



New Horizons

Issue III

Summer 2008

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Events

Vision 2008 Conference
Oct. 5 – 8, 2008
The Westin Diplomat Resort
Hollywood, Fla.

[Click here](#) for conference details and
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Client spotlight

Hudson Valley Federal Credit Union



Is it possible for a credit union to reduce and maintain delinquency while changing how and with whom it does business? Absolutely! Hudson Valley Federal Credit Union has done just that over the past several years. [Read on...](#)

Maximize the value of your credit scoring system through monitoring



Credit scoring systems are valuable investments that yield optimum returns when they are regularly monitored. Monitoring reports can provide your organization with a wealth of information. Monitoring reports also promote Regulation B's requirement that states that credit scoring models should be frequently monitored and periodically revalidated. [Read on...](#)

The importance of validations in satisfying regulatory compliance



As one of the key requirements for meeting Regulation B's definition of a credit scoring system, validations are an essential part of a scorecard monitoring program. More and more clients are being advised that scorecard validations should be regularly performed by an unbiased third-party organization. [Read on...](#)

Performance InsightSM



Many organizations have limited, if any, reporting available to them, resulting in missed opportunities to proactively manage their portfolio. As a hosted report generation and data aggregation product, Performance Insight provides our clients with a strong and reliable way to maintain regulatory compliance and scorecard monitoring. [Read on...](#)

Employee spotlight: Amanda Bell



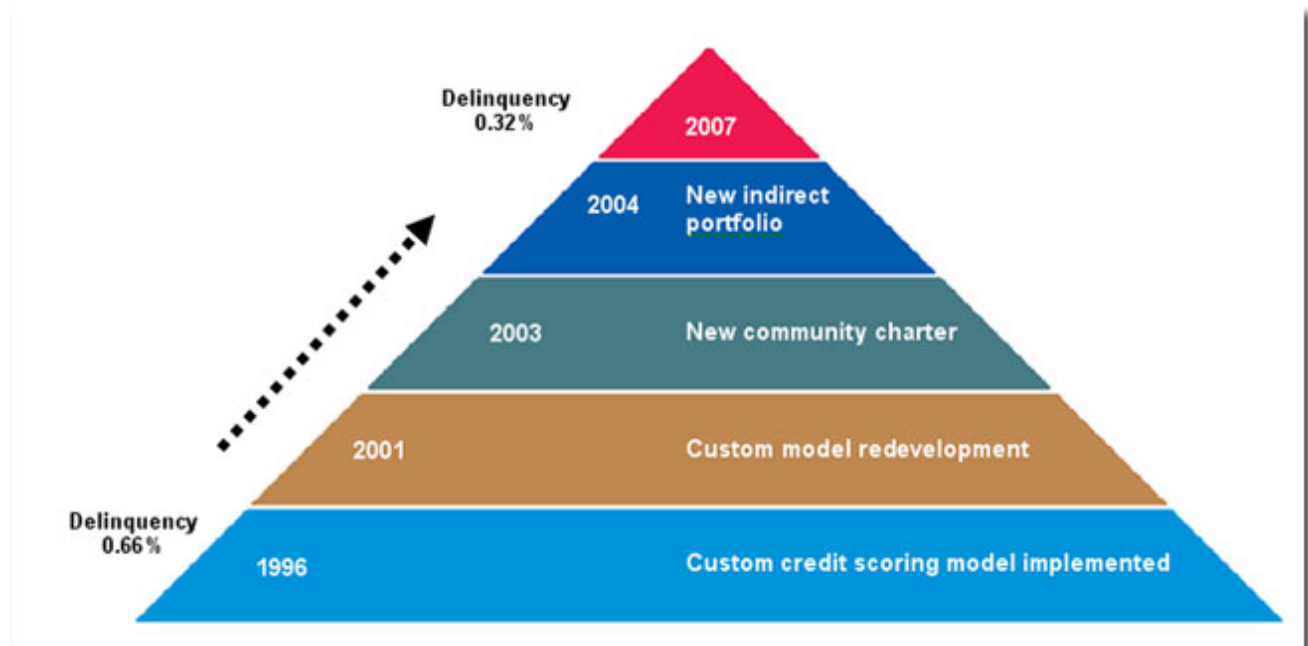
An Experian employee since 2002, Amanda has expertise in scoring, risk-based pricing, policy and procedures, bankruptcy and scorecard monitoring. [Read on...](#)



Client spotlight: Hudson Valley Federal Credit Union

Is it possible for a credit union to reduce and maintain delinquency while changing how and with whom it does business? Absolutely! Hudson Valley Federal Credit Union has done just that over the past several years. In the last 10 years, Hudson Valley Federal Credit Union has undergone

many changes, including the implementation and redevelopment of a custom scoring model, a charter conversion and the expansion of product lines into the indirect market. With all these changes, the credit union was able to reduce risk and maintain the new level. With the redevelopment of its custom scorecard in 2001, the credit union understood the importance of scorecard monitoring. This capability was important to maintain Regulation B compliance. However, the credit union also knew that as the institution changed, it would be important to understand the impact those changes would have on its scorecard and lending strategies. The feedback that the credit union received from the Performance InsightSM scorecard monitoring service proved very valuable.



