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Deal Alert: Are You Buying TransUnion?

TransUnion, the third largest credit reporting company in the U.S., is for sale and news reports indicate potential private equity interest in the deal.¹ Pension funds should carefully weigh risk factors associated with an investment in TransUnion with your fund's private equity managers, including: TransUnion's senior management team; its leveraged financial condition; and a controversial business product that has a discriminatory impact in employment and has been outlawed for use by employers in many states.

In 2010, Madison Dearborn Partners led a leveraged buyout of TransUnion, acquiring 51% of the Company from the Pritzker family²-- keeping in place the Pritzker's questionable choice for CEO, Siddharth "Bobby" Mehta, and leaving the company leveraged before another transaction. Mr. Mehta achieved notoriety as a prime player in the subprime lending crisis during his years at HSBC.

TransUnion's Subprime CEO?

TransUnion once had a pristine balance sheet and financially conservative leadership. Now it is deep in debt and managed by a CEO who made his name in the subprime lending market leading up to the 2008 financial crisis.

Between 1998 and 2007, Mr. Mehta moved up in the ranks of Household Finance and its successor HSBC, ultimately becoming CEO of HSBC North America Holdings and Chairman and CEO of HSBC Finance Corporation in 2005. During that period, Household, and subsequently HSBC Finance, faced numerous challenges to its method of operation.

In February 2007, Mr. Mehta resigned from HSBC, which ultimately wrote down billions of dollars in losses from the business he led. Within months, Mr. Mehta was hired as a consultant to TransUnion, and became its CEO by August 2007.³

HSBC Finance	Loss before Tax Benefit
2007	\$5.3 Billion
2008	\$3.9 Billion
2009	\$10 Billion

Subsequent to Mr. Mehta's resignation, HSBC Finance reported losses before income tax benefits of \$5.3 billion in 2007, \$3.9 billion in 2008, and \$10 billion in 2009.⁴

The London Telegraph reported on February 25, 2007:

“Mehta and Derickson were ousted last week, just 18 months after their presentation. It is their dabblings with the hot end of the US mortgage market that have resulted in the bank issuing its first- ever profit warning. ... When HSBC bought Household Finance in 2003, it was hard-pressed to fend off flak from investors for this move into so-called ‘sub-prime’ lending - loans to investors with poor credit ratings. Sir John Bond, the bank’s chairman at the time, sought to reassure. Household knew more about risk than anyone in the US, he said.”

American Banker reported on February 23, 2007:

“Mark Thomas, an analyst in London with KBW Inc.’s Keefe, Bruyette & Woods Ltd., said HSBC had wrongly assumed that the managers who came over from Household shared its aversion to risk.”

The Rise and Fall of Household Finance

Household Finance was one of the largest subprime lenders in the late 1990s and early 2000s, and was a defendant in multiple lawsuits and regulatory actions alleging predatory lending practices, as well as enforcement procedures at the SEC.

Household described certain lawsuits in its 10-K for the year end 2001 as follows:

“We do expect, however, that these consumer groups will continue to target HFC in the media and with legal actions to pressure HFC and the nonprime lending industry into accepting concessions that would more heavily regulate the nonprime lending industry.”

Attorneys General Settlement

In October 2002, Household International announced a settlement agreement with multiple attorneys general and the establishment of a “settlement fund” of up to \$484 million.⁵ The New York Times reported:

“Household International Inc. said today that it would pay a record fine of as much as \$484 million to settle allegations that it had misled borrowers in more than a dozen states into paying mortgage rates that in some cases were almost twice what was promised. ...

“State officials, including the New York attorney general, Eliot Spitzer, said the fine was a record for so-called predatory lending practices.”⁶

SEC Settlement

In March 2003, Household International settled SEC charges “relating to the sufficiency of certain disclosures in reports Household filed with the SEC during 2002.” Household reported that the SEC found certain Household disclosures misleading.⁷ In the settlement, Household did not admit or deny wrongdoing.

HSBC Regrets

In Spring of 2003, on the heels of the state settlements, HSBC acquired Household International for \$15 billion.⁸

In 2009, two years subsequent to the resignation of Mr. Mehta, HSBC was “abandoning US subprime lending six years after a \$15.5 billion expansion that led to record loan losses,” according to [Bloomberg](#), which went on to report:

“Stephen Green, HSBC's current chairman, said the London-based bank regrets the 2003 purchase of Prospect Heights, Ill.-based [Household International](#), which added almost 50 million US clients, many with spotty credit histories.

“‘It's an acquisition we wish we hadn't done with the benefit of hindsight, and there are lessons to be learned,’ Green told reporters on a conference call yesterday.

“The consumer-lending business of HSBC Finance Corp., the former Household, will stop making loans, HSBC said.”⁹

TransUnion's HSBC Management Team

Mr. Mehta began working for TransUnion as a consultant in May 2007, just three months after resigning from HSBC, and was hired as CEO on August 22, 2007. In addition to Mr. Mehta, a number of other executives at TransUnion also hail from HSBC North America or its predecessor Household International, including the General Counsel of TransUnion.

