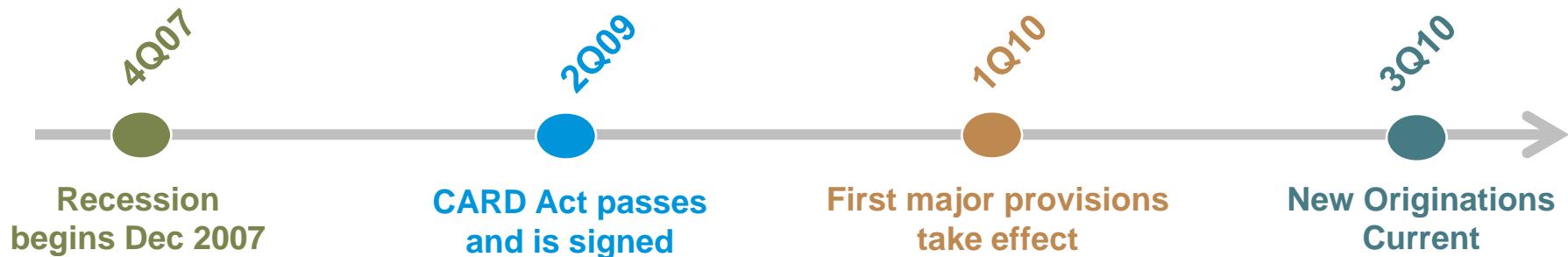# CFPB CARD Act Conference

2/22/11

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Origination Metrics

Agenda

- Data overview

- Bankcard origination trends

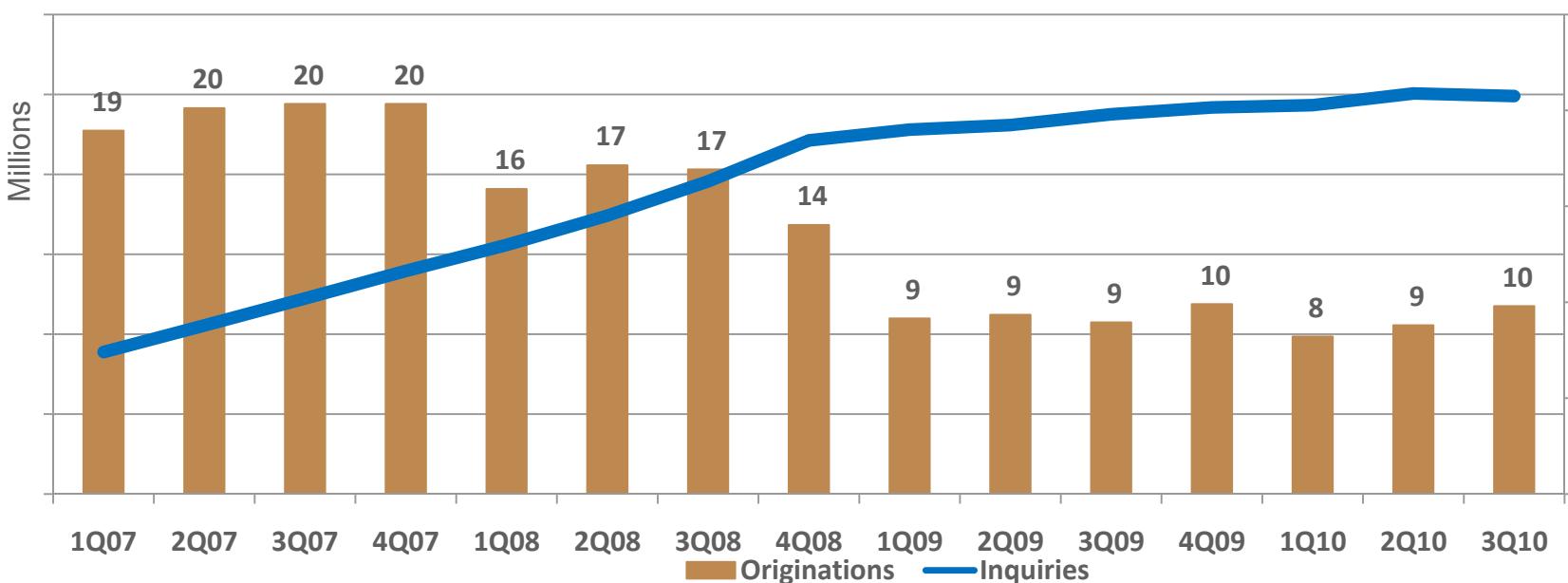- Profile of consumers at time of origination

- Conclusions

Data Overview

- All data sourced from the Experian national consumer credit database
- Each quarter is a snapshot of new Bankcard originations
- Key dates:

