

Dear friend,

A recent Wall Street Journal article discussed how lenders who made it through the credit crisis are regrouping and “starting to take more chances on consumer loans.”

As they look for new growth, however, lenders must take a cautious approach and use a full range of tools, including credit scores, to help identify new credit customers. Recently, we released new research that has identified more than 60 million consumers whose credit scores are stable or improving and who represent potential opportunities for lenders. The same research also identified 11 million consumers who are likely to reflect a drop in credit quality over the next 12 months.

The ability to separate potential opportunities from potential pitfalls through improved underwriting and better use of consumer data, including credit scores, will help lenders make better decisions.

The research we undertake here at VantageScore Solutions, as well as the research done by other companies using VantageScore, is getting more attention from a wider audience that includes lenders, regulators, consumers and the media.

This installment of the NewsBlast features an analysis of super-prime borrowers (VantageScore range of 901-990)\* who undergo strategic default along with highlighting recent media coverage of our own research on loan modifications and their impact on credit scores.

As the credit starts to flow again, combining sound underwriting practices, accurate and consistent credit scoring and detailed analysis of credit scoring and risk trends will aid lenders in providing more consumers with the opportunities that having credit creates.

Sincerely,



Barrett Burns  
President & CEO

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\* VantageScore Solutions chose these credit tier ranges only for the purposes of research and general analysis. Lenders may determine their ranges in accordance with their own credit and risk management strategies.

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## **New Study Shows “Super-prime” Consumers More Likely to Undergo Strategic Default**

“Super-prime (VantageScore of 901-990) delinquents became strategic defaulters more often than the overall delinquent population, according to the recently released [Experian-Oliver Wyman Market Intelligence Report](#).

“Strategic default” is typically defined as the decision by a borrower to stop making payments on a debt despite having the financial ability to continue making payments according to the loan terms. In their report, Experian-Oliver Wyman further defines “strategic defaulters” as those who remained delinquent for six months after the initial date of delinquency. Studying statistics for the first half of 2009, the researchers found 355,000 homeowners strategically defaulted, representing a 53-percent increase over the same period in 2008.

Additionally, 28 percent of super-prime delinquents became strategic defaulters, which is a 50 percent higher rate than in the overall delinquent population, according to the study, which also found:

- Borrowers with multiple first mortgages, i.e., investors, showed a higher incidence of strategic default
- Consumers with higher mortgage origination balances are more likely to be strategic defaulters; this is true even after controlling for geography, number of first mortgages and VantageScore
- Fifty percent of strategic defaulters who went delinquent on their home-equity line of credit did so before they went delinquent on their mortgage, compared to 70 percent for the overall population.

VantageScore Solutions’ [research](#) on mortgage restructuring’s impact on credit scores, which included loan modifications, short-sales and foreclosures, revealed that a consumer with a starting VantageScore of 862, and with all current tradelines in good standing (that is, only an occasional past due), would experience a 130-140-point drop in the event of a foreclosure.

“If a consumer with a starting VantageScore of 862, which is considered ‘prime plus,’ can lose up to 140 points from a foreclosure, someone with a slightly higher score should be prepared for a major reduction,” said VantageScore Solutions President/CEO Barrett Burns. “Making the decision to willfully default on a mortgage is not only ethically questionable but it will take its toll on a credit score.”

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## Did You Know? Co-Signing a Credit Card Carries Benefits, Risks to Credit Score

Recently, a nationally syndicated columnist forwarded a question to VantageScore Solutions from one of his readers, the parent of a 20-year-old young man who had applied for a credit card and was required to have a parent co-sign the account.

The parent wanted to know if this new credit card would do anything to help the young man build his credit since it is guaranteed by a parent. The son already had one credit card in his own name.

It’s a question that many parents may be asking with the implementation of the “Credit Card Accountability, Responsibility and Disclosure (CARD) Act of 2009.” Under the CARD Act, consumers under the age of 21 must have a co-signer or an independent means of repaying the debt. Also, before the cardholder reaches age 21, the co-signer is required to approve in writing any increase in the credit limit.

The answer to the parent’s question above is that a new credit card will help the young man build his credit, provided that he manages the card responsibly, according to Sarah Davies, VantageScore Solutions’ Senior Vice President, Product Management, Analytics and Research.

