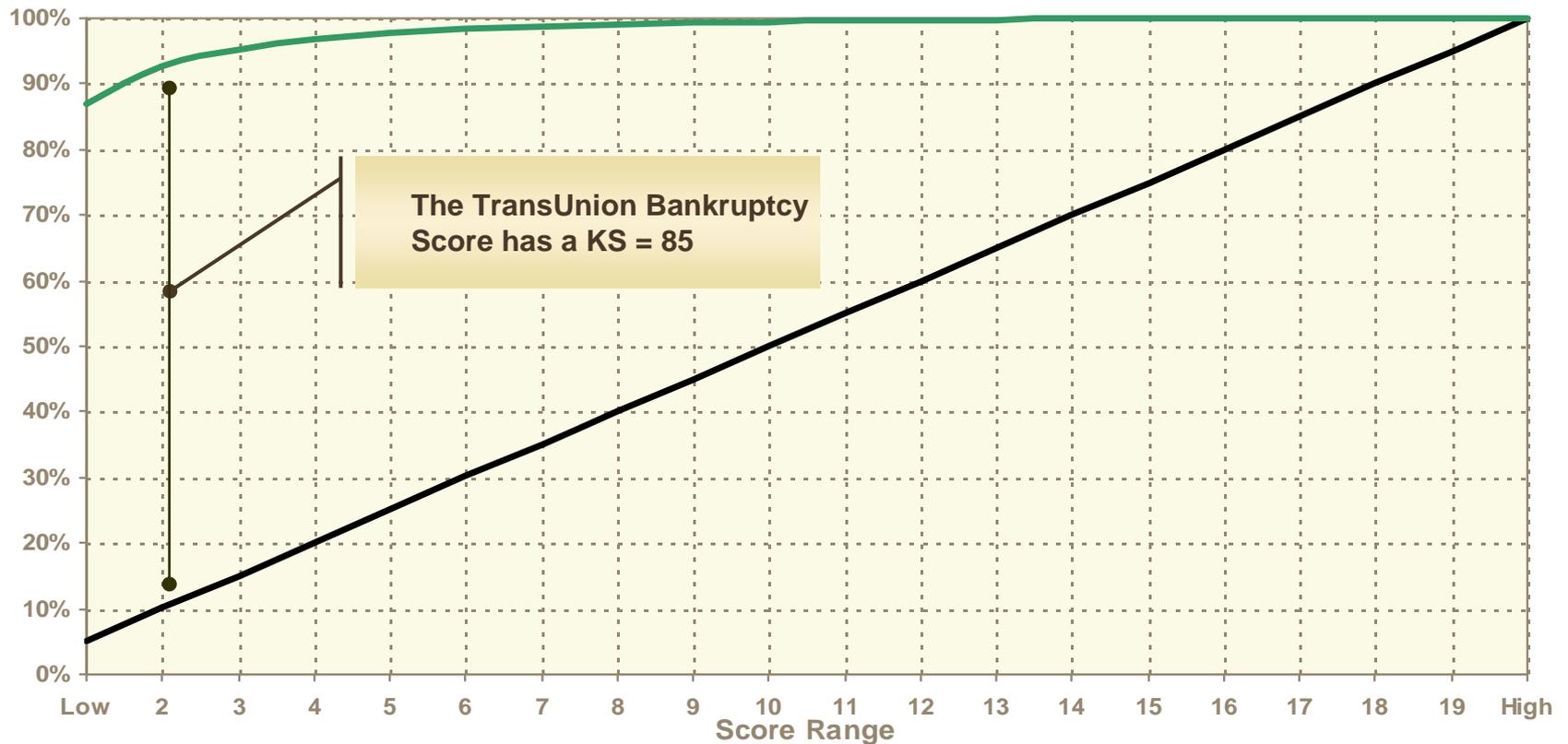
# Bankruptcy Rate

The overall bankruptcy rate is 2.64% over an 18 month period



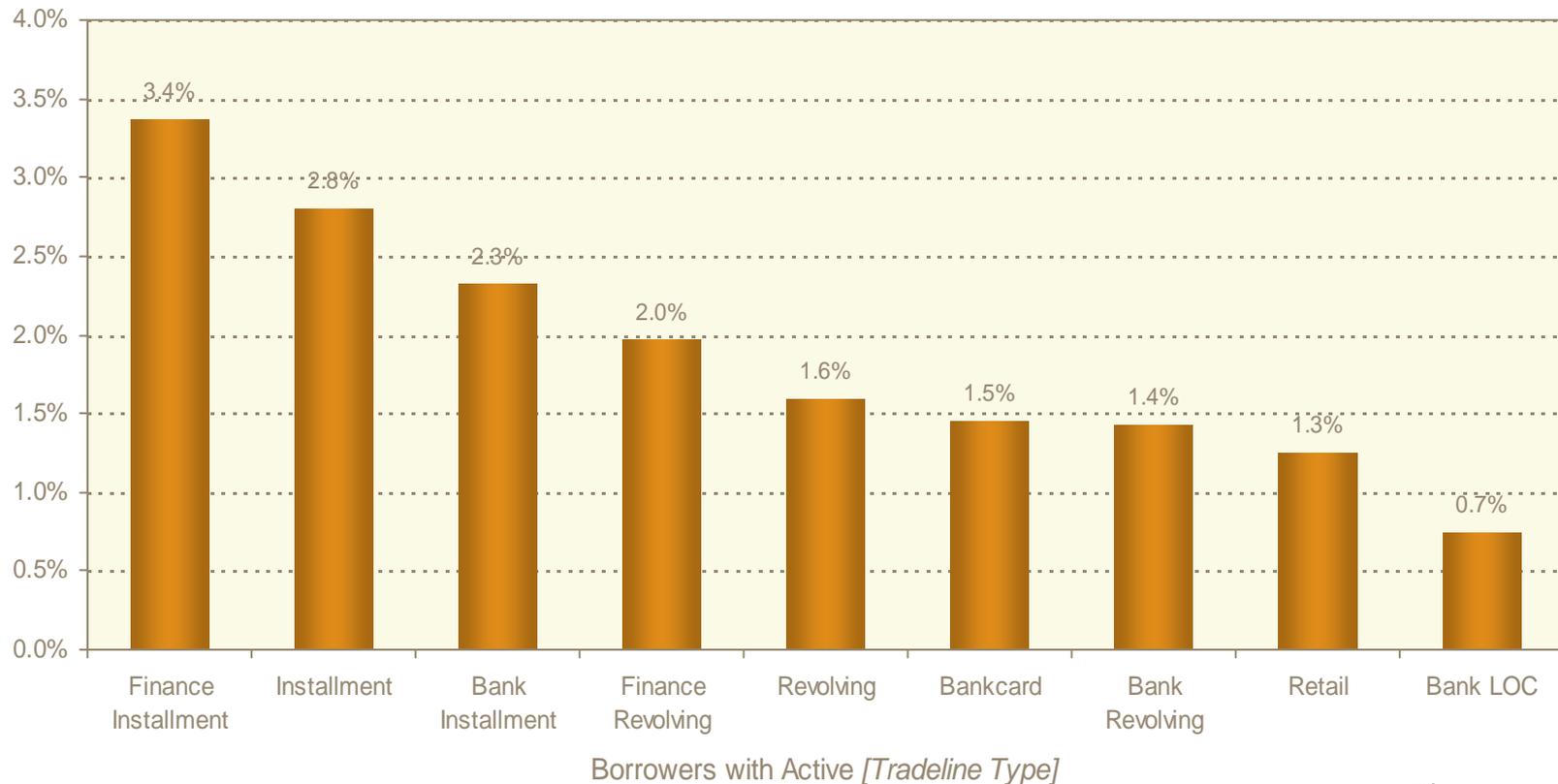
# Cumulative Bankruptcies Captured

Over 92% of the bankruptcies were scored in the bottom 10%



