

CREDIT SCORING AND CREDIT CONTROL X EDINBURGH 2007

Analytics in the Sub-Prime Mortgage Industry

Abstract

The UK non-conforming mortgage market is becoming increasingly competitive with a stream of new entrants. The total non-conforming mortgage market is estimated to grow at a yearly compounded average of more than double the mainstream sector. The sub-prime mortgage market is a key component of this growth, with the main challenge for new and existing lenders being to formulate strategies that incorporate profitability requirements and customer affordability whilst considering the exposure to risk.

In the sub-prime arena, the composition and power of scoring models differ to that of main-stream lending. Not only are additional considerations required during scorecard development, but also portfolios are often segmented into numerous product categories. Here, scoring can be used to either cascade customers between categories or to price accordingly within the category itself. Analysis has revealed that the product categories defined by lenders have not always been fully aligned with risk. The subsequent use of credit scoring has improved understanding of these segments and helped to realign risk gradings and strategies.

Experian Decision Analytics has been involved with many new and existing lenders in the market. Based on this experience, this talk will cover how industry techniques, aligned with sales and marketing requirements, have been combined with analytical techniques to formulate best-practice strategies.

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