Davies said even though a parent co-signed the application for the card, the new card is in the son’s name and the payment behavior and use of the new card will be reflected in the son’s files at the credit bureaus where the lender reports.

However, as a co-signer, the parent should know that the son's behavior with the card will be tracked to their credit bureau file as well. Any missed payments, high balances or charges that exceed the limit will negatively reflect on their bureau file. Therefore, the son and his parents should keep careful watch on the card activity, especially as it relates to making payments on-time and keeping balances low.

On average, payment history accounts for 32 percent of a VantageScore, with the utilization rate accounting for 23 percent.

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## VantageScore Solutions Research on Loan Modifications and Credit Scores in the Headlines

Several recently published articles have featured VantageScore Solutions' recent [research](#) on the impact of a variety of mortgage modifications and other actions on a consumer's credit score.

In a June 28 article, "Credit Scores Likely Victim of Mortgage Foreclosures," Chicago Tribune personal finance columnist Gail MarksJarvis wrote that "In the case of foreclosures, for example, a person who had a solid credit score before their housing nightmare could see it fall more than 15 percent under the system used by VantageScore..."

Her syndicated column can be seen here: <http://www.chicagotribune.com/business/yourmoney/sc-biz-0623-credit-20100623,0,1318715.column>

The same study was the focus of an article in the July 1 Origination News "Special Report: Loan Modification."

In his article, Origination News Associate Editor Brad Finkelstein noted that VantageScore Solutions' analysis "counters the popular notion that a consumer's credit score would take a big hit if his or her mortgage were to be modified."

"VantageScore found that forbearance or a modification had the least severe impact on the consumer's credit score," he continued. "On the other hand, the items where mortgage payments are eliminated through 'derogatory events' such as a short sale, a foreclosure or the borrower going into bankruptcy have a more severe impact on the credit score."

Finklestein also discussed VantageScore Solutions' findings on credit score rehabilitation:

"In a situation where the borrower's score has fallen to 625, if they are able to recast all of their debt, it only takes nine months to get back to being a prime credit (that is having a score of 700)," he wrote.

The full Origination News article is available at: [http://www.vantagescore.com/docs/Origination\\_News\\_Special\\_Report\\_July\\_2010.pdf](http://www.vantagescore.com/docs/Origination_News_Special_Report_July_2010.pdf)

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## VantageScore Solutions 2010 Conference and Event Schedule

### **Auto Finance Summit 2010**

Oct. 12-13

Encore at the Wynn Las Vegas

<http://www.regonline.com/register/checkin.aspx?EventId=836874>

### **NAHREP/AREAA National Real Estate and Marketing Conference**

Oct. 10-12

The Bellagio Las Vegas

<http://guest.cvent.com/EVENTS/Info/Summary.aspx?e=7af75e3c-84e5-4bc0-9991-b9b4f8c7a58f>

### **Risk Management Association Annual Risk Management Conference**

Oct. 17-19

Marriott Baltimore Waterfront Hotel

<http://www.rmahq.org/RMA/EventInfoandRegistration/RegisterforandFindEvent/default?EID=501201D&CID=RMC98>

### **ABA Annual Convention Business Expo & Directors' Forum**

Oct. 17-20

Hynes Convention Center / Sheraton Boston

Boston, MA

<http://www.aba.com/Events/Annual.htm>

### **American Financial Services Association 94th Annual Meeting**

Oct. 18-20

Omni Mandalay @ Las Colinas

Irving, Texas

[http://www.afsaonline.org/meetings\\_and\\_programs/meeting\\_information.cfm?meetingid=142](http://www.afsaonline.org/meetings_and_programs/meeting_information.cfm?meetingid=142)

### **MBA's 97th Annual Convention & Expo**

October 24-27, 2010

Georgia World Congress Center

Atlanta, GA

[http://events.mortgagebankers.org/97th\\_annual/default.html](http://events.mortgagebankers.org/97th_annual/default.html)

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## About VantageScore

VantageScore is the generic credit scoring model created by America's three major credit reporting companies. Our highly predictive model uses an innovative, patent-pending scoring methodology to provide lenders with a consistent interpretation of consumer credit files. This means lenders can help more creditworthy borrowers, and millions of Americans who use credit infrequently can be accurately scored.

# VANTAGESCORE®

The New Standard in Credit Scoring.

[VantageScore.com](http://VantageScore.com)