VANTAGESCORE® NewsBlast

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VantageScore.com

Dear friend,

Consumers are always at an advantage when they're armed with the most accurate information. Nowhere is this more important than in the often-misunderstood area of credit scoring, which is why I was disappointed to read some recent press coverage claiming loan modifications hurt a borrower's credit score.

With high unemployment and more homeowners entering the foreclosure process in the second quarter of 2010, having the correct information on loan modifications could mean the difference between keeping one's home or losing it.

We've studied the correlation between loan modifications and credit scores thoroughly and found that, in most cases, a loan modification has very little impact, if any, on a consumer's credit score. You can read more about our findings in the article below.

Speaking of information, in the coming months we'll be traveling around the country sharing some of VantageScore Solutions' latest research and findings on credit scoring trends with key industry and trade associations, including the Risk Management Association, the American Bankers Association, the American Financial Services Association and the Mortgage Bankers Association.

We look forward to any opportunity to talk about VantageScore and our analytics, and I hope to see you at one of these upcoming events.

Sincerely,

Barrett Burns

Barrett Burns
President & CEO

Did You Know? Most Loan Modifications Won't Have a Negative Impact on your Credit Score

Lately, there have been media reports about the negative impact of a loan modification to a consumer's credit score, but recent VantageScore Solutions' research using more than 400,000 active consumer credit files shows that mortgage modification options have very little effect.

While more drastic mortgage options such as short sales and foreclosures can slash a credit score by 100 points or more, the impact of various loan modifications is far less damaging.

Depending on a consumer's starting VantageScore (see chart below), a loan modification with no partial charge-off, where the modified loan overwrites the original loan, could potentially add 10 points to the credit score if the loan is not classified as new. This positive result occurs because the partial forgiveness of principal will reduce the consumer's overall utilization level, helping the score. This remains true as long the existing loan remains intact and is not replaced with a new loan, preserving the "age" of the account. Even when a consumer's original loan is overwritten and reclassified as new, research shows the score decrease to be minimal (2-14 points) without a partial charge-off.

In the case of loan modifications that resulted in recapitalization, the scores are slightly higher due to a higher credit amount on open real estate accounts. If a new account is created, this positive effect was partially offset by the loss of the existing account age and similar observations can be seen for recapitalization as with forgiveness of subordinated loans.

More than 1.2 million homeowners have entered a trial modification through the federal government's "Home Affordable Modification Program" (HAMP) initiative, according to a July report from the U.S. Treasury Department and the U.S. Department of Housing and Urban Development.

"It's much better to seek out a loan modification before the consumer experiences a severe delinquency in a credit file," said VantageScore Solutions President and Chief Executive Officer Barrett Burns. "Late payments have a far greater impact on a credit score than loan modifications."

For example, looking at the "VantageScore Starting Score" row in the table below, we can see that consumers who remain current on their mortgage, but become late with other debts suffer a 32 point drop from those consumers who keep all their accounts clean. And, the drop rises sharply to a 140 point decrease if a homeowner becomes late on a mortgage. So clearly, the damage to a credit score from delinquency is severe. More attention needs to be paid to that issue, rather than the much smaller changes to credit scores from loan modification programs.

		CLEAN CREDIT	FIRST MORTGAGE CLEAN	COUNTERCULTURE	OVERWHELMED
		All trades clean	First mortgage clean, other trades delinquent	First mortgage delinquent, other trades clean	All trades delinquent
VantageScore® Starting Score		**862**	**830**	**722**	**625**
Forbearance	Interest only	0	0	0	0
	Reduced principal plus interest	0	0	0	0
	Deferral	-40	-35	-10	0
Loan Modification	Forgive, no partial c/o, overwrite	10	10	5	0
	Forgive, no partial c/o, new loan	-14	-10	-9	-2
	Recapitalization, overwrite	3	2	2	0
	Recap., new loan	2	1	1	0
	Recap. and forgive subord. loans	3	3	5	12
	Recap. and highly delinquent				
Short Sale		-130	-110	-50	-25
Foreclosure	Foreclosure initiated	-140	-130	-55	-20
	Foreclosure initated, payment made	-125	-115	-40	-10
Bankruptcy	Filing only for mortgage trade line	-175	-160	-70	-30
	All trade lines included in filing	-365	-330	-220	-120

(Clean: Debts maintained in good standing, although an occasional 30-day delinquency may have occurred.)

Total Securitization “Learning Curve” Highlights VantageScore Solutions’ Risk Shift Research

The July 16 issue of Total Securitization featured a “Learning Curve” article on the risk shifts in credit scoring, particularly in the residential real estate industry.

Published by Institutional Investor, Total Securitization covers the secondary market, the U.S. taxable fixed-income markets, corporate bonds, Treasuries, agencies, mortgage- and asset-backed securities.

In his article, entitled “Looking Behind the Credit Score: Lenders Should Recognize Shifting Risk,” VantageScore Solutions President and Chief Executive Officer Barrett Burns writes that “in the aftermath of the financial meltdown, we have entered an era of shifting risk, particularly in residential mortgage lending market.”

