

2019 VANTAGESCORE MARKET STUDY REPORT

AUTHORS

Peter Carroll, Partner

Cosimo Schiavone, Principal

CONTEXT AND INTRODUCTION

Oliver Wyman was retained by Berens & Miller, P.A., on behalf of VantageScore Solutions, LLC., to gather and benchmark objective and unique market information regarding the use of VantageScore ("VS") credit scores throughout the United States.

Oliver Wyman asked the three credit reporting agencies, Equifax, Experian and TransUnion (hereinafter the "CRCs"), the owners of VantageScore, to provide data, independently, on the number of VantageScore credit scores each used between July 1, 2018 and June 30, 2019.

Credit scores are used by lenders and other industry participants to make credit decisions across the lifecycle of consumer loans: to pre-screen applicants, to underwrite and price new loans, and to manage existing accounts¹. The specific ways in which lenders incorporate scores into their credit processes vary significantly. For example, more sophisticated lenders (e.g., large banks, large credit card issuers, innovative FinTech lenders) tend to use a combination of third-party scores (e.g., VantageScore) and internal models (e.g., custom-built and product-specific credit scores) to make decisions across the loan lifecycle. Smaller lenders, by contrast, often rely almost entirely on third-party scores for their decisioning.

VantageScore is one of several credit scoring models used by industry participants. Others include credit scoring models that the CRCs have individually developed as well as multiple versions of FICO models. This report focuses exclusively on VantageScore adoption without considering the use of other scoring models.

SUMMARY OF RESULTS

This year's market study confirms that VantageScore credit scores continue to be used across the entire lifecycle of consumer lending and across every relevant category except mortgage originations². In the 12-month period between July 1, 2018 and June 30, 2019, approximately 12.3 billion VantageScore credit scores were used by more than 2,500 users – this is approximately a 19% increase in the number of scores vs. last year's study. Over the past four years, VantageScore has maintained a strong growth trend – since June 2015, VantageScore usage has grown ~20% per year. The large increase in VS score use was most pronounced at banks & thrifts and consumer websites (this channel has become key for marketing, generating leads, and engaging with customers).

¹ Other use cases could include model building, stress-testing, loan loss reserving, etc.

² This is perhaps not surprising, given the fact that Fannie Mae, Freddie Mac and the FHA have historically mandated the use of several models of only one credit scoring company (and not VS) for their mortgage underwriting process.

The table below summarizes the number of VantageScore credit scores used by category and the change relative to last year's study:

CATEGORY OF USER	TOTAL USAGE OF VS CREDIT SCORES		
	# USED (MILLIONS)	% OF TOTAL	Δ SCORES (2019 VS.2018)
Credit card issuers	4,186	34%	-5%
Personal and installment loan companies	809	7%	+3%
Auto lenders	131	1%	+25%
Mortgage lenders	79	1%	-2%
Credit unions (not attributable to specific lines of business) ³	35	~0%	+189%
Banks (not attributable to specific lines of business) ³	2,206	18%	+121%
Subtotal: Financial Institutions	7,445	60%	+17%
Tenant screening, telecommunications, utility	67	1%	+295%
Consumer websites	3,073	25%	+35%
Government entities	877	7%	+392%
Other	854	7%	-44%
Subtotal: Non-Financial Institutions	4,871	40%	+22%
Total number of VS credit scores used	12,316	100%	+19%

Results: Financial Institutions

Financial Institutions represented by far the largest category of users: more than 2,160 unique entities pulled approximately 7.4 billion scores, or almost 60% of all VantageScore credit scores; this is approximately a 17% increase in the number of scores vs. last year's study. Overall, approximately 357 million VS credit scores were used in association with underwriting or account opening decisions (64% increase relative to last year's study). Nine of the 10 largest banks and 29 of the 100 largest credit unions used VantageScore credit scores in one or more lines of business. While use was widespread, the depth and volume of use varied considerably across the banks, credit unions, and other lenders on these lists.

Credit Card Issuers

Credit card issuers used approximately 4.2 billion VantageScore credit scores (this represents a 0.2 billion reduction vs. last year's study). The most prevalent use cases were for credit card issuers to pre-screen applicants and manage existing accounts (e.g., credit line increase/decrease decisions, risk assessment of portfolio, loss forecasting, etc.) Heavy usage by card issuers is not surprising: a large card company may issue 5 million new cards in a year, but many refresh and review the credit score on each existing account on a monthly basis. Likewise, pre-screened direct-mail campaigns aimed at attracting new borrowers typically see conversion rates in the low single digits, and thus scores pulled for

³ These categories include scores used by credit unions and banks, respectively, which we were not able to attribute to any specific line of business.

marketing greatly outnumber those pulled to underwrite new accounts. We were able to identify approximately 93 million scores associated with account opening decisions (25 million more than last year's figures).

