

# 2018 VANTAGESCORE MARKET STUDY REPORT

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## CONTEXT AND INTRODUCTION

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

Oliver Wyman asked the three credit reporting agencies, Equifax, Experian and TransUnion (hereinafter the "CRCs"), the owners of VantageScore, to provide data on the number of VantageScore credit scores used between July 1, 2017 and June 30, 2018.

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 accounts<sup>1</sup>. 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, including 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 originations<sup>2</sup>. In the 12-month period between July 1, 2017 and June 30, 2018, approximately 10.4 billion VantageScore credit scores were used by more than 2,800 users (20% and 3% increases respectively relative to last year's study). The large increase in VS score use was most pronounced at consumer websites (this channel has become key for marketing, generating leads, and engaging with customers), personal loan companies, resellers<sup>3</sup> and retailers.

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

<sup>2</sup> This is perhaps not surprising, given the fact that Fannie Mae, Freddie Mac and the FHA have mandated, and continue to mandate, the use of several older models of another credit scoring company (and not VS) for their mortgage underwriting process.

<sup>3</sup> Resellers are firms that strike broad agreements with one or more of the CRCs to purchase scores 'wholesale' and re-sell them to users in other sectors, including, for example, insurance.

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<br>(MILLIONS)            | % OF TOTAL  | Δ<br>(2018 VS.2017) |
| Credit card issuers   | 4,410                           | 42%         | -11%                |
| Personal and installment loan companies                                     | 787                             | 8%          | +5%                 |
| Auto lenders  | 105                             | 1%          | +77%                |
| Mortgage lenders  | 81                              | 1%          | -4%                 |
| Credit unions (not attributable to specific lines of business) <sup>4</sup> | 12                              | 0%          | -7%                 |
| Banks (not attributable to specific lines of business) <sup>4</sup>         | 996                             | 10%         | +82%                |
| <b>Subtotal: Financial Institutions</b>                                     | <b>6,391</b>                    | <b>61%</b>  | <b>~0%</b>          |
| Tenant screening, telecommunications, utility                               | 17                              | 0%          | -53%                |
| Consumer websites   | 2,277                           | 22%         | +66%                |
| Government entities   | 178                             | 2%          | +61%                |
| Other   | 1,529                           | 15%         | +113%               |
| <b>Subtotal: Non-Financial Institutions</b>                                 | <b>4,001</b>                    | <b>39%</b>  | <b>+79%</b>         |
| <b>Total number of VS credit scores used</b>                                | <b>10,392</b>                   | <b>100%</b> | <b>+20%</b>         |

### **Results: Financial Institutions**

Financial Institutions represented by far the largest category of users: more than 2,450 unique entities pulled approximately 6.4 billion scores, or almost 61% of all VantageScore credit scores. The total number of scores used fell in line with last year's figures, while the number of unique users increased by more than 150. Overall, more than 215 million VS credit scores were used in association with underwriting or opening new accounts decisions (50% increase relative to last year's study). For context, the number of new loan accounts opened by lenders in the same 12-month period was approximately 190 million, across all loan categories<sup>5</sup>. Eight of the 10 largest banks and 32 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***

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

<sup>4</sup> These categories include scores used by credit unions and banks, respectively which we were not able to attribute to any specific line of business.

<sup>5</sup> Many lenders pull multiple credit scores to underwrite each new account, and therefore it is impossible to extrapolate market share for VantageScore specifically in the underwriting arena. The number of new loan accounts sourced in this study is derived from the Oliver Wyman – Experian Market Intelligence Report.

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 marketing greatly outnumber those pulled to underwrite new accounts. We were able to identify approximately 68 million scores associated with account opening decisions (13 million more than last year's figures). For context, 68 million scores compare with an industry total of approximately 117 million new card accounts opened in the 12-month period from July 2017 to June 2018.

### ***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 more than 785 million VantageScore credit scores, of which more than 100 million were used for underwriting or account opening decisions. This represents a significant increase relative to last year's figures, with approximately 48 million additional scores used for underwriting/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 105 million VantageScore credit scores (45 million more than last year's study), at least 16 million of which were used for loan applications or new account origination. This compares with an industry total of approximately 29 million new auto loans and leases originated in the 12-month period from July 2017 to June 2018. The majority of users were consumer financing companies and captives, which are created to finance purchases from major auto manufacturers.

### ***Credit Unions***

Credit unions were also users of VantageScore credit scores: 32 of the top 100 credit unions were joined by many smaller credit unions in using a total of approximately 12 million VantageScore credit scores, of which nearly 0.8 million were used for loan applications or new account origination. In total, credit unions originated approximately 17 million new loan accounts in the 12-month period from July 2017 to June 2018.

### **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, resellers<sup>6</sup>, retailers and others used approximately 4 billion VantageScore credit scores.

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<sup>6</sup> Resellers are firms that strike broad agreements with one or more of the CRCs to purchase scores 'wholesale' and re-sell them to users in other sectors, including for example insurance.

More specifically, in the category of non-Financial Institutions, consumer websites used approximately 2.3 billion VantageScore credit scores (0.9 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.

Several investment firms (15 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, 2017 and June 30, 2018, segregated by the following categories of entities or end-users: (a) mortgage originators; (b) credit card issuers; (c) auto lenders; (d) banks and thrifts<sup>7</sup>; (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.

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<sup>7</sup> 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].

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