S&P/Experian Consumer Credit Default Indices

Frequently asked questions

The S&P/Experian Consumer Credit Default Indices capture consumer credit accounts that go into default for the first time each month. Unlike other publicly released metrics that recount previously defaulted loans, the S&P/Experian Consumer Credit Default Indices provide unique information value by measuring the proportion of outstanding balances that entered a default status for the first time. This provides the market with a clean, true measure of loan losses worthy of being the standard benchmark for analyzing the changing payment behaviors of borrowers.

Overview

1. **What do the S&P/Experian Consumer Credit Default Indices measure, and what credit types are included in the index?**
   The S&P/Experian Consumer Credit Default Indices ("The Indices") are designed to be independent and consistent benchmarks for consumer credit defaults in the United States. Their purpose is to seek to measure the balance-weighted proportion of consumer credit accounts that go into default for the first time based on sample data provided by Experian. The index family consists of four headline indices by loan type and a composite index. Four credit types (accounts) are included in the index.

Loan type/Composite index	Credit types
S&P/Experian Auto Default Index ("Auto Index")	Auto loans — all auto loans and leases
S&P/Experian First Mortgage Default Index ("First Mortgage Index")	First mortgages — first home mortgages
S&P/Experian Second Mortgage Default Index ("Second Mortgage Index")	Second mortgages — closed-end second mortgages and home-equity loans (excludes home-equity lines of credit)
S&P/Experian Bankcard Default Index ("Bankcard Index")	Bankcards — revolving cards issued by banks (excludes private label, retail cards and charge cards issued by retail firms)
S&P/Experian Consumer Credit Default Composite Index ("Composite Index")	The sum of the four loan types above

2. **Where does the data used to calculate The Indices come from?** The Indices are calculated based on sample data extracted from Experian's File One℠ consumer credit database. This database is populated with individual consumer loan and payment data submitted to Experian. Experian's proprietary national database houses present and historical consumer credit pay behavior, balances and credit limits on more than 280 million U.S. consumers for more than $11 trillion in loans, as well as credit lines and leases sourced from more than 11,500 contributors (e.g., banks, credit unions, retailers, etc.).

3. **Are the indices further broken down beyond the national indices?** Upon request, the data can be broken down by various geographical regions. The indices can be calculated based on census regions, census divisions, states and Metropolitan Statistical Areas (MSAs).

4. **Why create consumer credit indices?** The Indices, using an independent data source and transparent methodology, were created to provide a way of looking at consumer credit trends through new, incremental default rates. Experian's expansive database provides insight into consumer behavior on both national and more specific geographical levels.

5. **What is the difference between these consumer credit indices and other credit indices in the market?** The Indices use loan-level data sourced directly from lenders that reflect recent consumer default trends. Unlike other indices,The Indices do not use pools of securitized loans as an input and are designed to reflect all individual loans made to consumers.

Data sample

In January 2009, a 5 percent random sample was selected from Experian's File One database of more than 280 million consumers. This translates into a significant sample size of 14 million consumers that is used to track consumer payment behavior over time. To keep up with the growth in Experian's consumer database, the base sample is augmented each month with a 5 percent random sample chosen from the new additions to the database.

1. **What percentage of the market do The Indices cover?** The Indices cover more than 11,500 firms report data to Experian, which is close to 100 percent of all issuers across multiple financial institutions (savings and loans, banks, finance companies and credit unions).

2. **What types of credit cards are included in the Bankcard Index?** The types of credit cards included in the Bankcard Index are revolving credit cards issued by financial institutions (savings and loans, banks, credit unions and finance companies) and lines of credit less than $25,000. This index does not include charge cards issued by retail firms or private-label credit cards; those cards without affiliation to Visa, MasterCard or Discover; and those cards that can be utilized only on a private network.

3. **Are home-equity lines of credit included in the Second Mortgage Index?** Home-equity lines of credit (HELOC) are not included in the Second Mortgage Index. HELOC loans are open-ended loans and do not fall into the category of a second mortgage.

