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Under-exposed

Abstract

The traditional approach to selecting the sample window for scorecard development seeks to classify good and bad accounts as accurately as possible in order to provide clear distinction between them for modelling. This could mean waiting for over two years for bads to emerge to ensure that any accounts sampled as good most certainly are.

However, on occasions, waiting for the sample to age is not practical or sensible. Clients with generic scorecards, typically those starting new ventures, should aim to model their own data as soon as possible. Even for established portfolios, how long must we wait before scorecards can be fine-tuned? Sometimes historic application data is unavailable, difficult to retrieve from archives or system changes may have occurred. Fundamentally, where the applicant profile has changed over time or the product mix has evolved, an older sample may not be representative of the current through-the-door population and future predictions could be skewed.

Although it seems there are many reasons for modelling more recent, 'immature' samples, what are the implications?

Using typical portfolios from five industry sectors - Motor Finance, Mortgages, Personal Loans, Credit Cards and Retail - a comparison was made of models and predictions based on a 'full exposure' period versus samples that allowed a minimum of only 6 months and 12 months exposure. In addition, due to insufficient counts of bads for some portfolios, the effect of changing the good/bad definition from a typical 3+ worst arrears status to a 2+ worst arrears status was also examined.

So is modelling an 'under-exposed' sample a viable option?

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