Credit Scores

Credit scoring is the primary risk management tool used by banks to manage the credit risk associated with new retail loans.

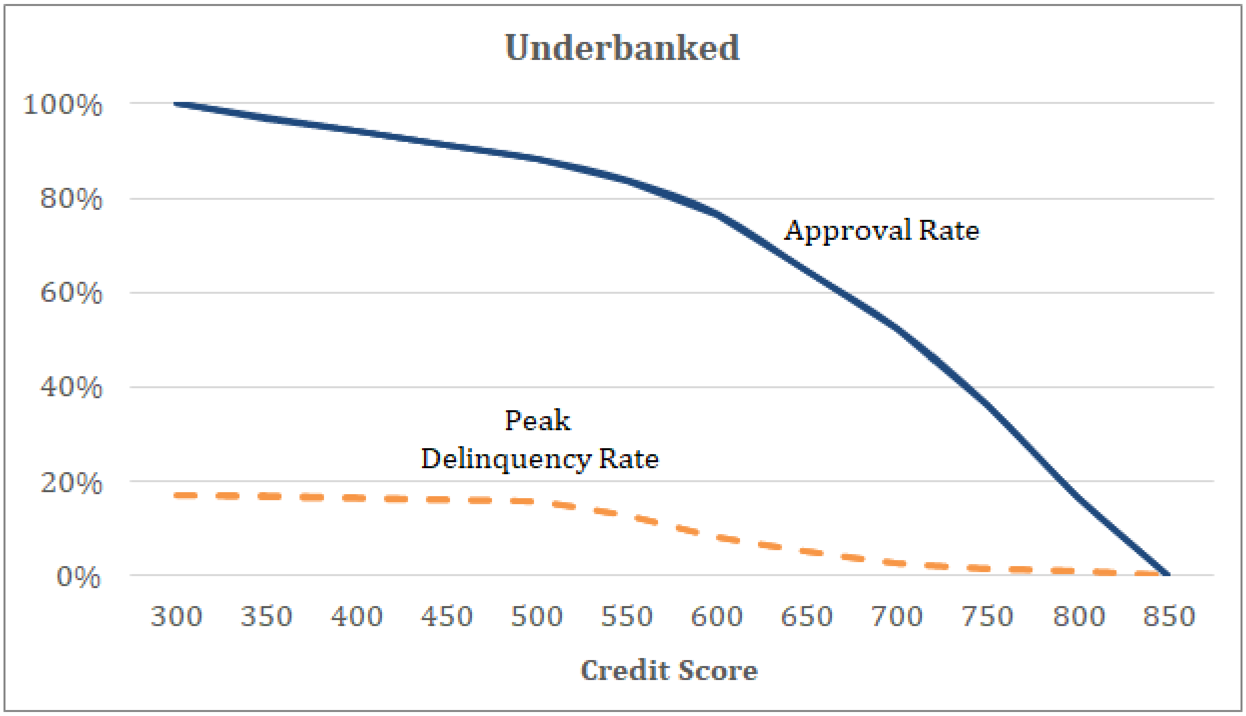
Credit Scores	Approval Rates	New Customers	Loan Losses
↗	↘	↘	↘
As you raise your Credit Scores…	...your approval rates will drop…	…leading to fewer new customers….	…but your credit losses will go down

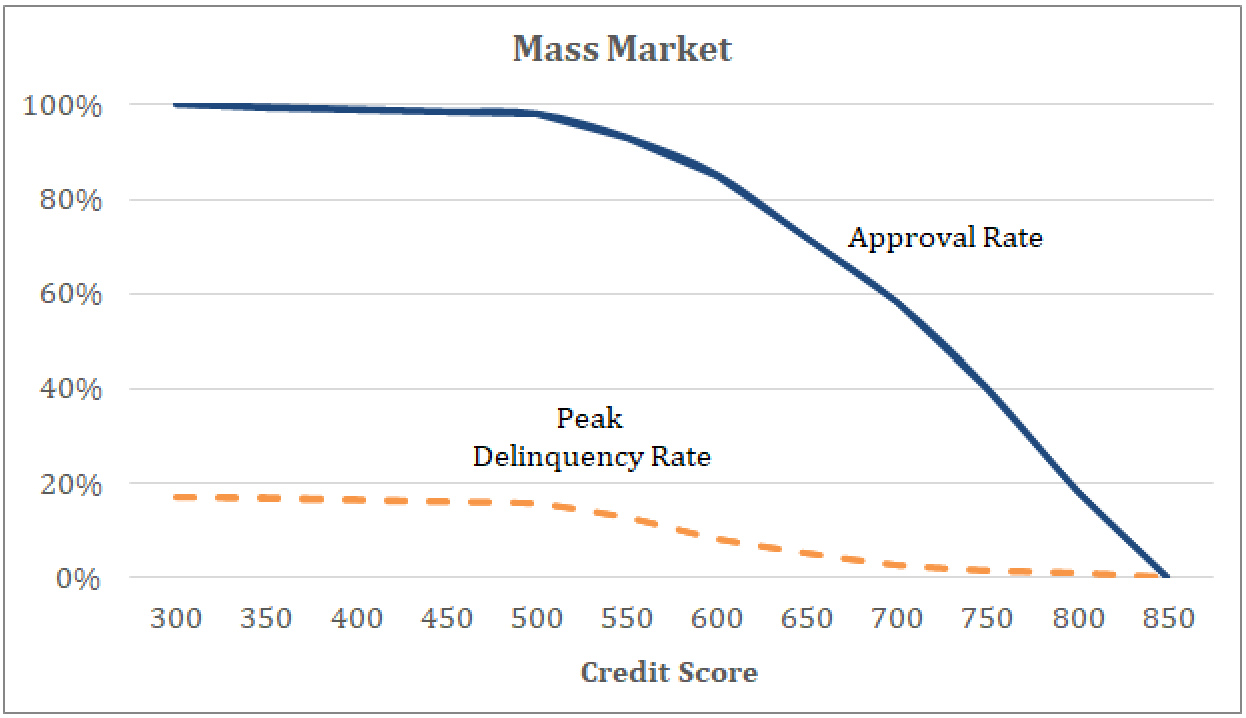
Credit scoring models create a credit score number for every applicant, based on input such as the applicant's income, age, payment history, credit bureau rating etc. The lower a credit score, the higher the risk associated with the applicant. To manage credit risk, banks set minimum credit scores. Applicants with credit scores above this minimum are approved. Applicants with credit scores below this minimum are declined.

