

Credit Screening

1. Introduction

The use of credit scoring prior to authorizing access or granting credit is commonplace. A credit score is a means of identifying the credit worthiness of an individual. Lenders, such as banks and credit card companies, use credit scores to evaluate the potential risk posed by lending money to consumers and to mitigate losses due to bad debt. Lenders use credit scores to determine who qualifies for a loan, at what interest rate and what credit limits. Lenders also use credit scores to determine which customers are likely to bring in the most revenue. Credit scoring is not limited to banks. Other organizations, such as mobile phone companies, insurance companies, landlords, and government departments also use credit scoring.

Much of the information used in assessing credit worthiness can also be applied to small areas such as postcodes. Measures on CCJ debt, bank loan activity and mortgage lending, alongside a broad range of factors such as occupation, tenure, property type, council tax band, household composition, age, unemployment and single parent families have all been used to identify postcodes by credit worthiness.

This provides a simple means of screening areas and identifying those with high risk levels quickly and simply and at low cost.

2. The Risk Score

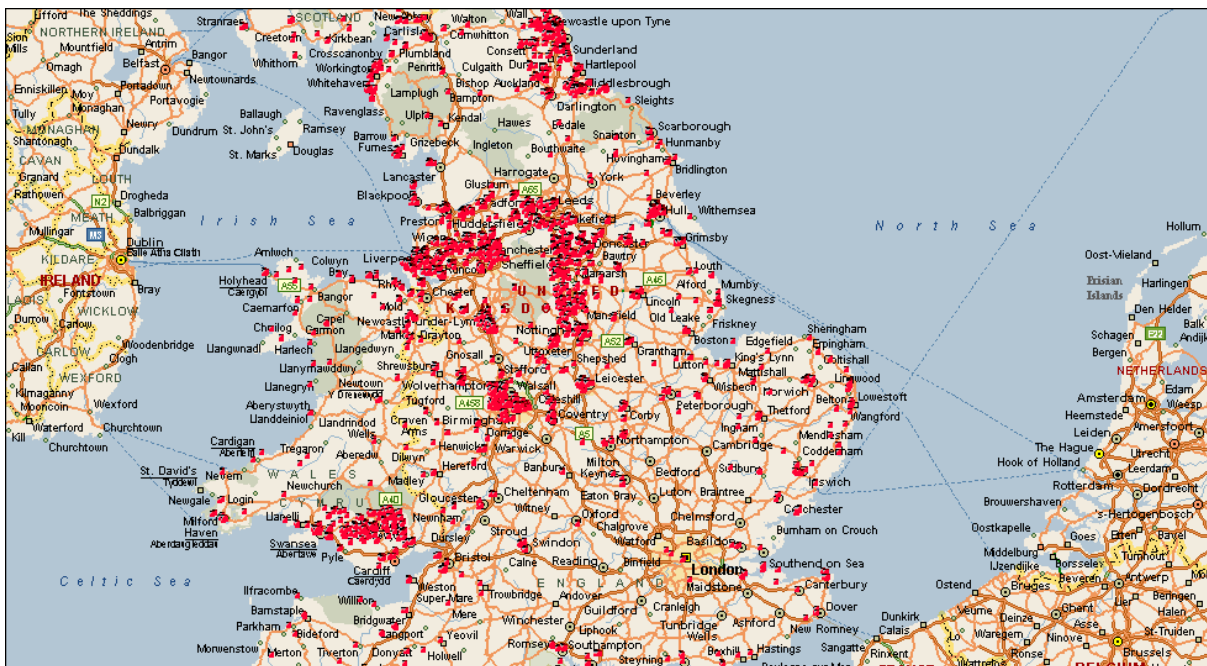
The risk score was derived using advanced multi-variate modelling techniques which calculated an estimated score for each postcode in Great Britain. The score is held in two formats. The first is a standardised numeric score with a mean of zero and a standard deviation of one. Thus, a large positive score for the postcode denotes a low credit risk area where many households in the postcode are very credit worthy, whilst a large negative score denotes a postcode with high credit risk. The numeric score tells you exactly how far up or down the credit risk scale any given postcode falls. A score of +1.96 or more, for example, would tell you that this postcode comes within the top 2.5% of the country in terms of credit worthiness.

The second format in which the information is held is as a banded ranking. Each postcode is ranked by the score and grouped into one of 100 possible bands so that approximately 1% of all households in the country fall within each band – percentiles. A high band ranking denotes that the postcode in question contains some of the most credit worthy households in the country, whilst a low band ranking shows that the postcode has many high risk households.