- John Blenke, Executive Vice President and Corporate General Counsel of TransUnion: “from 1989 through April 2003, he held a variety of positions with Household International, Inc. (predecessor to HSBC North America), including most recently the Vice President of Corporate Law, where he managed the corporate legal functions responsible for mergers and acquisitions, corporate finance and consumer finance branch-based and wholesale lending.”¹⁰ Mr. Blenke's role as an officer with legal responsibilities overlaps with the time period of the regulatory settlements described above.
- Wilbert P. Noronha, Executive Vice President of Analytics and Decision Services. “From June 1998 through March 2008, he held a variety of finance and operating management positions at HSBC Finance Corporation.”¹¹
- Mohit Kapoor, Executive Vice President and Chief Information and Technology Officer. “From March 2002 through April 2011, he held a variety of positions at HSBC Bank USA, N.A.”¹²

Is TransUnion Subprime?

At the end of 2007, TransUnion had \$5.6 million in total debt and \$1.3 billion in stockholders' equity. By June 30, 2011, TransUnion had \$1.6 billion in debt and negative stockholders' equity of -\$862.5 million, reflecting in large part the impact of the Madison Dearborn transaction and payouts to the Pritzker Family.

	Total Debt	Stockholders' Equity
2007	\$5.6 mil	\$1,300 mil
2011	\$1,600 mil	-\$862 mil

Since 2007, TransUnion distributed \$2.5 billion to Pritzker Family stockholders: \$398 million in November 2008, \$897 million in December 2009, and \$1.17 billion in the 2010 Madison Dearborn acquisition.

Debt and annual interest expense are substantial even before private equity managers consider buying the company in a second transaction. Debt to EBITDA is 4.9 to 1, while its competitors are below 2 to 1.¹³

Competitors' Debt Levels

	Debt to EBITDA
TransUnion	4.9
Experian	1.4
Equifax	1.7

Moody's gives TransUnion a B1 rating as a corporate borrower, below the lowest investment grade rating. Moody's rates TransUnion's senior debt at Ba3 and its unsecured debt at B3. B is defined by Moody's as: "Obligations rated B are considered speculative and are subject to high credit risk."¹⁴

Standard & Poor's gives TransUnion as a corporate borrower a B+ rating, also below the lowest investment grade rating of BBB-. S&P rates TransUnion's senior debt at BB- and its unsecured debt at B-. B is defined by S&P as: "More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments."¹⁵

By contrast, TransUnion's primary competitors in the credit data industry have higher credit ratings. S&P assigns Experian and Equifax BBB+ ratings, investment grade ratings; Moody's assigns Experian and Equifax Baa1 ratings, called "medium grade" by Moody's.

Can Bobby Mehta, who had a leadership role in the subprime industry, lead TransUnion into its prime?

TransUnion Markets Employment Credit Reports Which Have a Discriminatory Impact On Minorities

TransUnion sells and promotes credit reports to employers for use in screening job applicants. We believe selling credit reports to employers creates a barrier to people obtaining jobs at a time when unemployment is high and the American economy is still struggling.

The use of credit reports by employers for hiring decisions has been deemed unlawful with some exemptions in California, Illinois, Connecticut, Maryland, Hawaii, Washington and Oregon, and is under scrutiny in Congress and additional states.

Importantly, 25 national civil rights and consumer advocacy organizations have signed an open letter to TransUnion petitioning the company to stop selling the product because of its discriminatory impact. A copy of the letter and list of signatories is attached for your reference.

We encourage pension trustees to consider whether this product violates principles of responsible investing. There are four reasons TransUnion shouldn't sell credit reports to employers for hiring purposes:

1. **Credit checks have a discriminatory impact on people of color.** The U.S. Equal Employment Opportunity Commission has sued two employers over the use of credit checks in making employment decisions, alleging that the practice has a discriminatory impact on people of color.¹⁶ One study found that the average credit score for African Americans is 10% to 35% lower than the average credit score for Whites, and the average credit score for Latinos is 5% to 25% lower than that of Whites.¹⁷
2. **Employment credit checks are a "credit catch 22".** Job seekers can't pay their bills because they can't get a job, and they can't get a job because they can't pay their bills. Credit reports can be marred by high foreclosure rates and unemployment, health care debt, the effects of divorce on women, and debt loads of college graduates, among many other life events unrelated to job performance.
3. **Credit checks do not predict job performance.** TransUnion representative Eric Rosenberg recently admitted: "At this point we don't have any research to show any statistical correlation between what's in somebody's credit report and their job performance or their likelihood to commit fraud."¹⁸ One study presented to the American Psychological Association demonstrated that credit history does not correlate with employee performance: "From a practical standpoint, there is no benefit from using credit history to predict employee performance or turnover."¹⁹
4. **Credit reports are inaccurate.** A 2007 Zogby survey reported that 37% of people surveyed found an error on their credit report, and half of these respondents reported that they could not easily fix the mistakes. The lobbying arm of the credit reporting industry boasts that only 11% of consumers that request their credit report file a dispute regarding its accuracy. However, 11% of the roughly 200 million consumers with data files in the US translates into 22 million people whose job prospects could be affected by faulty credit reports.