4Q07
Recession begins Dec 2007

2Q09
CARD Act passes and is signed

1Q10
First major provisions take effect

3Q10
New Originations Current

- References to time periods or events may correspond to market trends, but no causation is implied.
- The recession, the anticipation/passing/enactment of the CARD Act, as well as the economic recovery are intertwined and their interdependency must be considered in drawing any conclusions regarding card Bankcard origination volumes.
- There is a lag of new account reporting to credit bureaus. For Bankcards, holding new originations for a quarter before reporting provides an accurate view of new accounts for the time period.
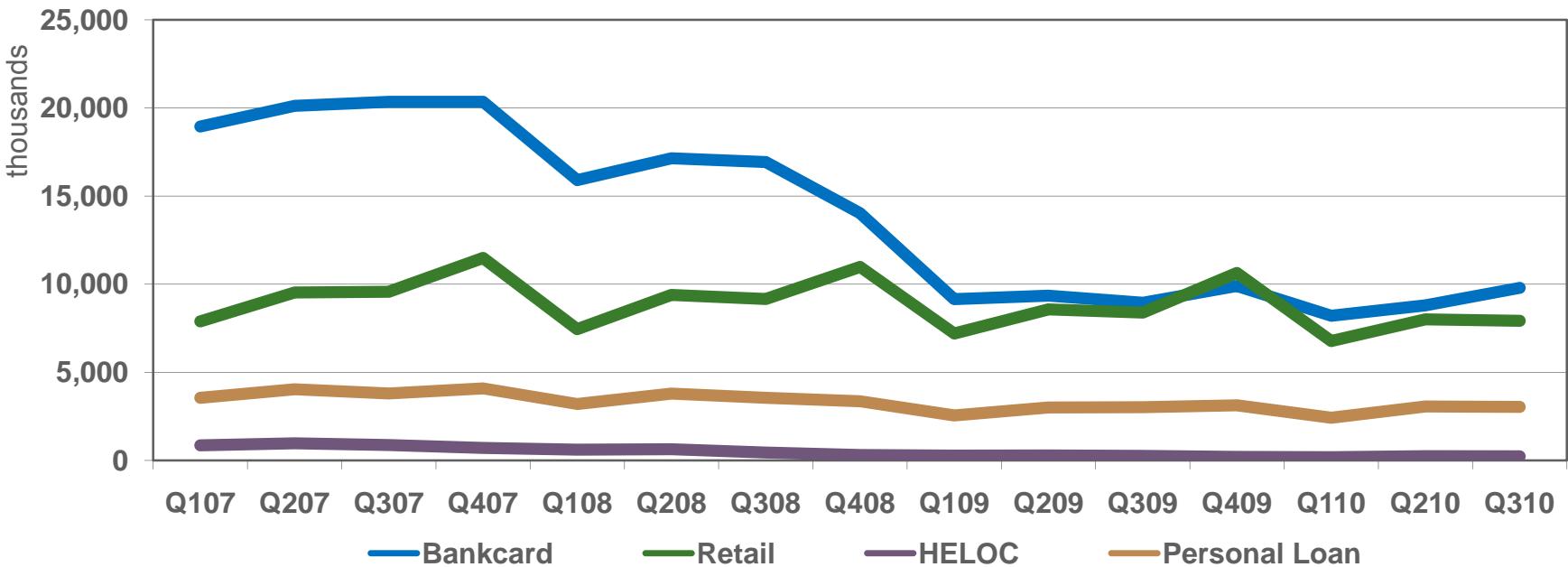
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Bankcard Trends

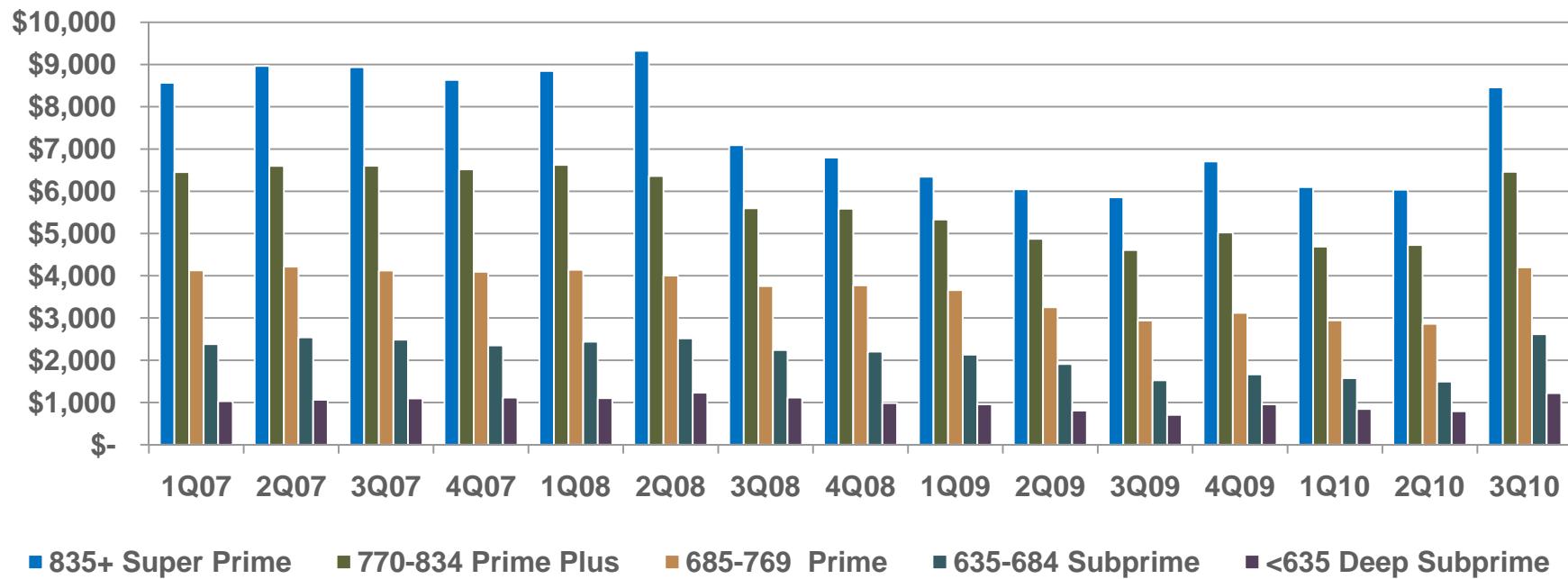# Total originations and hard inquiries for bankcards