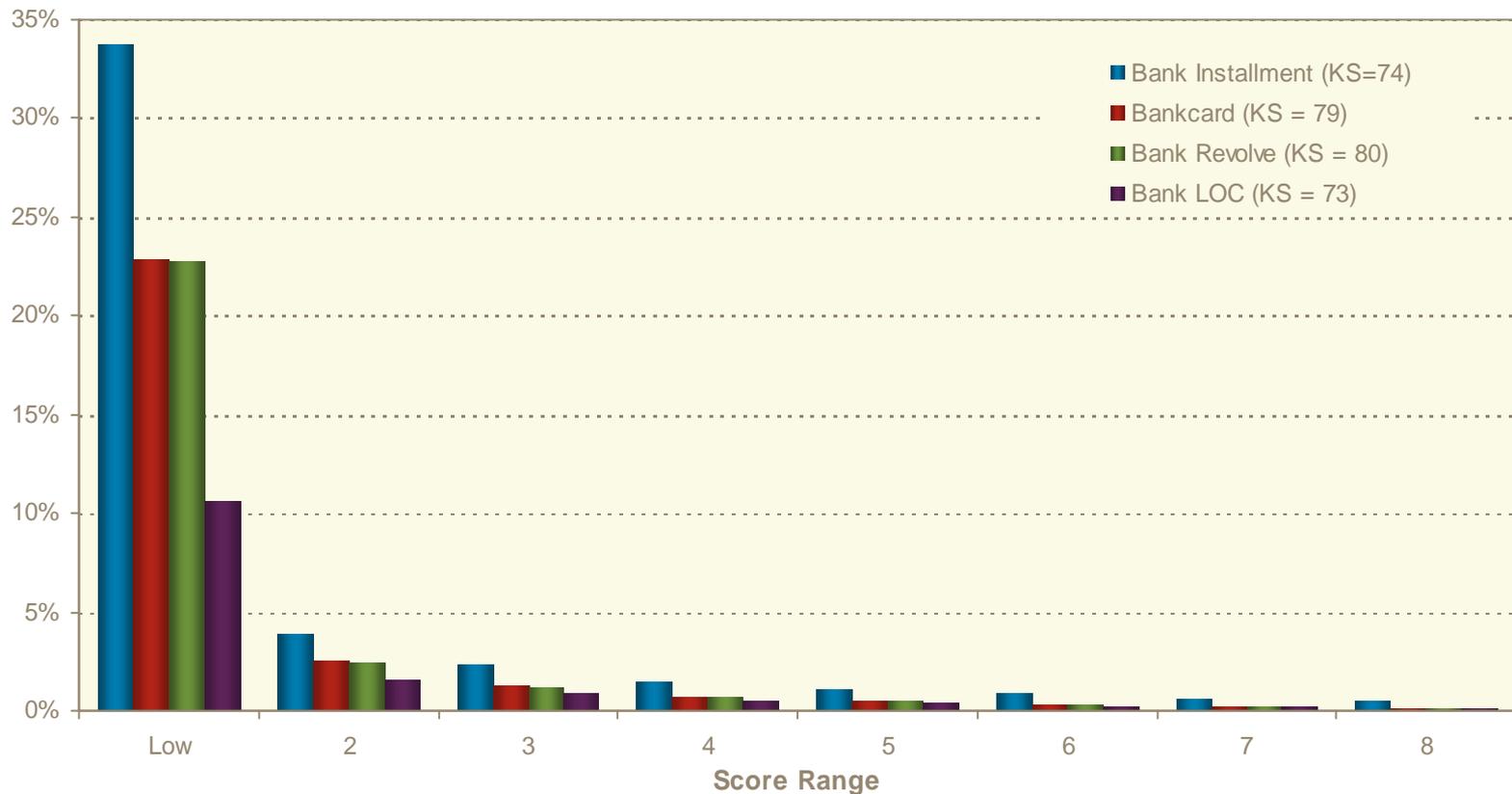
# Bankruptcy Rate by Tradeline Type

Borrowers with Installment trades on file exhibit the greatest rate of bankruptcy with Bank LOC's exhibiting the lowest