Consumer and Personal Lenders

Consumer and personal lenders, many of which are so-called "marketplace" lenders, were also users of VantageScore credit scores. This category also includes point-of-sale financing companies and installment lenders, some of which lend also to underserved populations. In total, consumer and personal lenders used approximately 809 million VantageScore credit scores, of which more than 150 million were used for underwriting or account opening decisions. This represents a significant increase relative to last year's figures, with approximately 50 million additional scores used for underwriting or account opening decisions.

Auto Lenders

Several major auto lenders used VantageScore credit scores to provide auto and/or truck financing to their customers. Auto lenders used approximately 131 million VantageScore credit scores (26 million more than last year's study), at least 38 million of which were used for underwriting or account opening decisions. Specialty consumer financing companies and captives (of the major auto manufacturers) represented the majority of the users, followed by banks. This is in line with last year's study.

Credit Unions

Credit unions were also users of VantageScore credit scores: 29 of the top 100 credit unions were joined by many smaller credit unions in using a total of approximately 35 million VantageScore credit scores (22 million more than last year), of which nearly 1.7 million were used for underwriting or account opening decisions.

Results: Non-Financial Institutions

Adoption among non-Financial Institutions was also considerable: landlords (tenant screening), telecommunications providers, utilities companies, consumer websites, government entities, asset managers, resellers⁴, retailers, marketing/analytics companies and others used approximately 4.9 billion VantageScore credit scores.

More specifically, in the category of non-Financial Institutions, consumer websites used approximately 3.1 billion VantageScore credit scores (0.8 billion more than last year's study). In the last several years, many websites (e.g., account aggregators, personal finance management providers, and online and mobile banking portals) have started offering consumers the ability to check their credit scores (often at no charge). Many of these websites also provide educational tools and advice to help consumers understand and improve their credit scores. Overall, there are many players, but only a handful dominate the space.

⁴ Resellers are firms that strike broad agreements with one or more of the CRCs to purchase scores 'wholesale' and then re-sell them to users in other sectors, including for example insurance.

Several investment firms (17 in this study) also used VantageScore credit scores as part of their investment decision-making. For example, investors may use scores through third-party services to analyze bonds backed by pools of loans for stress testing and valuation purposes.

METHODOLOGY

Berens & Miller and Oliver Wyman asked each of the three CRCs to provide their respective data on the total number of VantageScore credit scores used between July 1, 2018 and June 30, 2019, segregated by the following categories of entities or end-users: (a) mortgage originators; (b) credit card issuers; (c) auto lenders; (d) banks and thrifts⁵; (e) credit unions; (f) consumer websites; (g) government entities; (h) consumer lending/person loan providers; and (i) tenant screening companies, telcos, utilities, and others. The CRCs were also asked to divide the data regarding the number of VantageScore credit scores used by method (i.e. batch-pull vs. online/real-time pull) and by purpose (i.e. pre-screen/pre-select/pre-approve, underwriting/account origination, portfolio management/account review, and other) – when such data were available.

The data from each individual CRC were never provided to either of the other two CRCs. In addition, VantageScore Solutions, LLC was never provided with any of the raw market data from any of the three individual CRCs. VantageScore only receives a summary of deduped, anonymized data. Oliver Wyman has conducted quality checks on the data received to perform aggregate-level, anonymized analysis; however, Oliver Wyman assumes no responsibility for the accuracy or completeness of the information provided by each of the individual CRCs.

⁵ This captures the use of VantageScore credit scores when it was not possible to attribute that use to any specific line of business.

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting. With offices in 50+ cities across nearly 30 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has about 4,500 professionals around the world who help clients optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC].

For more information, visit www.oliverwyman.com. Follow Oliver Wyman on Twitter @OliverWyman

www.oliverwyman.com

Copyright © 2018 Oliver Wyman

All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and Oliver Wyman accepts no liability whatsoever for the actions of third parties in this respect.

The information and opinions in this report were prepared by Oliver Wyman. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisors. Oliver Wyman has made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Oliver Wyman disclaims any responsibility to update the information or conclusions in this report. Oliver Wyman accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages. The report is not an offer to buy or sell securities or a solicitation of an offer to buy or sell securities. This report may not be sold without the written consent of Oliver Wyman.