In addition, the 100 percentiles were aggregated into 5 broader groupings which are defined as follows:

Group 1 (8%) Percentiles 1 to 8 – Poor Credit worthiness. These are very high risk areas where credit will be difficult to obtain and where debt default levels could be extremely high.

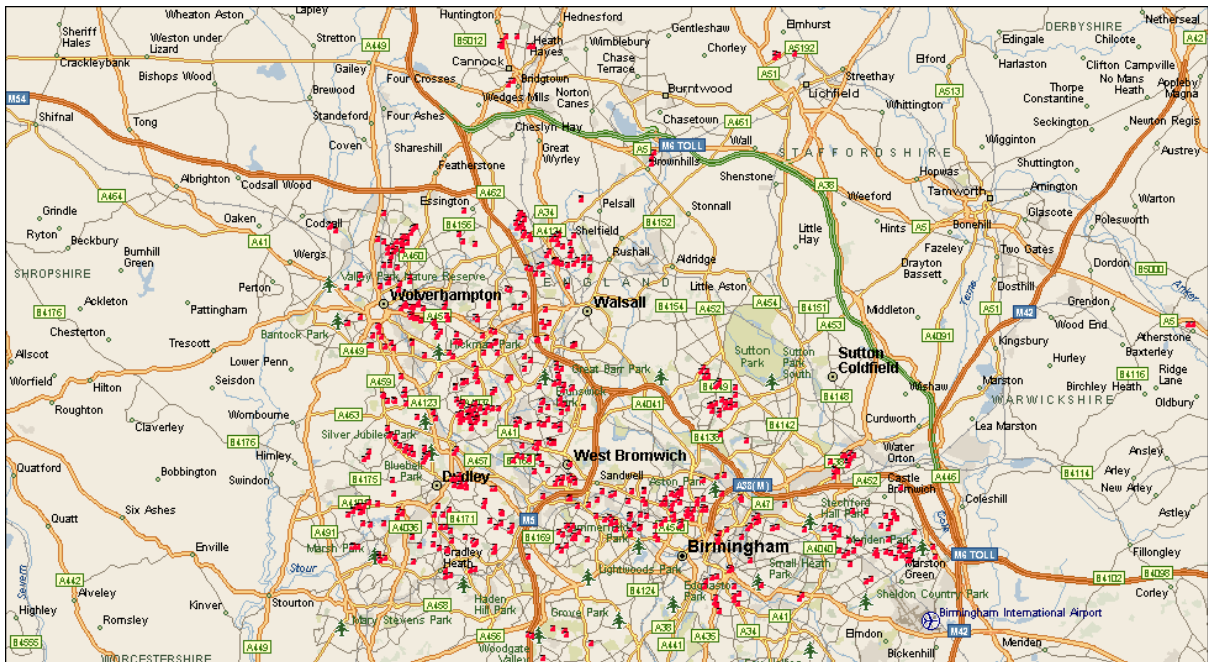
This group is over represented in our major conurbations and under represented in London and the South East. These are often areas which were once our Industrial heartlands