- Hard Bankcard inquiries are generated when a consumer <u>applies</u> for a Bankcard. The inquiry is added to a consumer's credit file.
- The relationship between number of inquires and number of originations demonstrates how many consumers are looking for Bankcards and how many are approved.
- Even though originations decreased quarter over quarter by 22% in 1Q08, the rate of increase of hard Bankcard inquiries stayed constant at 1.5%. The slow down of inquiries didn't begin until 1Q09.

Quantity of inquiries intentionally left blank to protect market share disclosure

Originations by product
Number new accounts

- New Bankcards and HELOC originations decreased by more than 50% since 4Q07.
- Retail/private label cads, Home Equity Lines of Credit (HELOC), and personal loans are used as substitutes for Bankcards by some consumers.
- Payday lending is another substitute but those loans are not reported to the credit bureaus.
- Retail experienced seasonal peaks in 4th quarters each year, with subsequent troughs in the 1st quarters.
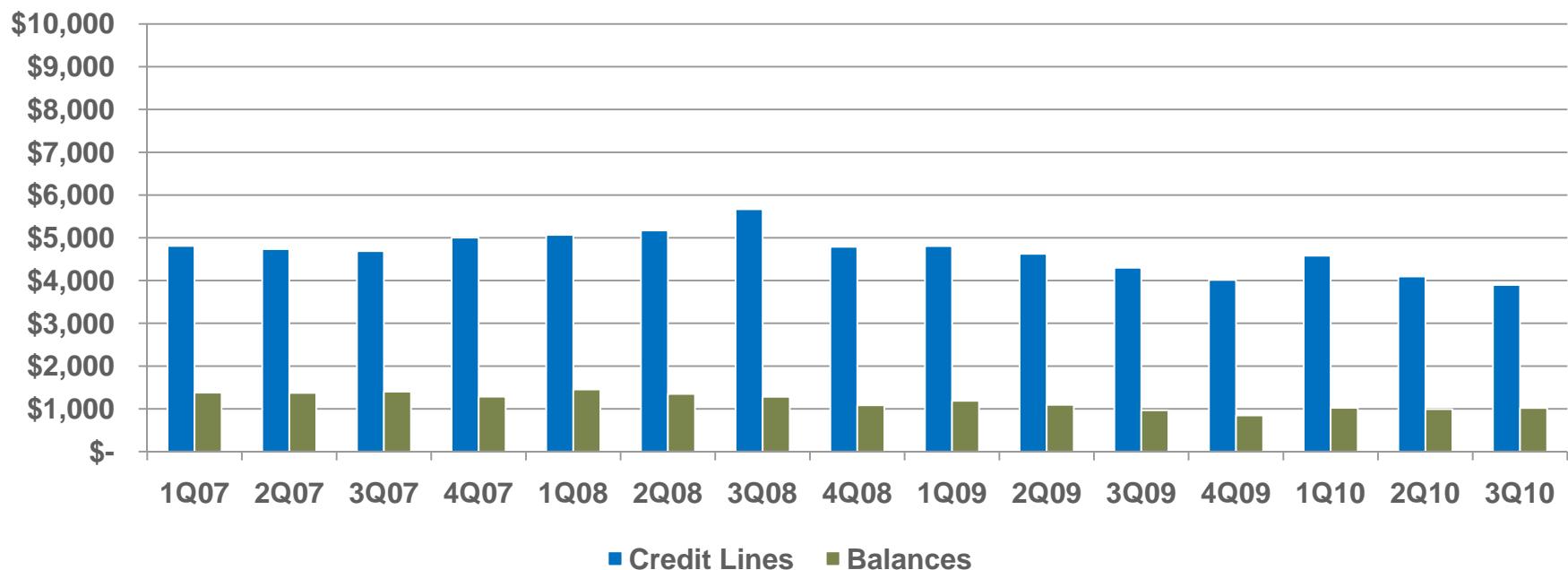
Average credit lines by VantageScore®
On new bankcards

