CAPITAL SERVICES

Vintage Analysis:
What is it and what does it do?

By **Steve Mandsager**, Finance Manager

Vintage analysis is a tool that allows for performance comparisons between portfolio segments. Data is grouped into segments based on the origination month (a vintage), and can be formatted in a triangular fashion with vintage and age (months on books) as the two axes (see Exhibit 1). In this type of analysis, a portfolio is completely deconstructed into separate vintages which allow a clear look at all the independent parts of the macro portfolio. The right-most data point for each vintage aggregate up to the current macro portfolio. This isolates the segments to show behavioral aspects and financial performance for the individual vintages. Breaking down a portfolio into these separate vintages can help identify trends and point to particular reasons for shifts in macro portfolio performance.

> *Vintage analysis is a tool that allows for performance comparisons between portfolio segments.*

Exhibit 1 shows a triangular compilation of cumulative loss (charge-off) rates of a hypothetical credit card portfolio based on portfolio age. Let's assume the acquisition selection criterion was modified and narrowed in the spring of 2009. We would expect lower 12 month loss rates for the newer vintages. By monitoring the separate vintages, we can see that is what happened. By tightening up the criterion, we can see from the table that the 12-month loss rate improved from nearly 17 percent in the December 2008 vintage to less than 6.5 percent in the December 2009 vintage.

Months On Books

	1	2	3	4	5	6	7	8	9	10	11	12	18	24
Dec 08	0.00%	0.02%	0.04%	0.10%	0.17%	8.13%	9.93%	11.89%	13.42%	14.61%	15.66%	16.58%	19.66%	21.09%
Jan 09	0.00%	0.01%	0.05%	0.12%	0.17%	6.58%	8.87%	11.01%	12.50%	13.81%	14.76%	15.71%	18.69%	
Feb 09	0.00%	0.02%	0.07%	0.11%	0.18%	6.88%	9.09%	11.13%	12.60%	13.57%	14.68%	15.47%	18.34%	
Mar 09	0.00%	0.02%	0.05%	0.12%	0.21%	5.50%	7.31%	8.77%	9.85%	10.89%	11.60%	12.23%	14.43%	
Apr 09	0.01%	0.03%	0.10%	0.15%	0.25%	4.70%	6.24%	7.47%	8.52%	9.18%	9.82%	10.40%	12.48%	
May 09	0.00%	0.00%	0.04%	0.08%	0.13%	4.99%	6.45%	7.88%	8.81%	9.43%	9.95%	10.39%	12.51%	
Jun 09	0.00%	0.01%	0.02%	0.06%	0.12%	4.33%	6.12%	7.44%	8.31%	9.08%	9.71%	10.24%	12.65%	
Jul 09	0.00%	0.02%	0.08%	0.11%	0.15%	3.31%	4.39%	5.29%	6.04%	6.57%	7.04%	7.40%		
Aug 09	0.00%	0.01%	0.05%	0.10%	0.15%	2.93%	4.02%	4.88%	5.48%	5.98%	6.41%	6.78%		
Sep 09	0.00%	0.00%	0.02%	0.07%	0.17%	3.05%	4.04%	4.94%	5.49%	5.89%	6.22%	6.65%		
Oct 09	0.00%	0.01%	0.03%	0.06%	0.10%	2.90%	3.91%	4.68%	5.20%	5.78%	6.34%	6.78%		
Nov 09	0.00%	0.00%	0.01%	0.06%	0.14%	2.69%	3.71%	4.38%	5.01%	5.52%	6.02%	6.64%		
Dec 09	0.01%	0.02%	0.06%	0.12%	0.15%	2.99%	3.73%	4.46%	5.06%	5.65%	6.09%	6.47%		
Jan 10	0.00%	0.00%	0.07%	0.21%	0.28%	2.22%	2.88%	3.55%	3.90%	4.47%	4.89%			
Feb 10	0.00%	0.00%	0.00%	0.00%	0.00%	2.47%	2.85%	3.59%	4.08%	4.55%				
Mar 10	0.00%	0.00%	0.01%	0.22%	0.29%	2.75%	2.94%	4.46%	5.16%					
Apr 10	0.00%	0.00%	0.03%	0.12%	0.27%	2.52%	2.94%	3.91%						
May 10	0.00%	0.01%	0.02%	0.02%	0.06%	2.11%	3.32%							
Jun 10	0.00%	0.00%	0.02%	0.03%	0.44%	1.89%								
Jul 10	0.00%	0.00%	0.00%	0.03%	0.06%									
Aug 10	0.00%	0.00%	0.03%	0.08%										
Sep 10	0.00%	0.00%	0.02%											
Oct 10	0.00%	0.00%												
Nov 10	0.00%													

Cumulative Lose Rate

Exhibit 1

In a nonprime credit card portfolio, cardholders perform notably different as an account ages and moves along the lifecycle curve. Using a graphical perspective, vintage analysis can help identify trends and forecast younger vintage performance. Exhibit 2 shows cumulative closure rates by months on books. We can see that the majority of account closures occur in the first four months of age. For example, assume cardholder pricing was adjusted from the December 2009 – February 2010 vintages to the March 2010 vintages and on. Looking at the graph, we can see that cumulative closure rates at four months of age were reduced from the 10-15 percent range to the 5-10 percent range. From this graphical look, we can forecast that the newer vintages will have lower closure rates in the 8-12 percent range as they mature.

> *Vintage analysis can help identify trends and forecast younger vintage performance.*

CUMULATIVE CLOSURE RATE BY VINTAGE

Exhibit 2