Hudson Valley Federal Credit Union is a \$2.3 billion asset credit union located in Poughkeepsie, N.Y. The

credit union now has a community charter and offers more than 200,000 members access to a variety of financial products and services. The credit union implemented a custom scorecard in 1996 and redeveloped it in 2001. At that time, membership was composed of a very loyal Select Employee Group (SEG) of IBM employees and several hundred other SEGs. However, in 2003 Hudson Valley Federal Credit Union underwent a charter conversion. It was unknown what, if any, impact this would have on the credit union's custom scorecard. Scorecard monitoring became more important to the credit union than ever before. Frequent monitoring enabled the credit union to see that the scorecard remained predictive on its through-the-door applicant population. This was beneficial, as the credit union would not have to incur the additional cost of redeveloping the custom model.

As a result of the change, Hudson Valley Federal Credit Union began to experience a higher-risk applicant population with the new community charter. Through scorecard monitoring reports, the credit union was able to determine which characteristics in its custom scorecard were impacting the members' scores. The characteristics indicated that more of the members were experiencing an increased number of recent serious derogatory items. Additionally, Hudson Valley Federal Credit Union was able to track the performance of its accounts at various score intervals. This information allowed the credit union to appropriately adjust its cutoff scores for decisioning and collection activities for delinquent accounts. Overall, since implementing the custom scorecard, the credit union has reduced delinquency rates by 52 percent and has maintained the reduced delinquency even through a charter conversion.

The credit union also was challenged with a large number of high-side overrides that impacted approval rates. Through the scorecard monitoring reports, Hudson Valley Federal Credit Union was able to determine which override reasons were contributing to applications being declined above the cutoff score. The credit union used this information to evaluate its policies and lending strategies, as well as to determine where its missed income opportunities occurred.

It is apparent that the information that Hudson Valley Federal Credit Union has gleaned from its scorecard monitoring reports over the years has been invaluable to the organization, enabling the credit union to:

- Maintain decreased delinquency even through a major change in the applicant pool
- Save money on custom model redevelopment
- Effectively evaluate cutoff scores, override reasons, and lending and collection strategies
- Ensure compliance with Regulation B
- Create customized decision matrices

Continued monitoring will ensure successful decisioning practices regardless of the future challenges faced by the credit union.

Do you want to share your success using an Experian Decision Analytics product? If so, email us at templatedsolutions@experian.com.

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Maximize the value of your credit scoring system through monitoring

By Joyce Simmons

Credit scoring systems are valuable investments that yield optimum returns when they are regularly monitored. Monitoring reports can provide your organization with a wealth of information. Monitoring reports also promote Regulation B's requirement

that states that credit scoring models should be frequently monitored and periodically revalidated.

Scorecard monitoring is critical to an organization that wants clear-cut answers to any of the following questions:

- Are we in compliance?
- How is the scorecard performing?
- Are our applicants changing?
- Should we change strategies?

These questions can be answered when your organization's data and activities are displayed in monitoring reports that typically fall in one of the three following areas:

Population stability: Applicants who come through your doors will change over time. Shifts in population can result directly or be a combination of economic, competitive, marketing, product or pricing changes. Understanding whether this change is a spike or a trend is important.

Management is able to proactively evaluate the extent of population changes and determine if the shifts call for lending policy and cutoff score revisions.

Population stability reports are used to:

- Gauge changes in score distributions
- Measure changes in scorecard characteristics
- Track mean scores, volume, approval and booking rates for acquisition trends

Decision management: Having the right information in order to make appropriate decisions is essential to the success of any organization. Decision management reports equip organizations with the ability to make strategic modifications to objectives and policies that are sound as well as profitable.

These reports should be reviewed prior to making cutoff score adjustments, providing feedback to lenders related to Equal Credit Opportunity Act compliance and modifying credit policy.

Decision management reports are used to:

- Determine the consistency of lender decisions with scorecard recommendations
- Calculate high-side and low-side overrides
- Identify which override reasons are effective and which should be eliminated

Scorecard performance: The predictive strength of a scorecard can only be measured by how well a model distinguishes good accounts from bad accounts. Monitoring can assist an organization in determining whether a scorecard is still performing satisfactorily or if it should be modified or rebuilt.