Legend: ■ 835+ Super Prime   ■ 770-834 Prime Plus   ■ 685-769 Prime   ■ 635-684 Subprime   ■ <635 Deep Subprime
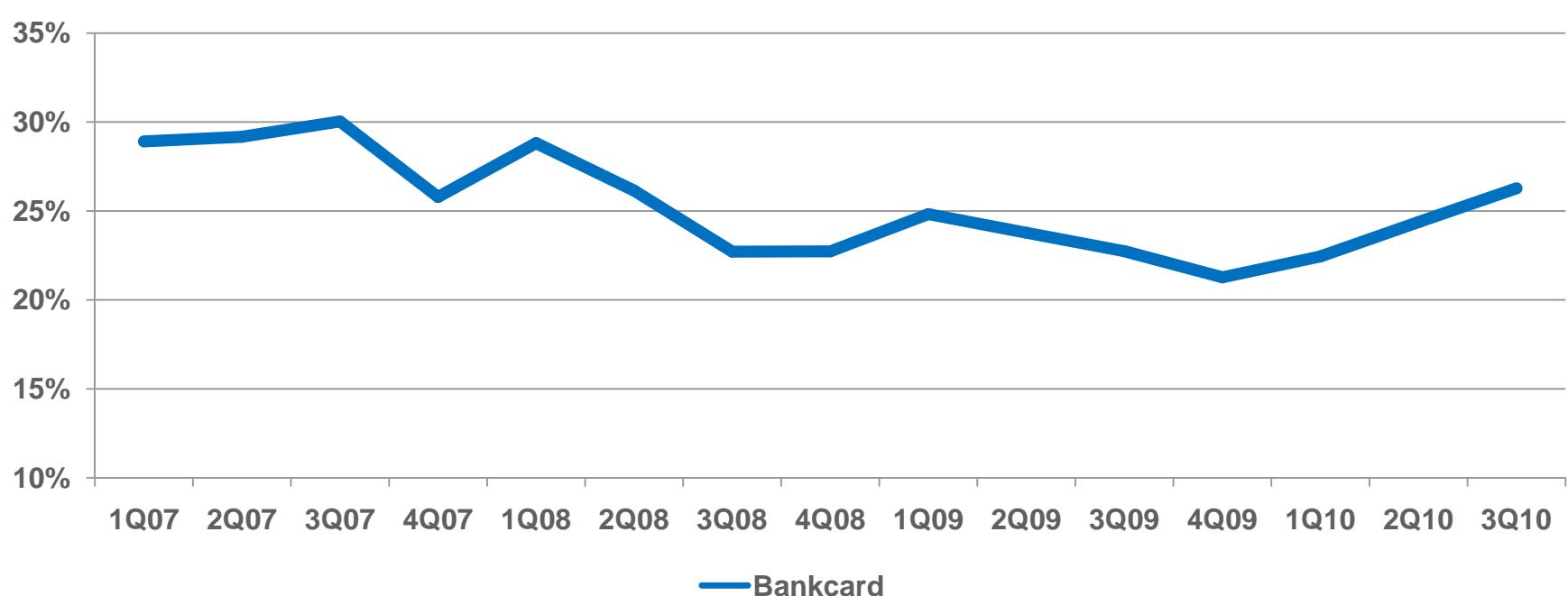
- Average credit line (credit limit) for Super prime decreased 24% from 2Q08-3Q08.
- Difference between the credit line for Super prime and Deep subprime was $7500-$8000 prior to 3Q08.
- Between 3Q08 and 2Q10 difference was $5000-$6000.
- In 3Q10 difference expanded to $7200.

Average credit lines and balances
On new bankcards

- Average credit line peaked in 3Q08 and 1Q10.
- Credit line were are at the lowest period (just under $4000) in the 3Q10 time period.
- Average balance (almost $1500) peaked in 1Q08.
- The average balance has remained stable since 1Q10 while the credit line have decreased.

Average utilization
First quarter open on a new bankcard

- Average utilization of new Bankcards during the first quarter of being issued has stayed between 21% and 30%.
- There was a nearly 4 point (17%) increase in new account utilization since 1Q10, which brought it back to the 4Q07 level.