South Wales

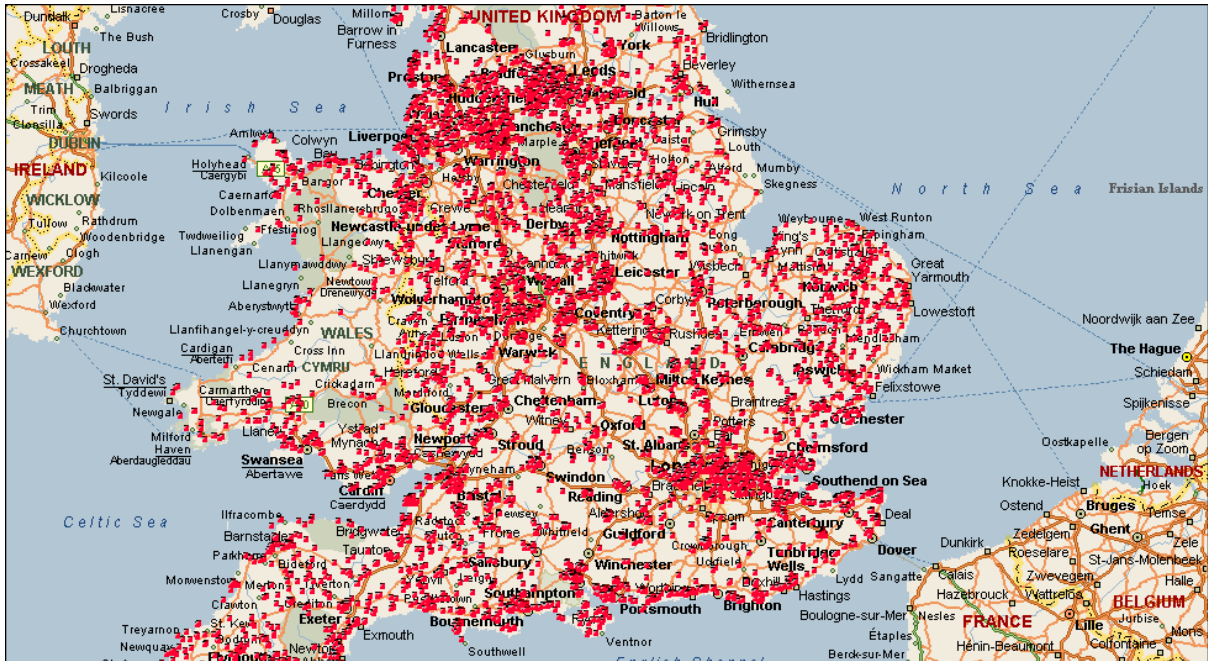


West Midlands

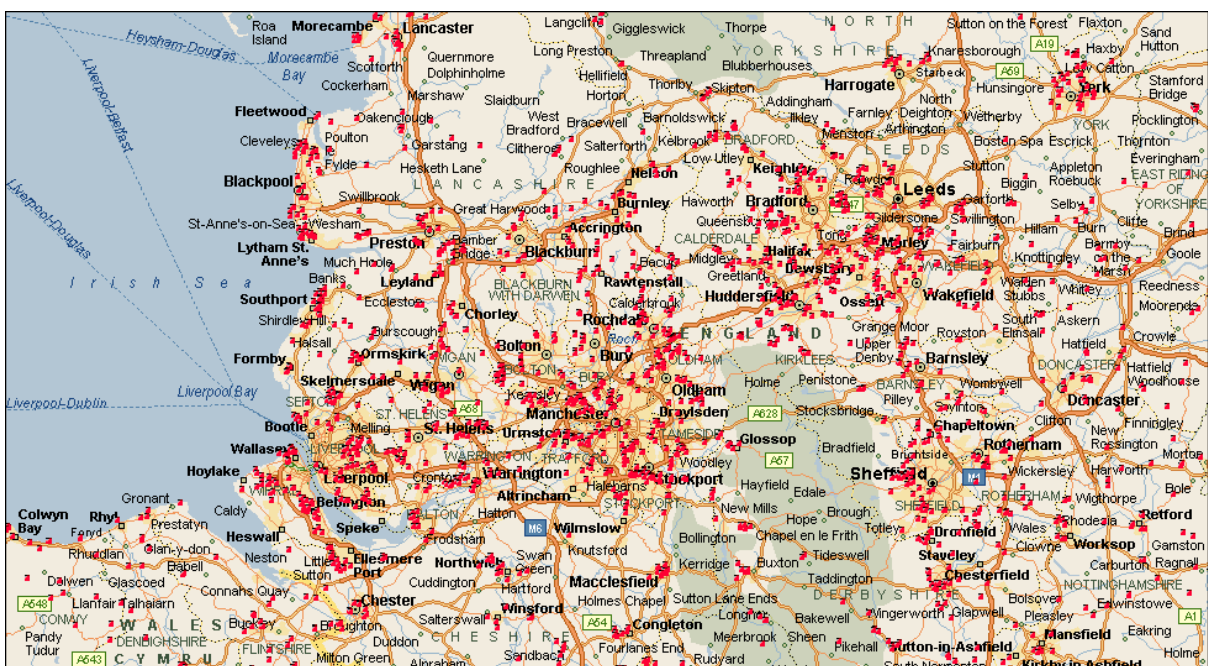


Group 2 (12%) Percentiles 9-20 – Subprime. It may be possible to obtain a loan in these areas but it may well be on very disadvantageous terms with higher interest rates and penalty fees.