4. **How fresh is the data when the Indices are released?** Creditors report to Experian according to borrower billing cycles. Once the data is reported, it is uploaded to Experian databases within approximately 24 to 48 hours. On the last Saturday of each month, all monthly uploaded data is compiled. Index values, however, are released on the third Tuesday of the following month. Accordingly, the data captured in the Indices is at most one month old.

Methodology

The Indices seek to measure only new defaults (i.e., an account in default will be included in the Indices only once). Thereafter, it is excluded from all future index calculations. The foundation of the index construction is to identify the qualifying accounts in the sample and separate them into good (never defaulted) and bad (newly defaulted) accounts. After counting the statement balances in each group, the index is calculated as the proportion of the statement balances of the bad accounts to the total statement balances of both the good and the bad accounts. The Indices have data for all consumers who open an account in a U.S. institution that reports to Experian.

$$\text{Composite Index} = \frac{12 * 100 * \sum 3 \text{ Month Newly Defaulted Balances for all 4 loan types}}{\sum 3 \text{ Month Balances (newly bad + open good)}}$$

1. **What is a credit default? How do you determine when a loan goes into default?** Credit default for closed-end installment loans such as auto, first mortgage and second mortgage is defined as 90 days past due or worse. For open-end, revolving accounts such as bankcards, default is defined as 180 days past due or worse. Credit default also includes write-off, bankruptcy and repossession as defined below.

Loan status	Description
Serious delinquency	Accounts where a payment is in arrears 90 days or more for first mortgages, second mortgages or auto loans and 180 days or more for bankcards.
Write-off	Occurs when a lender determines that a loan is no longer collectible and writes off the loan amount.
Bankruptcy	Occurs when a borrower seeks court protection to reorganize debts. In such circumstances, outstanding loans are typically deemed nonrecoverable and in default.
Repossession or foreclosure	Occurs when a lender takes back ownership of the collateral that a loan is based on. In this event, the loan is immediately considered in default.

Lenders typically classify their consumer accounts based on a graduated scale of payment in arrears. Payments in arrears are reported monthly to Experian in the form of days past due. Two payments in arrears is the first level reported to Experian, as dictated by Fair Credit Reporting Act (FCRA) guidelines and corresponds to 30 days past due. Each subsequent missed payment adds 30 days to the delinquency; hence, a consumer who has a 90-day past-due account has missed four payments. When a lender deems the statement balance of a consumer account to be uncollectible, the consumer account is said to be in default.

2. **What's the difference between a default and a delinquency?** Delinquency occurs when a consumer misses a payment on an account, but the lending institution still expects to receive payments for the loan. Default occurs after the consumer misses consecutive payments — 90 days for auto loans and first and second mortgages and 180 days for bankcards or if a write-off, bankruptcy, repossession or foreclosure occurs as defined above. When a consumer is in default, the lending institution is not expecting to recover the full amount.

3. **Why are only first-time defaults being measured?** The use of first-time default was selected to provide a clear, timely picture of the trends in the credit markets. The time to loss reported to the credit reporting agency varies by a number of factors, including individual creditor accounting practices, product type and public policy, such as the recent moratorium on mortgages. Given this variance in loss reporting, an account could be in default for several months before being reported as a loss. This backlog of accounts in the default status would mask the impact of the new defaults and emerging trends in the credit markets.

4. **Why does the index use a rolling three-month approach?** To minimize the month-to-month volatility of the index, the statement balances use a rolling three-month period. The index is, then, the rolling three-month sum of the newly bad balances divided by the sum of the three-month newly bad and open good balances.

5. **How are authorized users or joint accounts accounted for?** To seek to ensure that default rates are calculated accurately, some individual accounts may need to be excluded or down-weighted. Individual loans can appear on credit reports for multiple consumers when there are joint owners, authorized users or a cosigner. For example, authorized users are excluded since authorized users are not responsible for paying the bills on the account. Similarly, joint accounts and accounts held with cosigners are down-weighted. This approach seeks to prevent the indices from underestimating the default rates, as joint accounts generally perform better than accounts held by an individual.

6. **How often are the indices calculated? When are the indices published to the market? How much history is available?** The indices are calculated once a month and will be published on the third Tuesday of each month. The historical data is available starting from February 2004.