Dashboard of bankcard originations

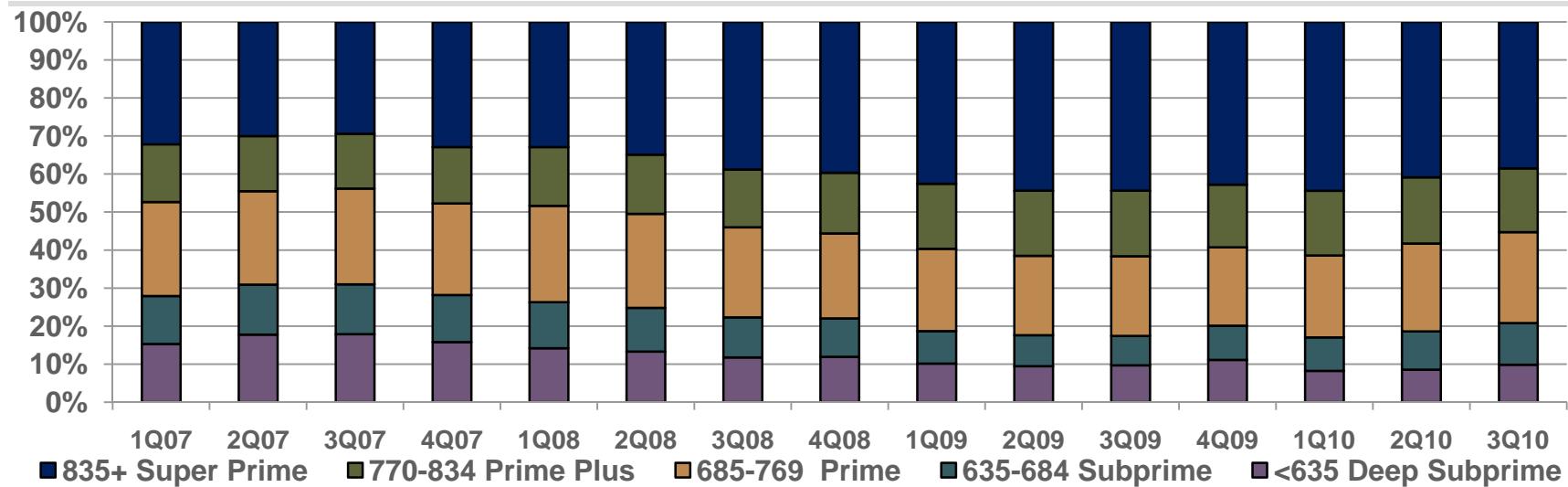|	4Q07 – 3Q10	2Q09 - 3Q10	1Q10 - 3Q10
Total Originations	Down 52%	Up 5%	Up 19%
Total Inquiries	Up 8%	Up 1%	Flat
Average Credit Lines	Down 22%	Down 16%	Down 15%
Average Balances	Down 21%	Down 7%	Flat
Average Utilization	Up 2%	Up 11%	Up 17%

Profile of consumers at the time of origination

Starts to answer the questions:

"What did the consumer's credit look like to lenders around the time of application?"

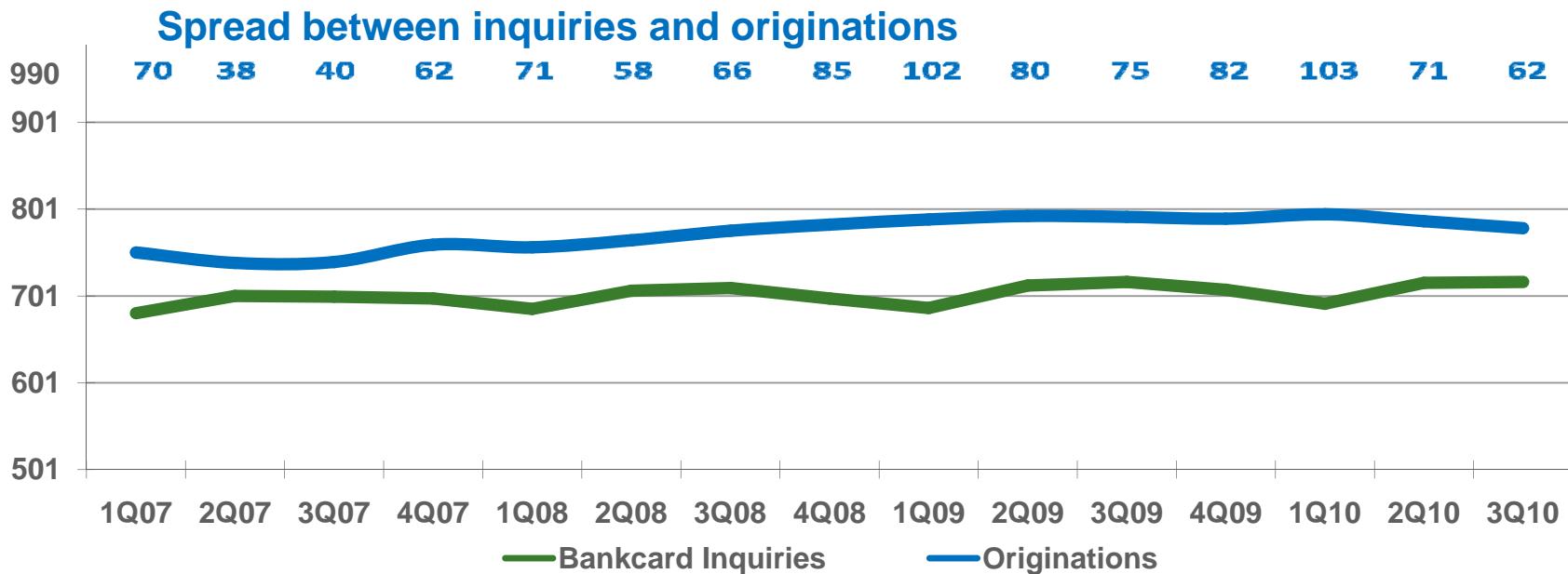*"What were possible changes in underwriting and risk tolerance?"*

