Systemic Shifts in Consumer Risk

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Summary of Findings

- The latest VantageScore analyses demonstrate:
  - Risk is increasing at an accelerated pace for prime and super-prime credit tiers in all product sectors.
  - Risk levels have recently leveled off for sub-prime consumers with consumer mortgage loans.
  - Risk at the sub-prime level in all other industries continued to climb.
  - Portfolio risk shows considerable increase, suggesting lenders should be reviewing score cutoff strategies and should be validating their score models.
  - While still a small percentage of the overall population, some U.S. consumers are beginning to pay other debts ahead of mortgages.

- <u>What we did</u>
  - Risk levels were measured for consumer mortgage, auto loans and bankcards across five distinct two-year time periods for the most common VantageScore credit tiers: 591-930. (The full VantageScore range is from 501-990, where a higher number indicates lower risk).
  - The graphs for consumer real estate, bankcards and auto loans in the document illustrate the percent of consumers who became 90+ days past due on new loans at each score band for each of the two-year time periods.
  - Increased risk is present when a line on the graph for a particular time-period is higher on the vertical axis than prior time periods for the same score band.

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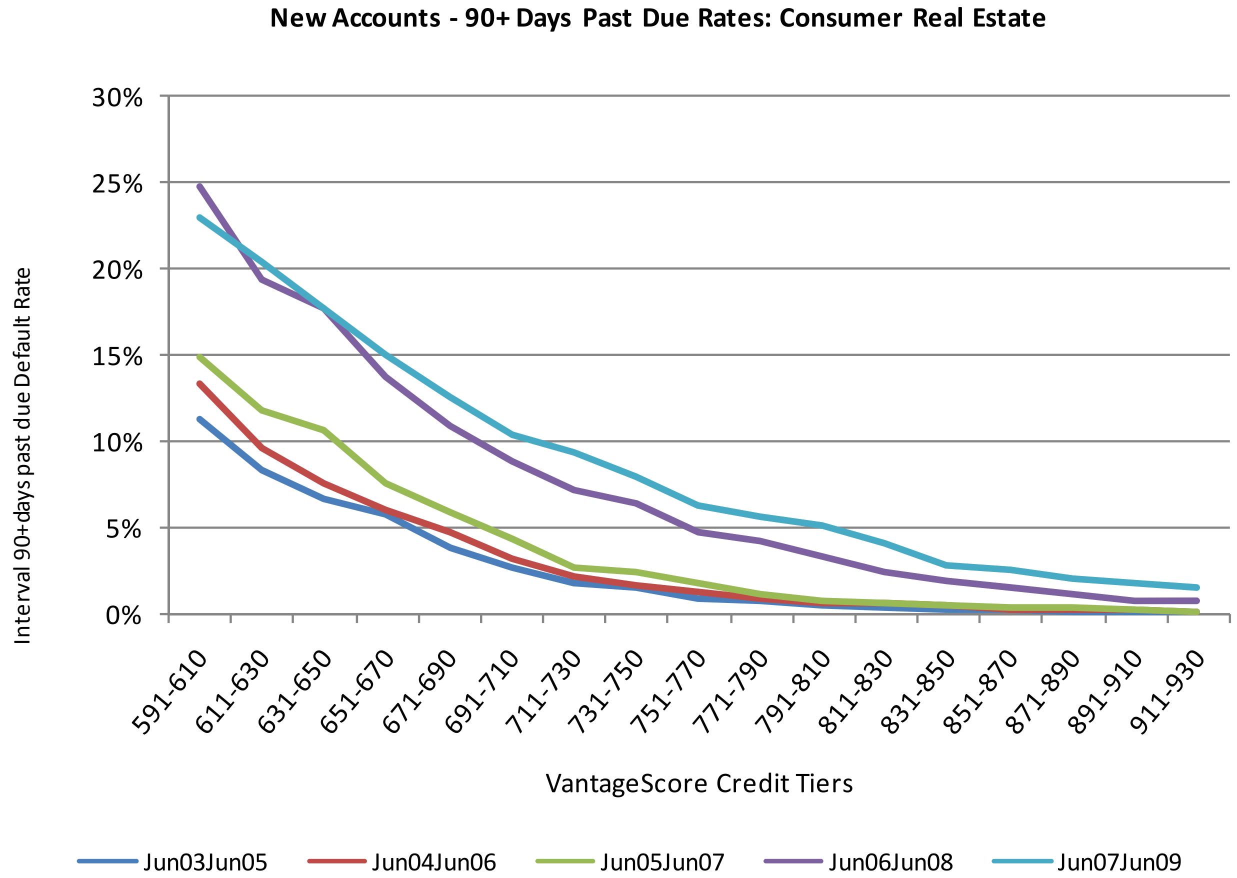
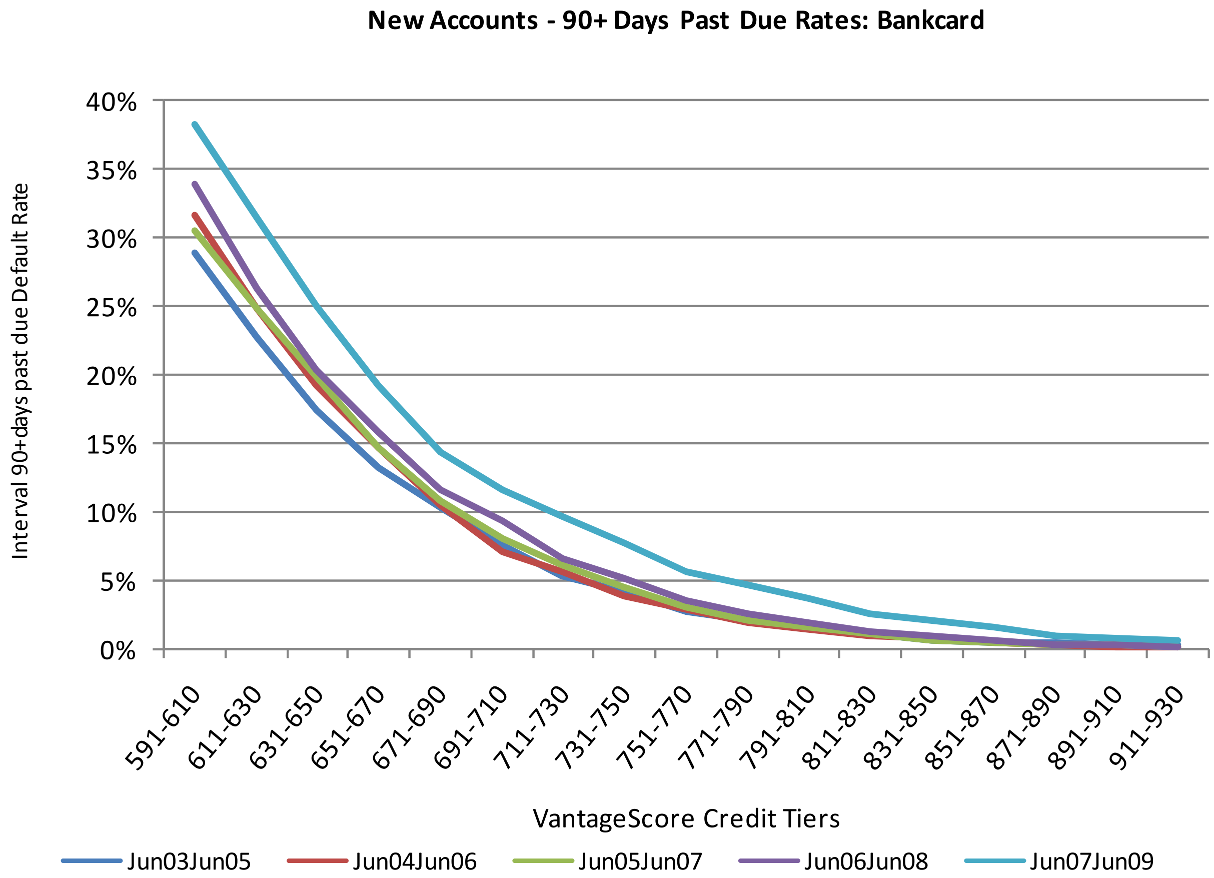
Consumer Mortgage Loans: Prime & Super Prime Risk Increasing while Subprime Improves



- The June2007-June2009 time period shows risk improving over the previous period for the lowest score band, while increasing 100% at the highest-end credit quality tiers.