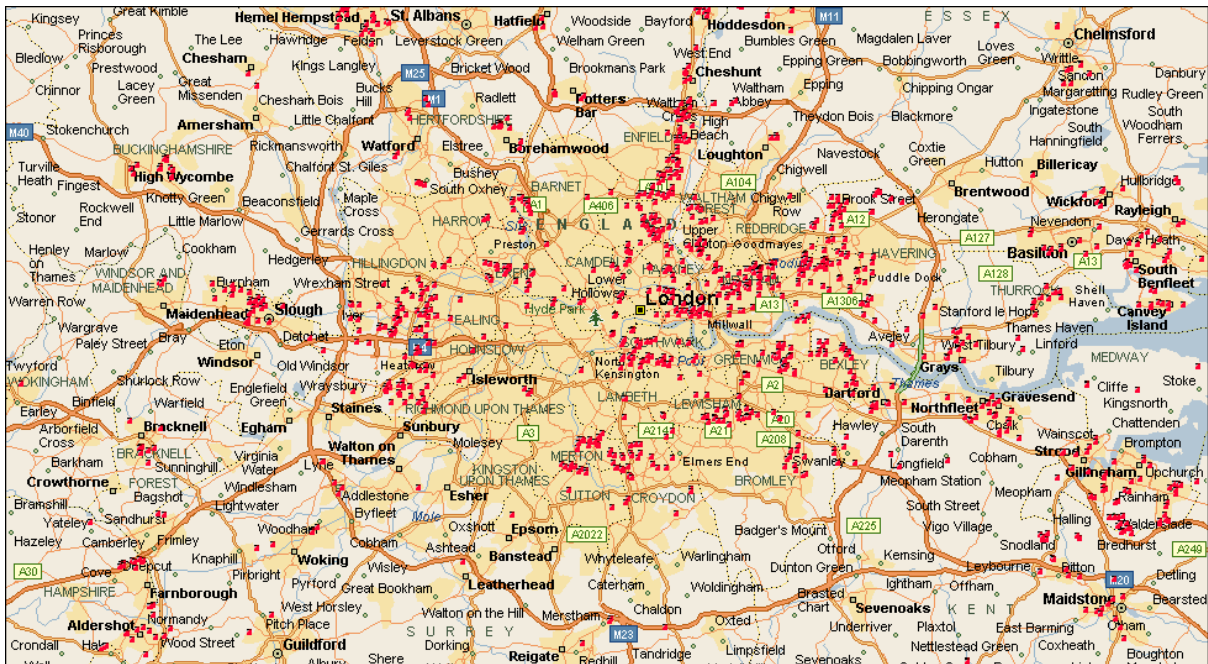
These areas are spread throughout the country



North West



London



Group 3 (20%) Percentiles 21-40 – Acceptable. In this group you are more likely to obtain credit but you still won't get the best interest rates.

Group 4 (20%) Percentiles 41-60 – Good. Many borrowers in these areas will get credit and at low interest rates.

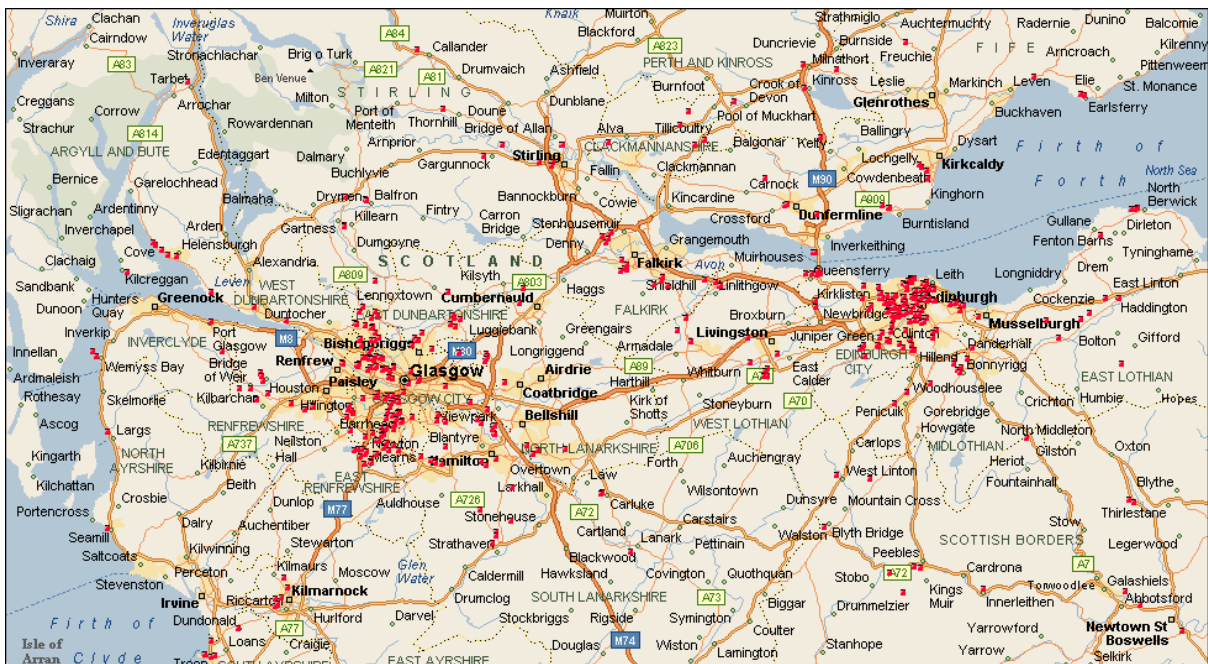
Group 5 (40%) Percentiles 61-100 – Excellent Credit. These are very credit worthy areas and lenders will be keen to extend credit at attractive interest rates.