7. **Where can I get data, and is the data free? Where can the indices be found?** The current and historical index levels and index levels for five MSAs (New York, Los Angeles, Dallas, Miami and Chicago) are available to the public on the Standard & Poor's Website, www.consumercreditindices.standardandpoors.com, free of charge. The more granular data that constitutes the indices and the regional index levels is available for a fee.

8. **What are the index tickers?**

SNPECD	S&P/Experian Consumer Default Composite Index
SNPEBD	S&P/Experian Bankcard Default Index
SNPEAD	S&P/Experian Auto Default Index
SNPEFD	S&P/Experian First Mortgage Default Index
SNPESD	S&P/Experian Second Mortgage Default Index

To find out more about Experian Capital Markets, contact your local Experian sales representative or call 1 888 414 1120.

This document does not constitute an offer of services in jurisdictions where Standard & Poor's or its affiliates do not have the necessary licenses. Standard & Poor's receives compensation in connection with licensing its indices to third parties.

All information provided by Standard & Poor's is impersonal and not tailored to the needs of any person, entity or group of persons. Standard & Poor's and its affiliates do not sponsor, endorse, sell, promote or manage any investment fund or other vehicle that is offered by third parties and that seeks to provide an investment return based on the returns of any Standard & Poor's index. Standard & Poor's is not an investment advisor, and Standard & Poor's and its affiliates make no representation regarding the advisability of investing in any such investment fund or other vehicle. A decision to invest in any such investment fund or other vehicle should not be made in reliance on any of the statements set forth in this presentation. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Inclusion of a security within an index is not a recommendation by Standard & Poor's to buy, sell, or hold such security, nor is it considered to be investment advice. Exposure to an asset class is available through investable instruments based on an index. It is not possible to invest directly in an index. There is no assurance that investment products based on the index will accurately track index performance or provide positive investment returns.

Standard & Poor's does not guarantee the accuracy and/or completeness of any Standard & Poor's index, any data included therein, or any data from which it is based, and Standard & Poor's shall have no liability for any errors, omissions, or interruptions therein. Standard & Poor's makes no warranties, express or implied, as to results to be obtained from use of information provided by Standard & Poor's and used in this service, and Standard & Poor's expressly disclaims all warranties of suitability with respect thereto. While Standard & Poor's has obtained information believed to be reliable, Standard & Poor's shall not be liable for any claims or losses of any nature in connection with information contained in this document, including but not limited to, lost profits or punitive or consequential damages, even if it is advised of the possibility of same. These materials have been prepared solely for informational purposes based upon information generally available to the public from sources believed to be reliable. Standard & Poor's makes no representation with respect to the accuracy or completeness of these materials, the content of which may change without notice. The methodology involves rebalancings and maintenance of the indices that are made periodically during each year and may not, therefore, reflect real-time information.

Analytic services and products provided by Standard & Poor's are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during each analytic process. Standard & Poor's and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

This index is based on information obtained from sources believed to be reliable. However, due to the possibility of error or omission (human, mechanical or otherwise), S&P and Experian do not guarantee the accuracy, adequacy or completeness of the index or such information; are not responsible for any errors or omissions therein; and make no representations or warranties as to the results to be obtained from their use.

© 2010 by Standard & Poor's Financial Services LLC. All rights reserved.

Redistribution, reproduction and/or photocopying in whole or in part is prohibited without written permission.

S&P, S&P 500, and STANDARD & POOR'S are registered trademarks of Standard & Poor's Financial Services LLC.

The S&P/Experian Consumer Default Indices are products of S&P Indices, which operates independently of Standard & Poor's Ratings Group. Standard & Poor's Ratings Group plays no role in the compilation, distribution or licensing of the Indices.

Experian
475 Anton Blvd.
Costa Mesa, CA 92626
T: 1 888 414 1120
www.experian.com

© 2010 Experian Information Solutions, Inc. • All rights reserved

Experian and the Experian marks used herein are service marks or registered trademarks of Experian Information Solutions, Inc.

Other product and company names mentioned herein are the property of their respective owners.

07/10 • **2000/1110** • 5531-CS