- Risk was fairly stable for the first three time periods at the mid-prime through super-prime quality levels.

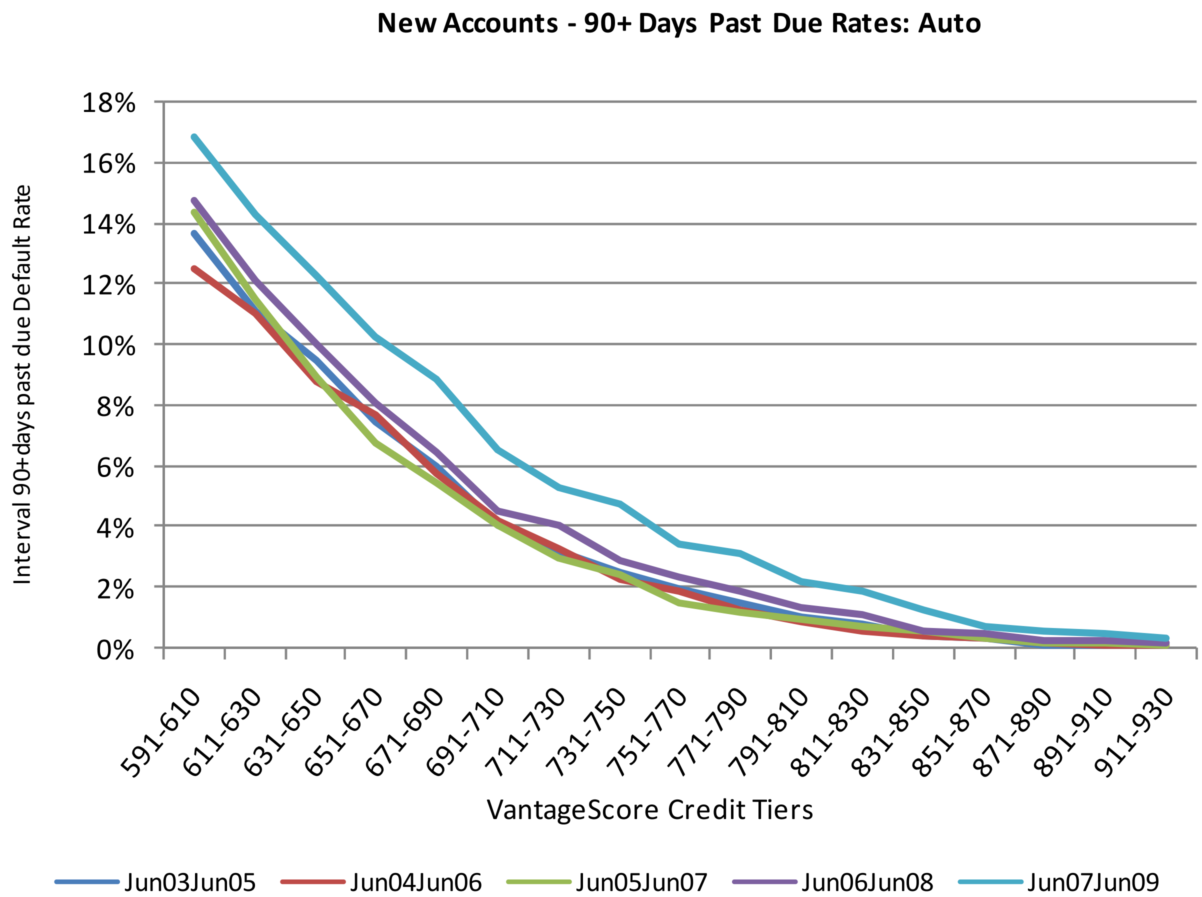
Bankcards: Significant risk increase seen in latest time period, at all consumer credit quality levels



- Over the first four time periods, risk had been increasing at the lower end credit tiers, while remaining stable at the mid-prime through super-prime levels.