Just as poor people and people of color were more likely to get steered to a subprime loan product, so too are people of color and the unemployed the primary victims of TransUnion's pre-employment credit checks.

In Closing

We encourage you to fully explore with your private equity managers TransUnion's tolerance for risk, the leveraged condition of the company, and the discriminatory impact of its product.

¹ Reuters, 9/23/11

² Moody's Rating Action press release, February 18, 2011 describes "leveraged buyout". TransUnion S-1A, 9/7/11 discloses negative stockholders' equity.

³ TransUnion SEC Form S-1A, 9/7/11, p. 85

⁴ HSBC Finance SEC Form 10-K for year end 2007, 2008, 2009.

⁵ Household International, Form 8-K, 10/15/2002:

"Household International, Inc. ("Household"), the parent of Household Finance Corporation, announced on October 11, 2002 that it has reached a preliminary agreement with a multi-state working group of state attorneys general and regulatory agencies to effect a nationwide resolution of alleged violations of consumer protection, consumer lending and insurance laws and regulations in its retail branch consumer lending operations as conducted by Household Finance Corporation and its consolidated subsidiaries (collectively referred to herein as the "Registrant") under the HFC and Beneficial brand names. Household denies the allegations of the states and believes that if claims or actions were brought based upon the allegations, the Registrant would have substantive meritorious legal defenses. However, in recognition that resulting litigation and/or regulatory proceedings would be protracted and that the outcome of such disputes is uncertain, the Registrant has elected to resolve the issues by agreement."

"Pursuant to the proposed agreement, the Registrant will establish a fund of up to \$484,000,000 to be divided among the participating states, with each state receiving a proportionate share of the funds based upon the volume of the Covered Loans originated in the state."

⁶ The New York Times, 10/12/2002

⁷ Household SEC DEFA14, 3/19/2003: "On March 18, 2003, without admitting or denying any wrongdoing, Household consented to the entry of an order by the SEC pursuant to Section 21C of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The order contains findings by the SEC relating to the sufficiency of certain disclosures in reports Household filed with the SEC during 2002. The SEC found that Household's disclosures regarding its restructure policies fail to present an accurate description of the minimum payment requirements applicable under the various policies or to disclose Household's policy of automatically restructuring numerous loans and are therefore false and misleading. The SEC also found misleading Household's failure to disclose its policy of excluding forbearance arrangements in certain of its businesses from its 60+ days contractual delinquency statistics. The SEC noted that the 60+ days contractual delinquency rate and restructuring statistics are key measures of Household's financial performance because they positively correlate to charge-off rates and loan loss reserves."

⁸ Wikipedia: http://en.wikipedia.org/wiki/Household_Finance

⁹ Bloomberg, March 3, 2009,

http://www.boston.com/business/articles/2009/03/03/hsbc_ends_us_subprime_lending/?page=full

¹⁰ TransUnion, SEC Form S-1A, 9/7/11, p. 86

¹¹ Ibid.

¹² Ibid.

¹³ Fiscal year 2010 annual reports for TransUnion and Equifax; Year End March 2011 report for Experian.

¹⁴ http://www.moodys.com/research/Correction-to-Text-January-31-2011-Release-Moodys-assigns-Ba3--PR_214301 and

http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004, p. 4

¹⁵ <http://www.standardandpoors.com/prot/ratings/entity-ratings/en/us/?entityID=833587§orCode=CORP>, September 20, 2011.

<http://www.standardandpoors.com/prot/ratings/debt-ratings/en/us/?debtType=SRUNSEC&entityID=833588&debtName=Senior+Unsecured&entityName=TransUnion+LLC>

¹⁶ EEOC press releases: "EEOC Files Nationwide Hiring Discrimination Lawsuit Against Kaplan Higher Education Corp," December 21, 2010 ; "EEOC Files Nationwide Hiring Discrimination Lawsuit Against Freeman," October 1, 2009.

¹⁷ "Use of Credit Information by Insurers in Texas." Texas Department of Insurance Report to the 79th Legislature. December 30, 2004.

¹⁸ Testimony of TransUnion Director of State Government Relations Eric Rosenberg. Informational hearing of the Oregon Senate Committee on Commerce and Workforce Development. January 12, 2010.

¹⁹ Palmer, Jerry K. and Laura K. Koppes. "Further Investigation of Credit History as a Predictor of Employee Turnover." Eastern Kentucky University. Presented to the American Psychological Society in 2003.