CAPITAL SERVICES

Acquiring Profitable Customers with Credit Scoring Models

By Alfred Furth, Executive Vice President

Targeting the right customer is an important process in developing a credit card portfolio. When acquiring accounts to buildor maintain a portfolio, it is important to get them at the right price. Credit scoring models are an essential component of this process.

Credit scoring models identify profitable cardholders by using historical consumer credit data to predict future behavior. For example, someone with 10 credit card applications over six months is much more likely to respond to an offer than someone with zero. In the same way, someone who has defaulted on five credit cards is more likely to default on an offer than someone who has never defaulted. Credit scoring models take these characteristics and combine them with statistical processes to predict the likelihood of responding or defaulting.

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The scoring models are used to rank-order new accounts based on the information on the consumer characteristics from a credit bureau file. The two scores are crossed to come up with a matrix similar to figure 1.

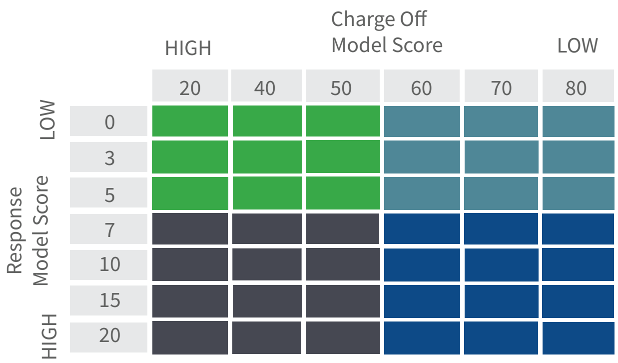

Figure 1: Selection Strategy Matrix

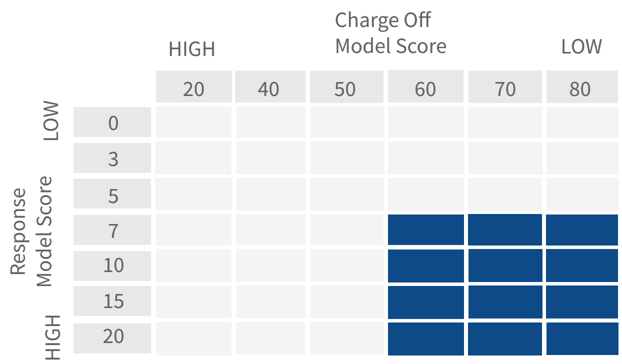

Figure 2

Each cell in the matrix is associated with likelihoods of responding to or defaulting on a pre-approved credit card offer. This information can be translated into a profitability metric, such as net income, for each cell. Figure 2 demonstrates how this profitability information enters into selection strategy discussions about which areas of the matrix to use in an acquisition campaign (such as direct mail). The lower-right corner of the matrix is usually the target, as these are the potential cardholders least likely to default and most likely to respond to a direct mail offer.

By using credit scoring models in your acquisition campaign, you can optimize your marketing expense to maximize the return on investment for your credit card portfolio.

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