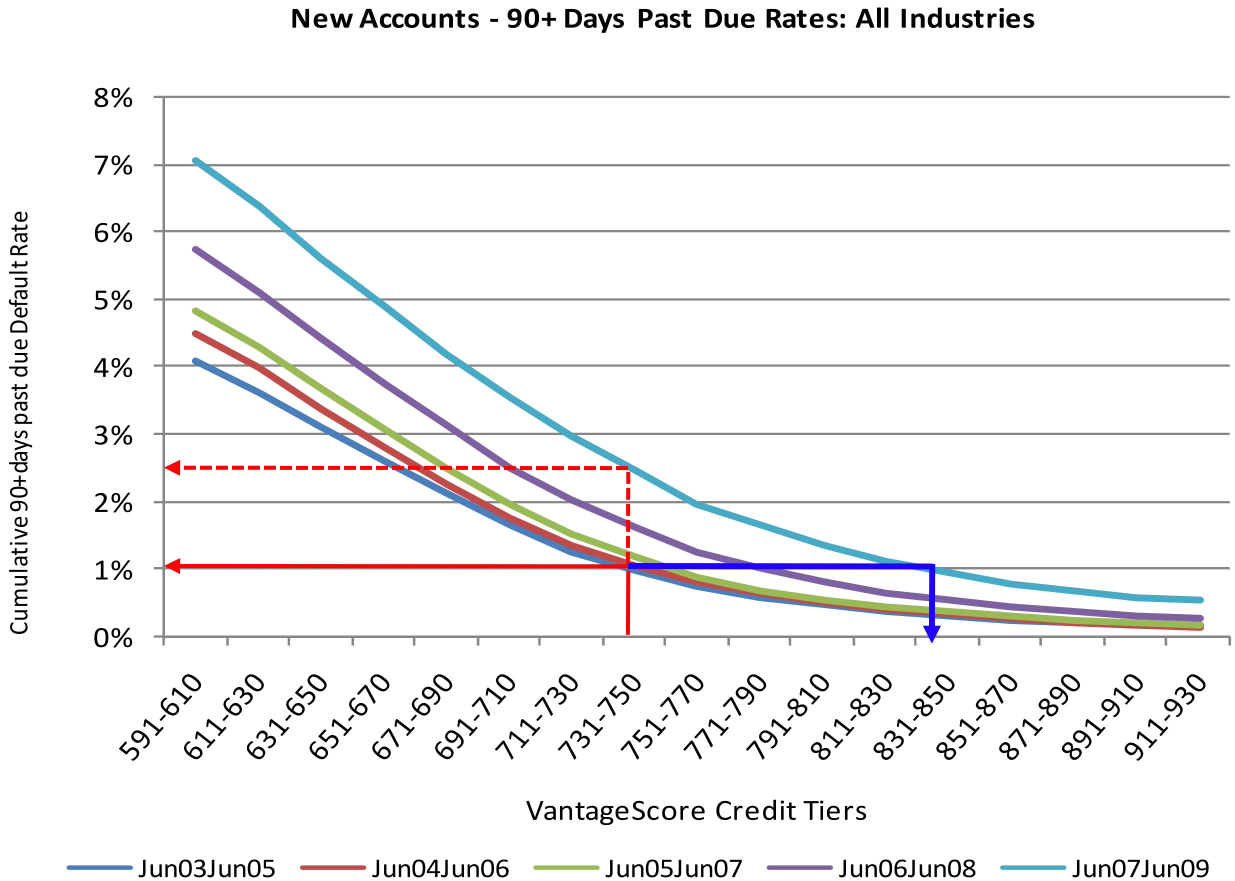
- The June2007-June2009 timeframe shows risk increasing at all credit tiers, including super-prime for the first time.

