

THE IMPORTANCE OF REGULAR SCORE VALIDATIONS

Understanding how well a score predicts behavior, such as payment delinquency or bankruptcy, enables you to make more confident lending decisions. Model performance and validation results can be impacted by several factors, including:



Dynamic economic environment

Shifts in unemployment rates, interest rate hikes and other economic indicators can impact consumer behavior.



Changes in regulations

Ongoing regulatory changes can impact borrower behavior and payment patterns.



Scorecard degradation

A model that performed well several years ago may not perform as well under current conditions.

When to perform score validations

The Office of the Comptroller of the Currency's Supervisory Guidance on Model Risk Management states score validations should be performed at least annually to help reduce risk. The validation process should be comprehensive and produce proper documentation.

Conducting model validations



Assess your model inventory. Ensure you have comprehensive documentation showing when each model was developed and when it was last validated.



Validate the scores you're using on your data, along with those you're considering, to compare how well each model performs and determine if you're using the most effective model for your needs.



Produce validation documentation, including performance (odds) charts and key performance metrics, which can be shared with regulators.



Use the performance charts produced from the validation to adjust cutoff scores and design more profitable strategies. These charts can also be used to better understand risk and approval levels when switching between scoring models.