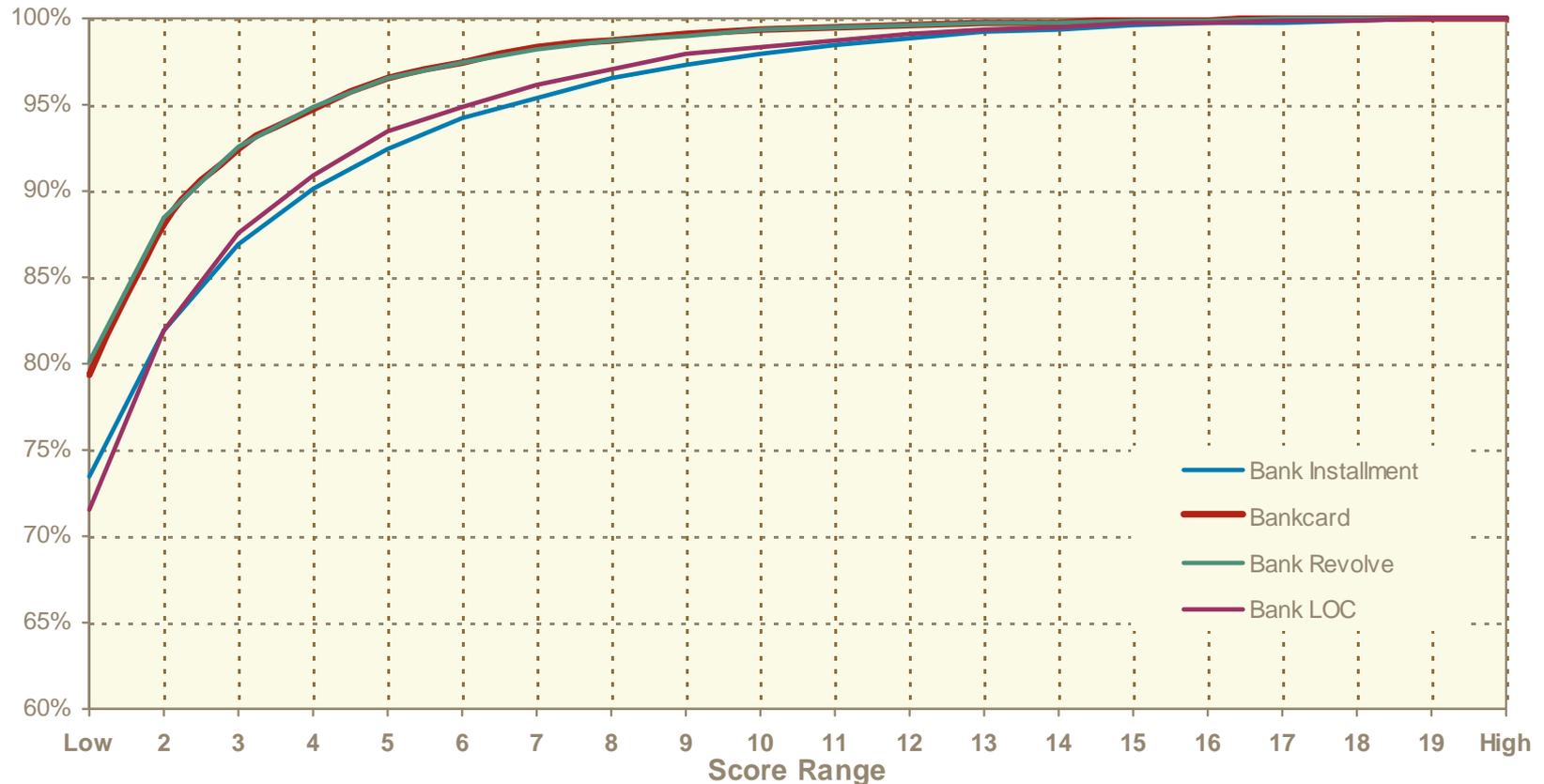
# Bankruptcy Rate by Tradeline Type

The bankruptcy rate for borrower's with specific trade types is skewed significantly to the bottom 5% of scores