VantageScore distribution of new bankcards

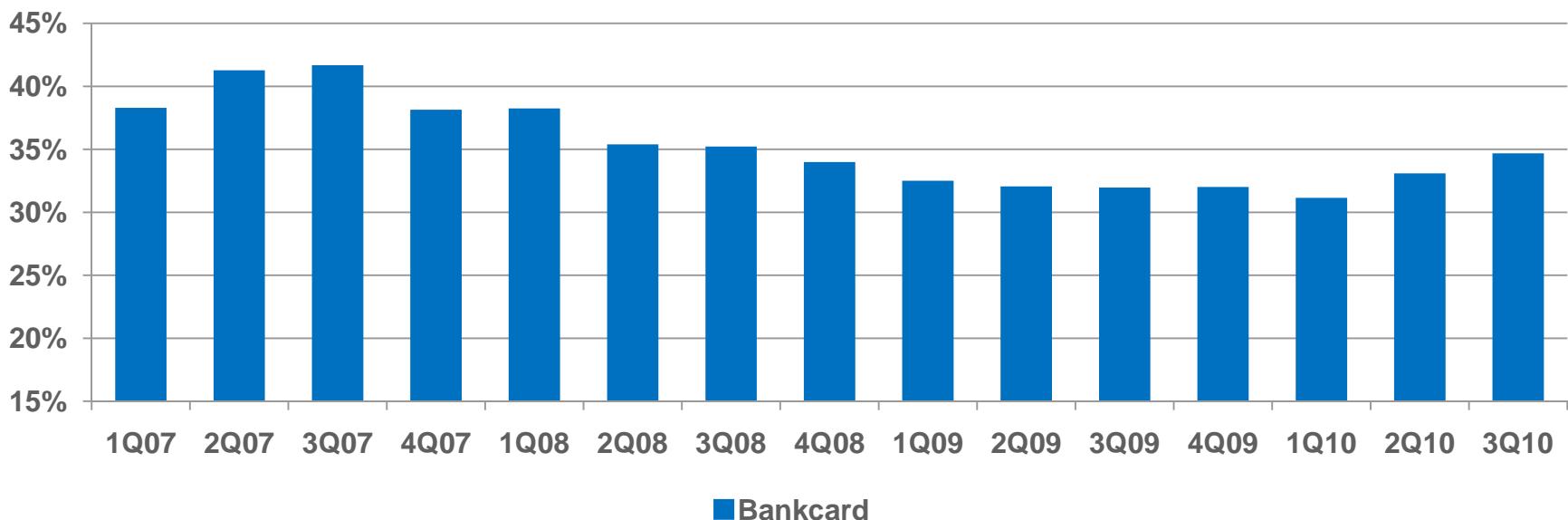|	4Q07 - 3Q10	4Q09 - 3Q10
Super prime & Prime plus	7.5 pts	-4.0 pts
Prime	-0.1 pts	3.3 pts
Subprime & Deep subprime	-7.4 pts	0.7 pts

- In the long term from 4Q07-1Q10, there was an 8 point shift of distribution from the lowest score bands to the highest.
- In the short term from 4Q09-3Q10, some of the distribution has flowed back into the mid-range of Prime, but barely returned to the lowest score bands.

Average VantageScore
Bankcard Inquiries and Originations

Spread between inquiries and originations

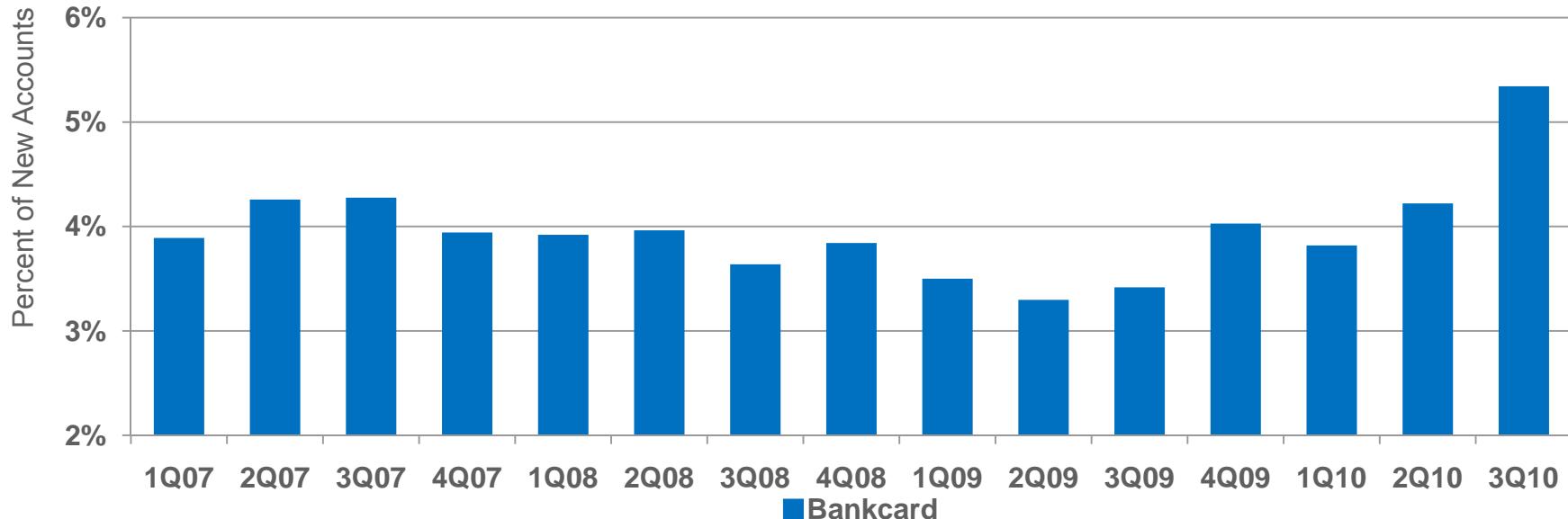|	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10
	70	38	40	62	71	58	66	85	102	80	75	82	103	71	62