With a sufficient number of aged accounts, performance reports can be used to:

- Validate the predictive power of a credit scoring model
- Determine if the model effectively ranks risk
- Identify the delinquency rate of recently booked accounts at various intervals above and below the primary cutoff score

The information provided by these reports will allow your organization to maximize the value of your credit scoring system. For more information, contact your Experian account executive or send an email to templatedsolutions@experian.com.

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The importance of validations in satisfying regulatory compliance

By Andrew Bieno

As one of the key requirements for meeting Regulation B's definition of a credit scoring system, validations are an essential part of a scorecard monitoring program. More and more clients are being advised that scorecard validations should be regularly performed by an unbiased third-party organization.

This article discusses why validations are required, which regulations they can satisfy and what else can they do for your organization.

Frequent validations:

- Ensure the score you are using is predictive and is a good fit for your applicant population
- Measure adherence to the recommendations of the scorecard
- Assist in the setting of cutoff scores for account decisioning and tier breaks for pricing

Understanding these three areas will allow your organization to maximize the benefits from your new applicant score.

Predictive ability

The main purpose of a validation is to determine how well the score separates good and bad accounts. The more predictive the score, the more confidence you can have in using the score to make approval and pricing decisions. Regular validations provide an ongoing assessment of the models' predictive power and will assist your organization in determining if the time is right to change scores or build or redevelop a custom model.

A predictive scorecard ensures compliance by:

- Reducing judgmental decisions and lender discretion
- Maintaining lender confidence that the scorecard is accurately distinguishing between good and bad accounts
- Mitigating delinquencies and losses

Scorecard adherence

One of the keys to a successful lending program is scorecard adherence. Keeping overrides to a minimum eliminates unnecessary risk, ensures consistency and assists in the equal treatment of applicants. This in turn allows you to demonstrate compliance with the Equal Credit Opportunity Act.

A validation measures overall scorecard adherence and overrides above and below the cutoff score. This information can provide evidence of the lost opportunity due to high-side overrides or the increased risk due to low-side overrides.

Cutoff score and pricing tier management

Are you approving and pricing appropriately? This is another question a validation can precisely answer.

A validation provides approval, booking, bad and loss rates by score intervals. These statistics allow you to establish cutoff scores and tier breaks to maximize approvals and bookings while setting rates that are appropriate for the risk level. This information also can be used as a measurement against future populations to determine the need for adjustments of cutoff scores or tier breaks.

Risk-based pricing is not addressed in one single regulation. A validation can provide evidence of a sound pricing program to meet the requirements of the Truth in Lending Act (Regulation. Z), the Fair Credit Reporting Act and the Fair and Accurate Credit Transactions Act of 2003.

Regular validations will not only ensure regulatory compliance, but also will provide insight into your portfolio. As part of a robust scorecard monitoring program, validations provide the information to proactively manage your lending program. Your Experian Analytics and Business Consultant can provide you with additional information on the data requirements and validation process.

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Performance InsightSM

By Amanda Roth

This newsletter not only provides details of industry best practices, but also informs you about products available through Experian that will assist you with your business needs. Performance InsightSM is one such product.

You have received information regarding the importance of monitoring and validating your scorecard throughout this issue. Many organizations have limited, if any, reporting available to them, resulting in missed opportunities to proactively manage their portfolio. As a hosted report generation and data aggregation product, Performance Insight provides our clients with a strong and reliable way to maintain regulatory compliance and scorecard monitoring. This product can help you maintain strength and reliability in your scoring system and improve overall portfolio profitability.

Other benefits you can expect from Performance Insight include:

- **Improved profitability** — increased automation; mitigate effects of potential degradation; maximized return on investment
- **More confident and timely decisions** — portfolio trends captured as they occur; consistent and accurate performance tracking for scores, policies and strategies
- **Ensures compliance** — third-party objective review of scoring system; objective and consistent reporting; scorecard performance reports that meet regulatory requirements for a validation

Twelve standard monthly reports, a written review with quarterly recommendations and no software to install make this an ideal product for any organization. Do not put your scoring system on autopilot. Enjoy the peace of mind that comes from a proactive style of portfolio management and a tool that helps meet regulatory requirements.

For more information, contact your Experian account executive or send an email to templatedsolutions@experian.com.

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Employee spotlight: Amanda Bell

As an Analytics and Business Consultant with Experian's Decision Analytics group, Amanda Bell provides risk-management consulting to credit unions and small financial institutions. An Experian employee since 2002, Amanda has expertise in scoring, risk-based pricing, policy and procedures, bankruptcy and scorecard monitoring. She also provides analytical services, including validations and forecasts, and training and implementation of Experian's Fast StartSM scorecards and Performance InsightSM scorecard monitoring service. Amanda holds a Bachelor of Science in political science from Kennesaw State University.

In her spare time, Amanda enjoys spending time with her family and pets, scrapbooking and supporting various charitable organizations, including the American Heart Association.