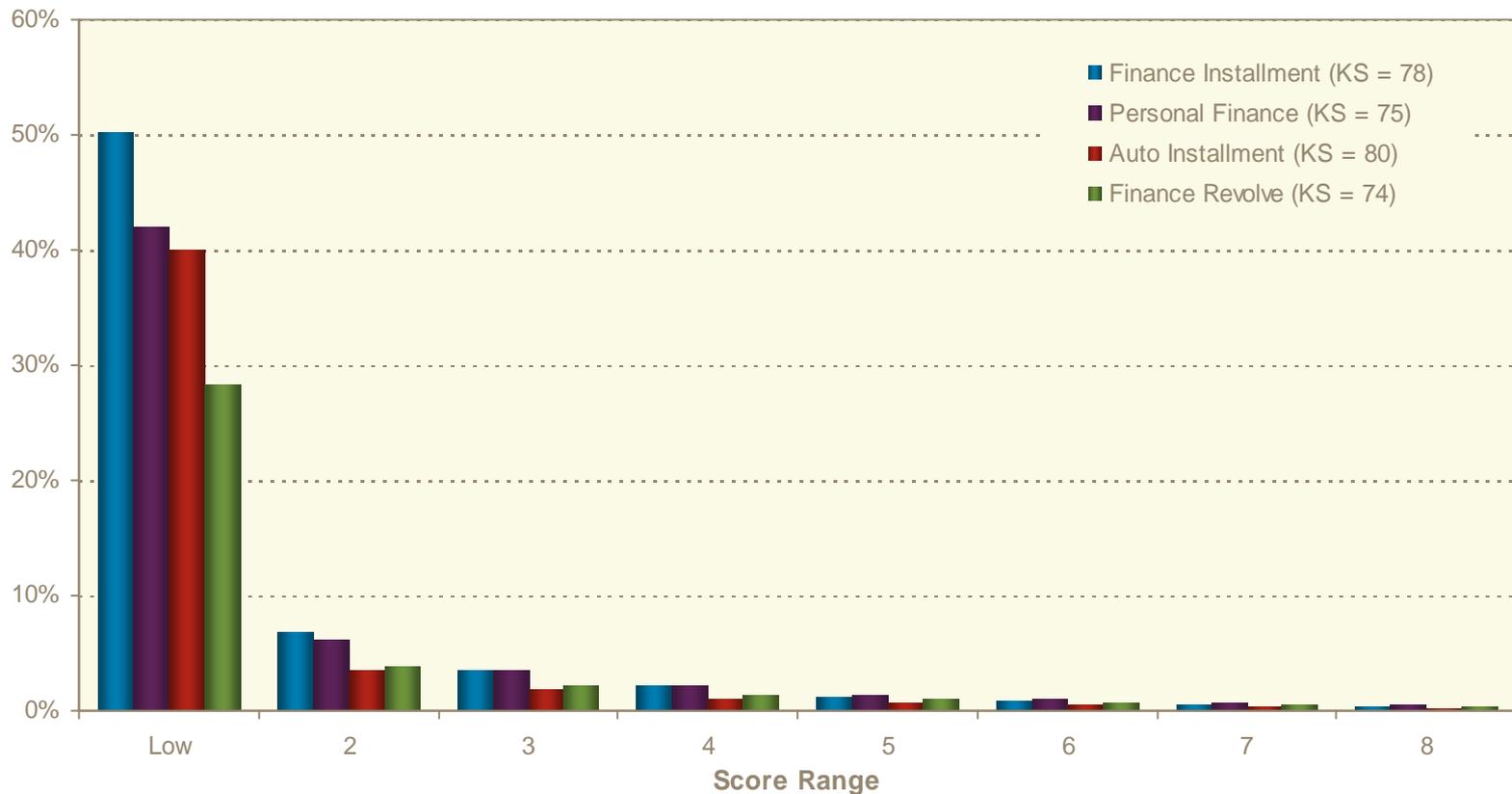
# Cumulative Bankruptcies Captured

Over 80% of all bankruptcies were captured in the bottom 10%



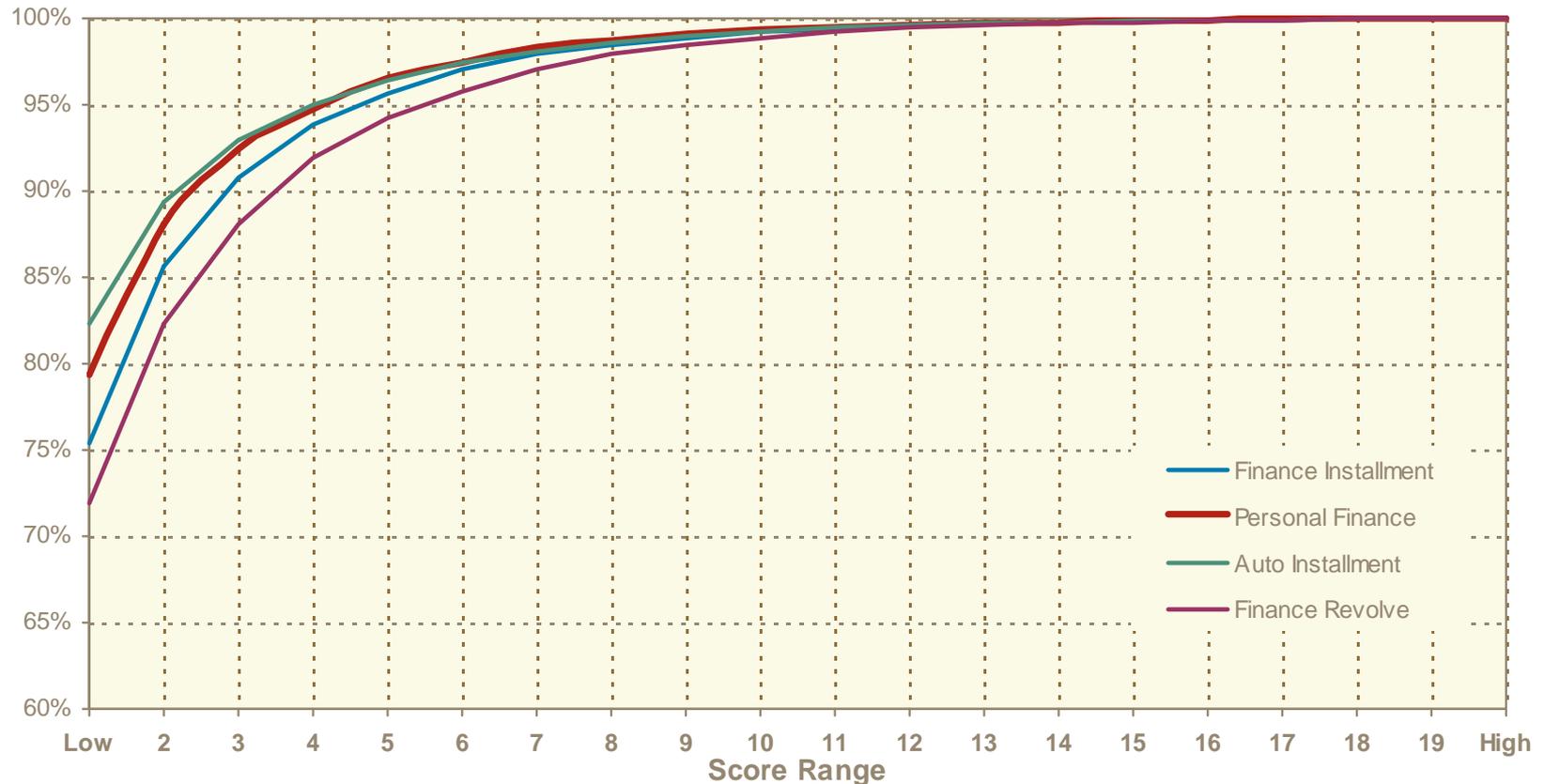
# Bankruptcy Rate by Tradeline Type

The bankruptcy rate for borrower's with specific trade types is skewed significantly to the bottom 5% of scores



# Cumulative Bankruptcies Captured

Over 70% of all bankruptcies were captured in the bottom 10%





December 10, 2008

TRANSUNION BANKRUPTCY SCORE

Surprise Bankruptcy

# Surprise Bankruptcy

- Not all bankruptcies follow the same pattern

