

## **CREDIT SCORING AND CREDIT CONTROL IX EDINBURGH 2005**

### **Predicting Mortgage Churn**

#### **Abstract**

The UK mortgage market is extremely competitive and accordingly much effort is expended by lenders to attract new customers. This often includes incentive packages, for a fixed term at the mortgage outset. Consequently products targeted at new customers are often preferential to existing customer offerings. Credit aware individuals are likely to move their mortgage at frequent intervals to get the best deal.

With the propensity for customer turnover being high, lenders are keen to have the ability to identify high and low risk churn segments. Predicting likelihood of churn in conjunction with existing risk measures allows lenders to select the best customers with a high probability of churn for targeted retention actions.

This study evaluated the ability to predict churn for active mortgage customers. Utilising a range of behavioural characteristics it was possible to develop scoring models to rank the likelihood of churn within a fixed outcome period. The study considered three medium sized mortgage portfolios, a standard prime mortgage book, sub-prime and self-certification. Despite limited data availability results were positive and across all portfolios it was possible to effectively segment customers according to their propensity to churn. This opens up the way for strategies to be implemented with the aim of reducing customer churn and thus growing the book.

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