Auto Loans: Significant risk increase



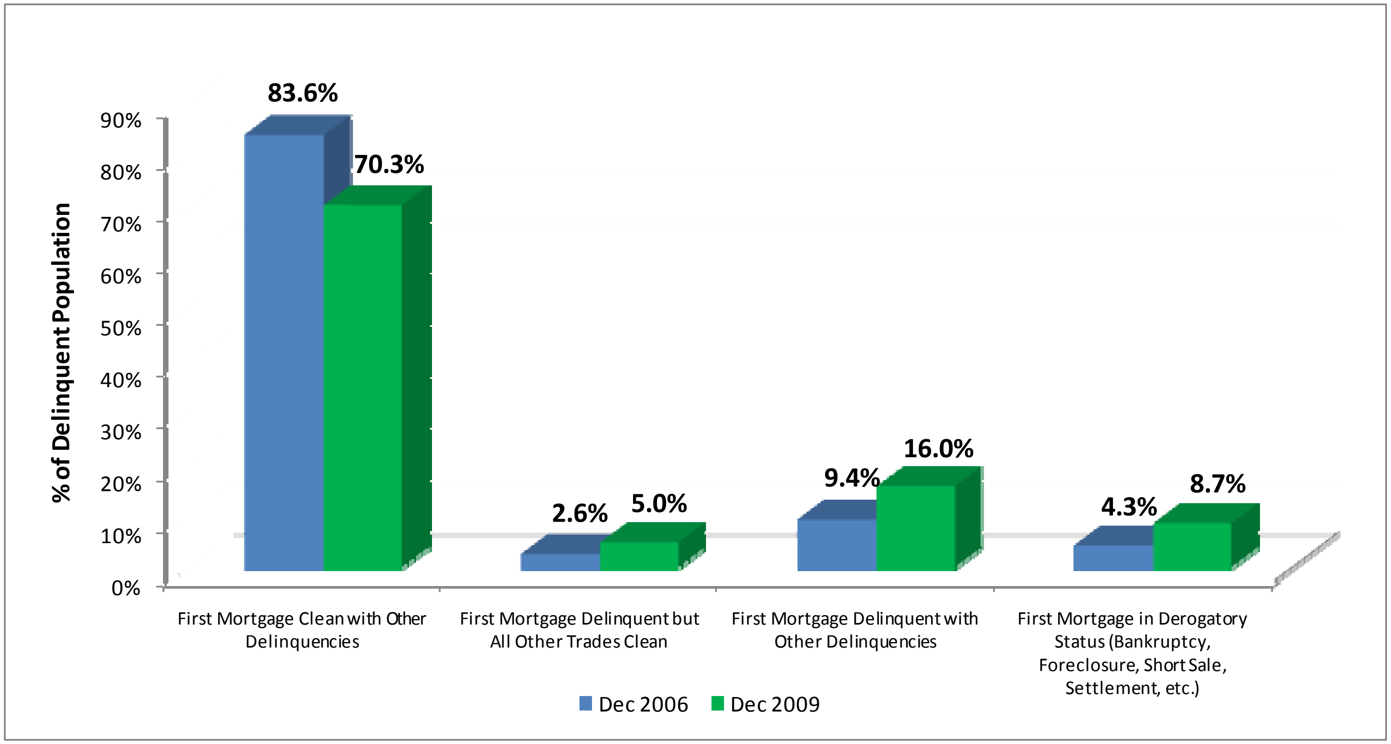
- The June2007-June2009 time period indicates a large jump in risk at all score bands, including super-prime, over the previous four periods.
- Sub-prime scores saw an improvement in the second time period, June2004-June2006, but increases occurred in each subsequent timeframe at this credit quality level.

Impact to Portfolio Risk from consumer credit defaults over the last six years suggests lenders should carefully review strategies



- Lenders using a 1% default strategy in 2003 would have set a cutoff of 750 for a VantageScore credit score (solid red arrow).
- In 2009, the same score cutoff would have resulted in a 2.5% default scenario (dashed red arrow).
- To maintain 1%, lenders would need to move the cutoff to VantageScore 850 (blue arrow). The full VantageScore scale is 501-990.

Payment Behavior is Shifting: For consumers who have at least one delinquent trade, mortgage payment as the priority is changing



- Fewer consumers who maintained clean mortgage payment behavior (although had delinquencies in their credit file on other trade lines) in December 2006 remained current on their mortgage in December 2009; a 16% drop in mortgages remaining current. (First group on left).
- The percentage of consumers who have a delinquent mortgage while maintaining all other debts in good standing has increased by almost 90%. (See second group in graph above.)
- It's suggested that lenders monitor payment behavior trends within their own portfolios for similar shifts.

* Clean: Debts maintained in good standing, although an occasional 30-day delinquency may have occurred.