Bankcard Inquiries — Originations

- Tracking the average VantageScore for new originations and inquiries provides a gauge for the difference of the credit quality of consumers looking for credit and those actually getting it.
- Seasonality: The seasonal reduction in credit quality for inquiries correspond to seasonality demonstrated earlier with retail card originations. Not unexpectedly, consumers use more credit during the 4th quarter, increase balances, increase utilization and then apply for new credit in the 1st quarter.
- Convergence since 1Q10 indicates closer alignment of Bankcard seekers and those being approved.

Average revolving utilization
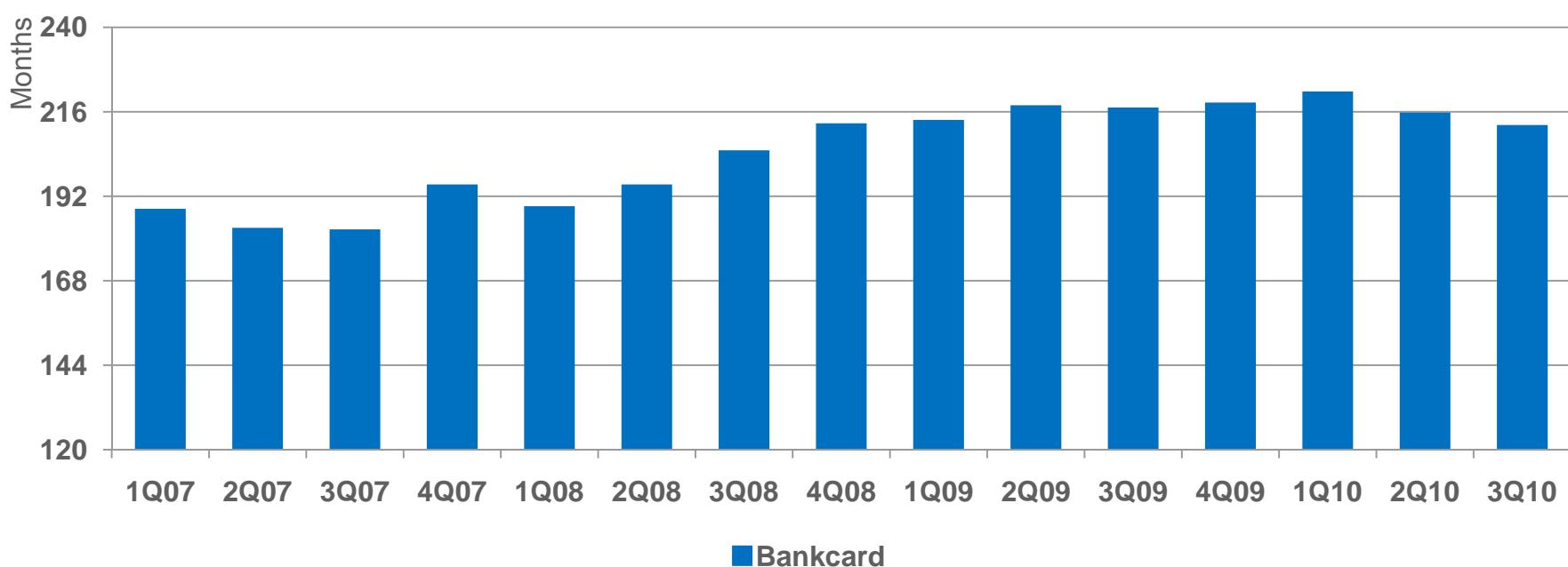# At time of origination

- Average utilization of existing revolving accounts at the time a consumer is applying for credit is an indication of how 'maxed-out' they are.
- The higher the utilization, the higher the risk of default on the new account.
- There was a 9 point decrease in average revolving utilization from 3Q07 to 1Q10 (peak to trough) illustrating a tightening of credit.
- Since 1Q10, there has been a 4 point increase, which is close to the mid-2008 levels.