<b>Traditional Bankruptcy</b>	R1	R2	R3	R4	R5	R9
<b>Surprise Bankruptcy</b>	R1	R1	R1	R1	R1	R9

- Surprise bankruptcies seem to come out of nowhere, occurring with no previous serious delinquency prior to declaring a public record bankruptcy or tradeline bankruptcy
- The TransUnion Bankruptcy Score identifies potential surprise bankruptcies better than competing scores

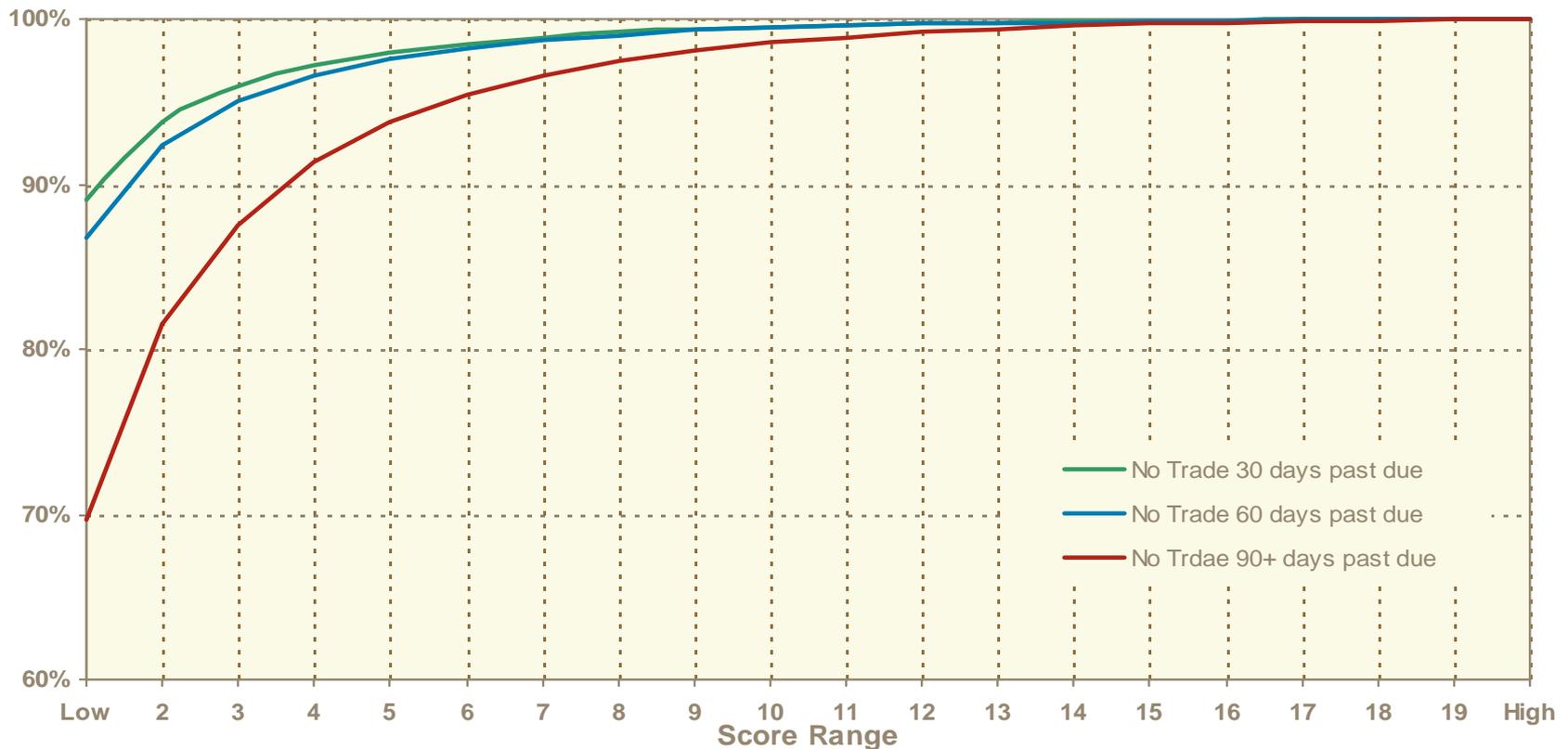
# Surprise Bankruptcy

The TransUnion Bankruptcy Score is an excellent tool for identifying surprise bankruptcies prior to loss