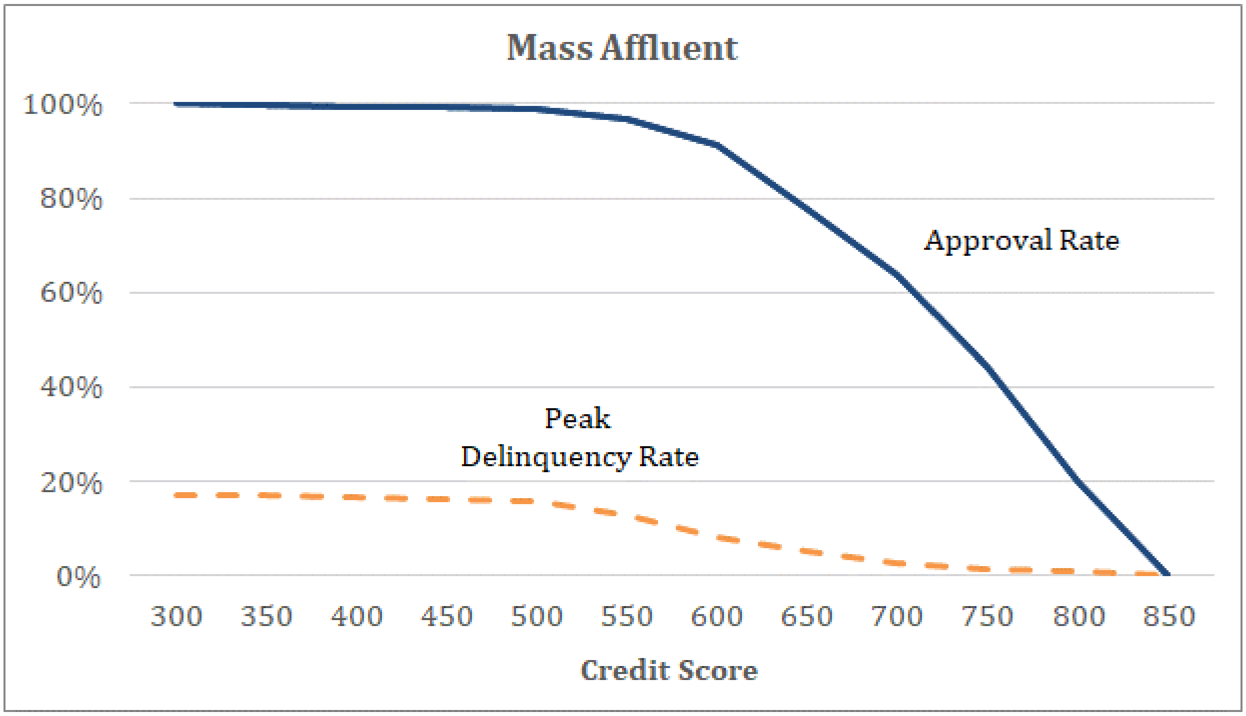
As you raise the minimum credit score for a specific customer segment, you are raising your credit standards. As a result, your approval rates will go down (making it harder to book new loans), but the quality of your portfolio will improve (leading to fewer delinquent loans). Conversely, as you lower the minimum credit score for a specific customer segment, you are lowering your credit standards. This raises your approval rates (making it easier to grow the portfolio), but the quality of your portfolio will decline.

In evaluating this decision area, you will need to balance loan growth with loan quality. The charts below show you the approval rates you can expect for different minimum credit scores in each customer segment, along with expected peak delinquency rates. Keep in mind:

- The actual delinquency rates you experience will be different than these peak delinquency rates (depending upon the age or "vintage" of the loan portfolio).
- Adjusting your credit score only impacts new loans


Underbanked
100%
80%
60%
40%
20%
0%
Approval Rate
Peak
Delinquency Rate
300 350 400 450 500 550 600 650 700 750 800 850
Credit Score


Mass Market
100%
80%
60%
40%
20%
0%
Approval Rate
Peak
Delinquency Rate
300 350 400 450 500 550 600 650 700 750 800 850
Credit Score


Mass Affluent
100%
80%
60%
40%
20%
0%
Approval Rate
Peak
Delinquency Rate
300
350
400
450
500
550
600
650
700
750
800
850
Credit Score