Mortgage trade 60+ days past due
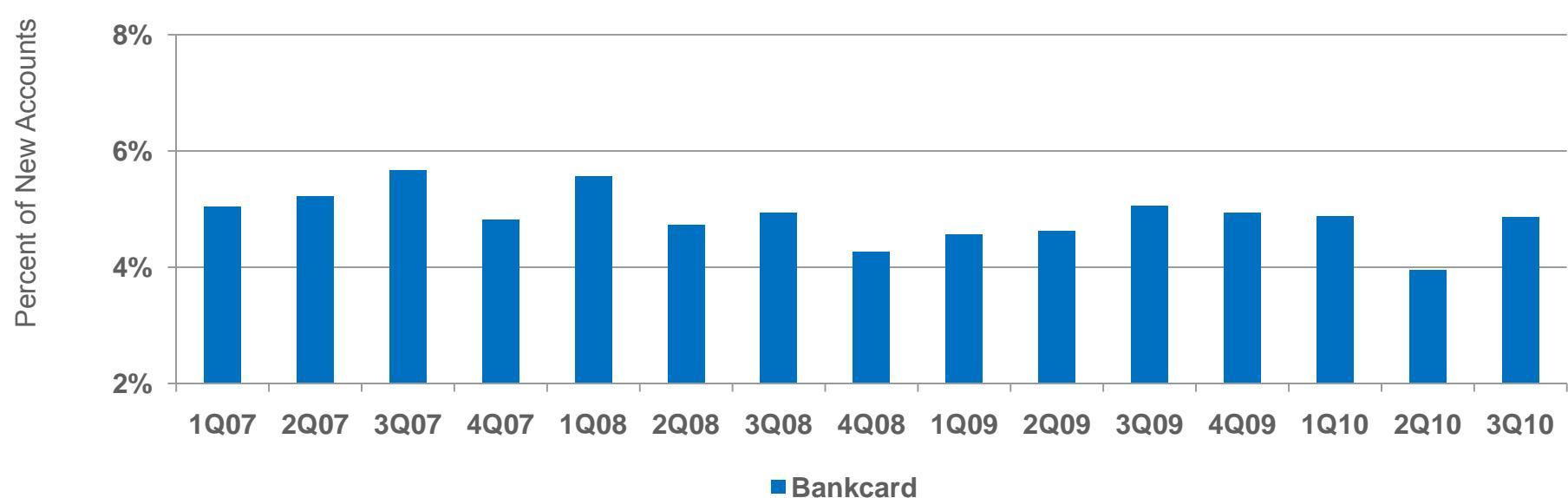# At time of origination

- Consumers historically paid their mortgage before other obligations, but numerous recent studies have shown that the payment hierarchy has shifted and some consumers pay other obligations first.
- The graph illustrates the percentage of new accounts that were approved for consumers who missed two or more payments on their first mortgage.
- The trough is in 2Q09, around the end of the recession in June 2009.
- The current quarter has the highest percentage of new accounts granted to consumers with 60+ mortgage delinquency at more than 5%, a 41% increase from 1Q10 to 3Q10.

Average age of oldest trade
At time of origination

Bankcard

- Age of oldest trade is used as an indication of how stable risk scores and other risk factors are. The longer the consumer has had credit, the more likely they understand credit and the more likely their future behaviors will be consistent with their past behaviors.
- Consumers had 2 years longer experience with credit from1Q08 to 1Q10.
- Since 1Q01 the average has decreased 10 months .

Thin file / New entrants (0-2 previous tradelines)
At time of origination

Percent of New Accounts

- New entrants to credit are determined by the number of trades. Their level of risk is not easily measured because of their limited behavior history.
- A consumer with 0-2 tradelines is typically considered a new entrant or a thin file.
- The percentage of new accounts that were classified as new entrants has remained about 5%.

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Dashboard of consumers at time of origination

	4Q07 – 3Q10	2Q09 - 3Q10	1Q10 - 3Q10
VantageScore	Up 18 pts	Down 13 pts	Down 15 pts
Revolving Utilization	Down 9%	Up 8%	Up 12%
Mortgage 60+ DPD	Up 37%	Up 63%	Up 41%
Age of Oldest Trade	17 months longer	6 months shorter	10 months shorter
Thin File / New Entrant	Down 47%	Up 8%	Up 18%

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Conclusion

- Total new Bankcards decreased in 1Q08 and 1Q09 and have changed little since then.

- VantageScore Trends:

  - ► Long term: lower risk bands increased 8 points and higher risk bands decreased 7 points. Prime was flat.

  - ► Short term: higher risk held steady while Prime increased 3 points, and lower risk decreased 4 points.

- Some key metrics indicated a lower risk population of new Bankcards since the start of the recession, but there has been a slight easing in the last three quarters.

- Number of new accounts for thin file consumers has decreased 54%, but still makes up 5% of new accounts.

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