Surprise Category	% Bankrupts	Bottom 5%	Bottom 10%	Bottom 20%
# Trades 30 L12 Mths = 0	73.2%	89.0%	93.8%	97.2%
# Trades 60 L12 Mths = 0	80.9%	86.7%	92.4%	96.5%
# Trades 90+ L12 Mths = 0	29.0%	69.7%	81.5%	91.3%
# Trades 30 L24 Mths = 0	51.8%	88.2%	93.2%	96.9%
# Trades 60 L24 Mths = 0	62.4%	85.3%	91.5%	96.1%
# Trades 90+ L24 Mths = 0	21.9%	63.5%	77.5%	89.3%
Overall	100%	86.9%	92.7%	96.8%

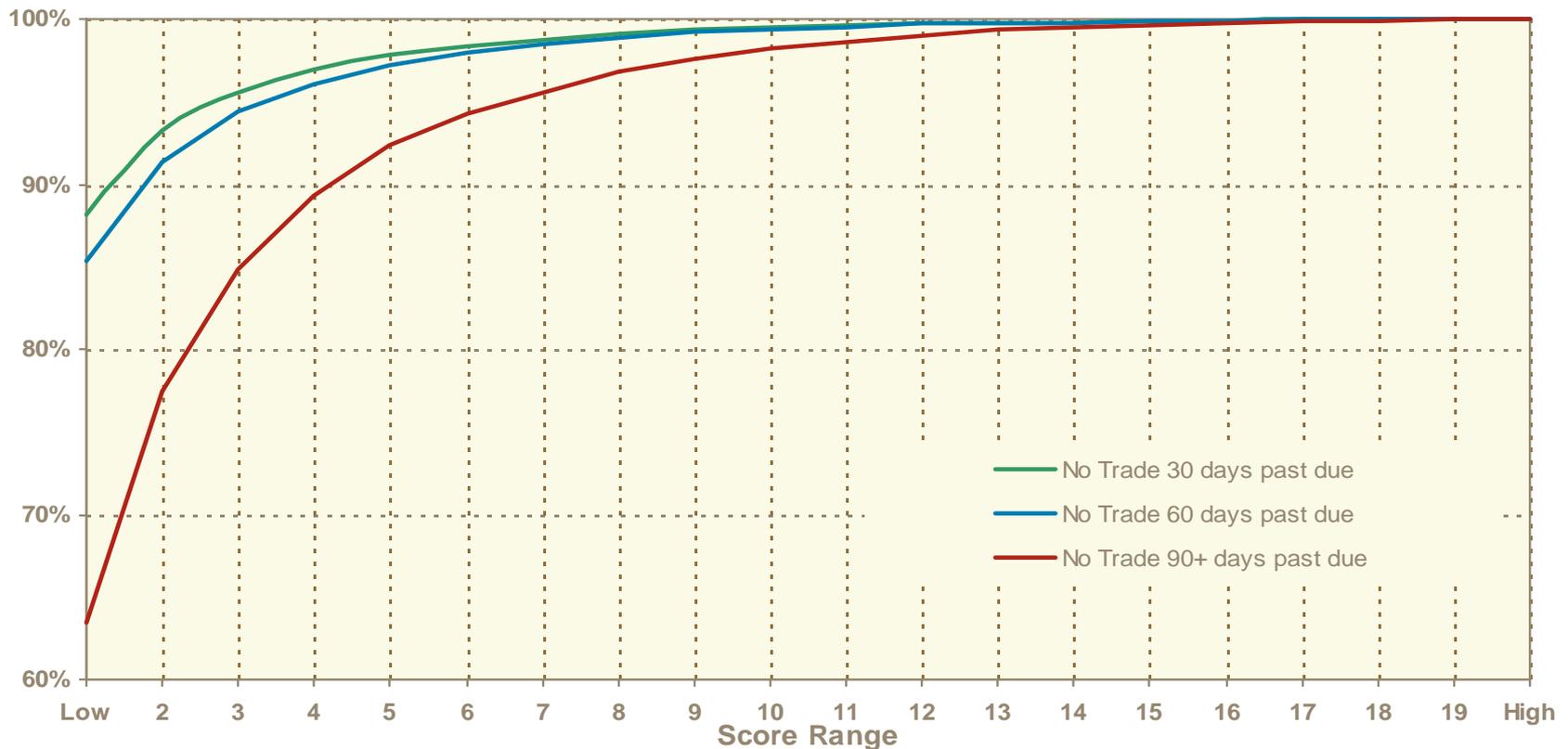
# Surprise Bankruptcy

For borrowers who were clean in the previous 12 months, over 81% of the surprise bankruptcies scored in the bottom 10%



# Surprise Bankruptcy

For borrowers who were clean in the previous 24 months, over 77% of the surprise bankruptcies scored in the bottom 10%





