

Pre-Purchase Portfolio Scoring: The Holy Grail for Debt Buyers

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Predictive scoring has been around for decades. Every credit lender today uses either the FICO score, or another sophisticated scoring algorithm, in order to predict repayment. More recently, debt buyers have begun using statistical scores to prioritize their efforts. Collection scoring is a process, based on statistical and data mining techniques, that models current and historical customer performance data and traits to predict future outcomes and behaviors, such as loan and credit card payments. These predictions are expressed as numerical values, or “scores,” that correspond to the likelihood of a particular occurrence or behavior taking place in the future. Some collection scores use traditional credit bureau data, while others do not.

Debt buyers with in-house collection operations already understand the benefits of using collection scoring to maximize profitability. These companies are utilizing such solutions today to determine the recipients of direct mail correspondence or phone contact from a call center. However, with developments in scoring technologies, debt buyers that currently outsource collection efforts to third-party contingency agencies, can now incorporate this function within their operations. Interestingly enough, the use of advanced predictive analytics-like scores could hold the key to their financial success.

The risk a debt buyer takes on when purchasing a charged-off portfolio is not that different than the risk a lender assumes when making a loan decision, or determining the interest rate for a borrower. A debt buyer estimates the percentage of the portfolio it can recover, and then bids “pennies on the face value dollar” below that amount. Understanding what to bid for a given portfolio is the ultimate moment of truth, and primary determinant of financial success or failure. Today, all lenders use credit scores to determine the interest rate offered to a consumer. Over the next five years, the industry will see most debt buyers begin to utilize custom scoring models to determine IN ADVANCE what to bid on a given portfolio. Those debt buyers that master this first and become super analytics competitors will find themselves with a powerful source of performance advantage.

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