To contrast these areas to the poorer Groups 1 and 2, this group was also mapped and the results show that these areas are over represented in London and the South East

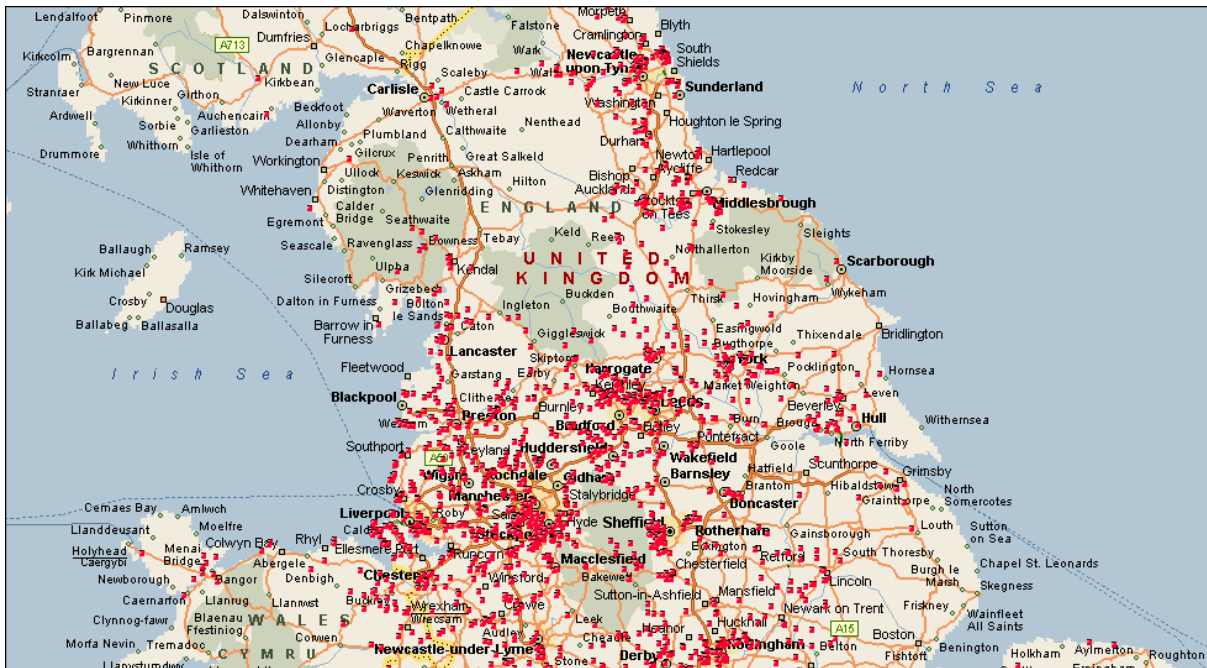


Outside of the South East these areas tend to fall within the more prosperous parts of our major conurbations

Scotland



Midlands and the North



3. Information Held on the Credit Screen Database

The predictors are held in a directory of postcodes with one record per postcode. There are 2,495,874 postcode records, those on PAF at November 2015 and include postcodes no longer in use.

For each record the following fields are held

1. Postcode
2. Number of Households from 2011 Census
3. Credit Score – the modelled standardised score
4. Credit Score Percentile
5. Credit Score Broad Grouping

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