December 10, 2008

TRANSUNION BANKRUPTCY SCORE

# Dual Score Strategy

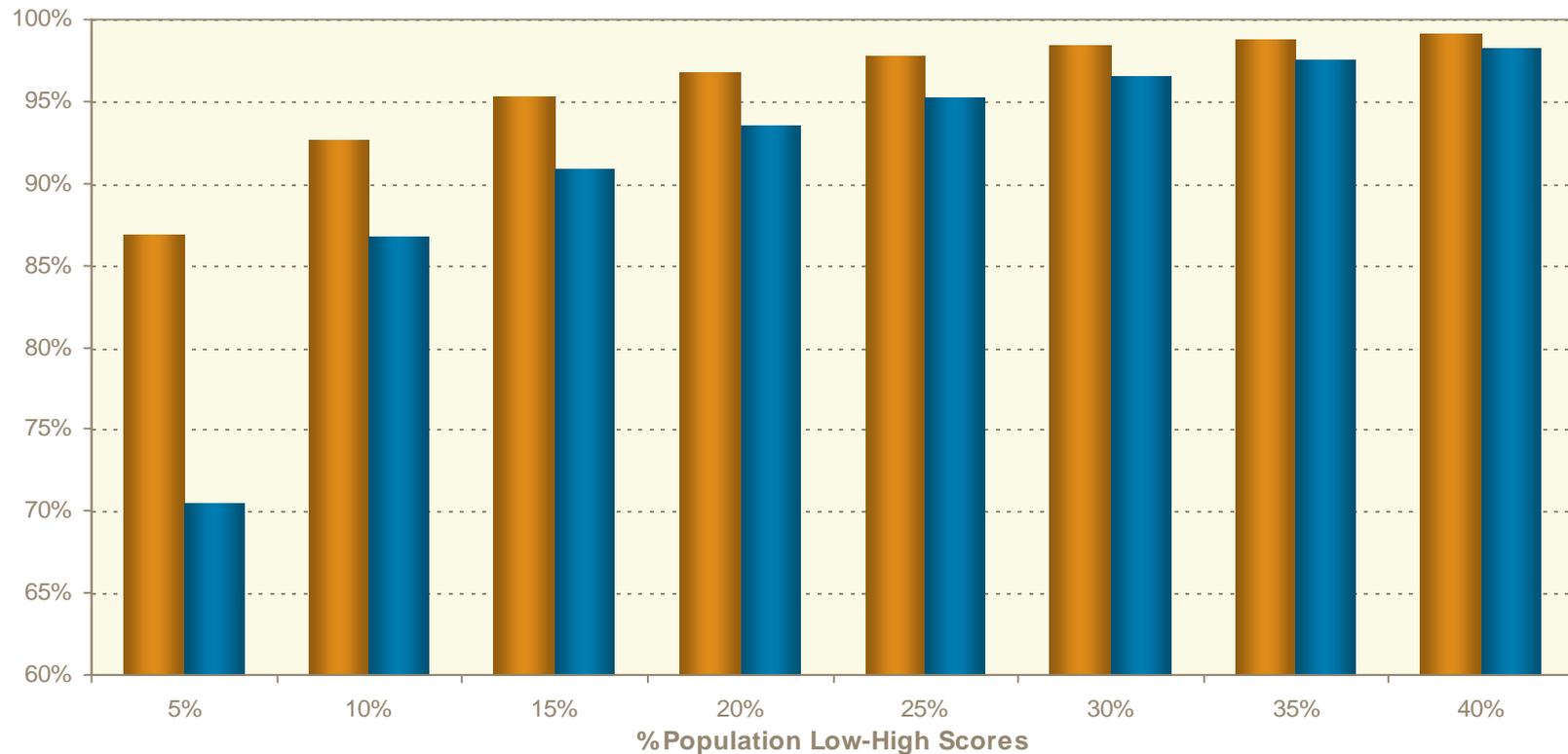
# Greater Insight, Protection and Opportunity

Using the TransUnion Bankruptcy Score in conjunction with a risk score offers greater insight into and protection from loss due to bankruptcy than a single score alone

- Better identify customers at risk for bankruptcy versus delinquency
- Decline potentially risky applicants
- Approve borderline applicants with a low risk of bankruptcy
- Balance your lending decisions

# Cumulative Bankruptcies Captured

The TransUnion Bankruptcy Score identifies significantly more bankruptcies in the bottom 5% than a traditional risk score



# Dual Score Strategy

Used alone, a risk score returns broad recommendations for handling customers and prospects in each risk category

TransUnion Risk Score					
Low	Low-Medium		Medium	Medium-High	High
Possible Negative Treatment			Minimal Treatment		Positive Treatment

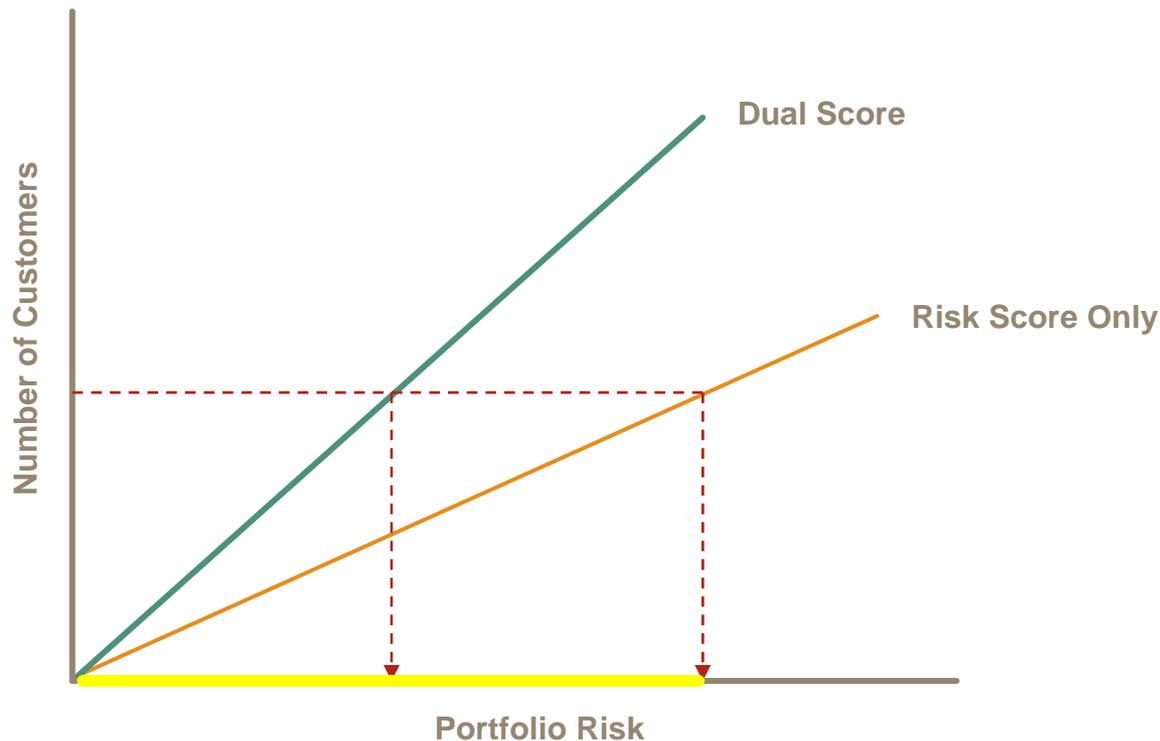
# Dual Score Strategy

Used in conjunction with the TransUnion Risk Score, the TransUnion Bankruptcy Score can provide a more nuanced picture of the true level of risk that a customer or prospect may pose

	TransUnion Risk Score				
TransUnion Bankruptcy Score	Low	Low-Medium	Medium	Medium-High	High
Low	<b>Possible Negative Treatment</b>				
Low-Medium	<b>Possible Negative Treatment</b>				
Medium	<b>Minimal Treatment</b>				
Medium-High				<b>Positive Treatment</b>	
High				<b>Positive Treatment</b>	

# Dual Score Strategy

Using two scores together can also reduce the level of risk in your portfolio overall



# Dual Score Performance

A Dual Score Strategy can swap risk for opportunity without reducing new accounts

% Bankruptcy Rate	TransUnion Risk Score										
	0 to 640	641 to 699	700 to 740	741 to 766	767 to 784	785 to 797	798 to 813	814 to 838	839 to 864	865 to 894	Total
<b>10 to 523</b>	38.09%	5.70%	3.67%	3.52%	4.90%	4.09%	4.53%	4.00%	3.20%	0.00%	<b>24.33%</b>
<b>524 to 603</b>	1.74%	1.13%	1.00%	0.82%	0.66%	0.62%	0.41%	0.54%	0.78%	0.85%	<b>1.09%</b>
<b>604 to 658</b>	0.80%	0.49%	0.44%	0.37%	0.32%	0.24%	0.27%	0.28%	0.18%	0.04%	<b>0.42%</b>
<b>659 to 699</b>	0.42%	0.29%	0.25%	0.21%	0.18%	0.12%	0.09%	0.15%	0.12%	0.05%	<b>0.19%</b>
<b>700 to 739</b>	0.27%	0.19%	0.17%	0.11%	0.10%	0.07%	0.08%	0.07%	0.06%	0.00%	<b>0.11%</b>
<b>740 to 775</b>	0.09%	0.13%	0.10%	0.09%	0.07%	0.04%	0.05%	0.04%	0.03%	0.02%	<b>0.06%</b>
<b>776 to 810</b>	0.07%	0.07%	0.07%	0.06%	0.04%	0.03%	0.03%	0.03%	0.02%	0.01%	<b>0.03%</b>
<b>811 to 844</b>	0.02%	0.05%	0.04%	0.06%	0.03%	0.01%	0.02%	0.01%	0.02%	0.01%	<b>0.02%</b>
<b>845 to 896</b>	0.02%	0.03%	0.03%	0.03%	0.02%	0.01%	0.01%	0.01%	0.01%	0.00%	<b>0.01%</b>
<b>897 to 999</b>	0.00%	0.04%	0.02%	0.01%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	<b>0.00%</b>
<b>Total</b>	<b>22.76%</b>	<b>1.79%</b>	<b>0.82%</b>	<b>0.43%</b>	<b>0.23%</b>	<b>0.10%</b>	<b>0.07%</b>	<b>0.05%</b>	<b>0.03%</b>	<b>0.01%</b>	<b>2.64%</b>

# Dual Score Strategy

## Account Management Best Practice

### Example

Lower Risk Account	\$200 average annual revenue
Higher Risk Account	(\$6,000) average loss

Using a risk score alone, a bank would decline 827 accounts		
135 bankruptcies	x \$6,000	\$810,000
692 lower risk accounts	x \$200	\$138,400
<b>Net Savings</b>	<b>\$671,600</b>	

Using a dual score strategy, a bank would decline 683 accounts		
150 bankruptcies	x \$6,000	\$900,000
533 lower risk accounts	x \$200	\$106,600
<b>Net Savings</b>	<b>\$793,400</b>	

# Dual Score Strategy

Multiple Advantages