Burns reminds readers that “that while a consumer’s credit score may have remained unchanged, the risk it represents has not” and focuses on recent VantageScore Solutions research which shows residential mortgage risk “has increased at an accelerated pace for prime and super-prime credit tiers in all product sectors” and that risk levels “have recently improved for sub-prime consumers with consumer mortgage loans.

“On the other hand,” Burns continues, “our latest analysis of credit risk within the consumer mortgage sector confirms that while risk levels continue to climb for new originations, the pace of that climb is beginning to slow compared to prior years.”

The “Learning Curve” article was targeted to lenders and investors, cautioning them that if they don’t conduct similar analysis, “they can’t be sure their credit scoring models reflect current economic conditions.

“Without this information, Burns concludes, “banks and other financial institutions will be hampered in their ability to make smarter lending and investing decisions.”

The full “Learning Curve” article is available here:
http://www.iinews.com/site/pdfs/TS_July_16_2010_Burns.pdf

VantageScore Solutions Shares New Research on Finding Creditworthy Consumers

Study Results to be Presented at RMA Annual Risk Management Conference

October’s Risk Management Association’s (RMA) Annual Risk Management Conference will feature Sarah Davies, VantageScore Solutions’ Senior Vice President, Product Management, Analytics and Research, who will present “Finding Lending Opportunities in the New World of Risk.”

On Monday, Oct. 18, Davies will share VantageScore Solutions’ latest research, which reveals a methodology for identifying a hidden trajectory in the consumer’s environment that can serve as a useful barometer of future performance by the borrower when combined with the credit score, helping lenders to strategically target creditworthy consumer segments for lending opportunities, while avoiding those segments where consumer credit quality could continue to slip. For example, the study identified more than 60 million creditworthy borrowers in the U.S. that are also seen as “stable,” seven million of whom cannot be identified using standard scoring methods. Another 11 million were identified as creditworthy and “improving.” She will also discuss the results for identifying consumers whose credit profile can be considered “deteriorating.”

The full study is detailed in a new white paper “Finding Creditworthy Consumers in a Changing Economic Climate,” which can be viewed here: http://vantagescore.com/research/creditworthyconsumers/

The RMA Annual Risk Management Conference will be held Oct. 17-19, 2010, at the Marriott Baltimore Waterfront Hotel.

More information is available at:
http://www.rmahq.org/RMA/RMAUniversity/EventInfoandRegistration/coursedescription?EID=RMC98

Upcoming Conferences Feature VantageScore Solutions’ Trends in Credit Scoring

Company Officials to Share Latest Research at Major Industry Events

One of VantageScore Solutions’ strategic goals is to engage key audiences, including financial trade associations, by providing insight into VantageScore and addressing significant issues related to credit scoring.

In October, company officials will travel to several major conferences to present the latest analytics and trends in the credit scoring industry.

Among the groups VantageScore Solutions will address is the American Bankers Association, which includes banks of all sizes and charters and represents the nation's $13 trillion banking industry. The ABA’s Annual Convention, Business Expo & Directors’ Forum will be held in Boston Oct. 17-20.

VantageScore Solutions will also be presenting its latest data on credit scoring trends to the American Financial Services Association, the national trade association for the consumer credit industry, which holds its 94th Annual Meeting Oct. 18-20 in Irving, Texas.

Finally, VantageScore Solutions will be a featured speaker at the Mortgage Bankers Association’s 97th Annual Convention & Expo, which takes place Oct. 24-27 at the Atlanta Georgia Congress Center. The event will include industry leaders from across the country gathering to discuss solutions to current business challenges, connect with influential industry experts and set the strategic direction to shape the future of real estate finance.

VantageScore Solutions 2010 Conference and Event Schedule

Auto Finance Summit 2010
Oct. 12-13
Encore at the Wynn Las Vegas
http://www.regonline.com/register/checkin.aspx?EventId=836874

NAHREP/AREAA National Real Estate and Marketing Conference
Oct. 10-12
The Bellagio Las Vegas
http://guest.cvent.com/EVENTS/Info/Summary.aspx?e=7af75e3c-84e5-4bc0-9991-b9b4f8c7a58f

Risk Management Association Annual Risk Management Conference
Oct. 17-19

Marriott Baltimore Waterfront Hotel
http://www.rmahq.org/RMA/EventInfoandRegistration/RegisterforandFindEvent/default?EID=501201D&CID=RMC98

American Bankers Association Annual Convention, Business Expo & Directors' Forum
Oct. 17-20
Hynes Convention Center/Sheraton Boston
http://www.aba.com/Events/Annual.htm

American Financial Services Association 94th Annual Meeting
Oct. 18-20
Omni Mandalay @ Las Colinas
Irving, Texas
http://www.afsaonline.org/meetings_and_programs/meeting_information.cfm?meetingid=142

Mortgage Bankers Association's 97th Annual Convention & Expo
October 24-27, 2010
Atlanta Georgia World Congress Center
http://events.mortgagebankers.org/97th_annual/default.html

About VantageScore

VantageScore is the generic credit scoring model created by America's three major credit reporting companies. Our highly predictive model uses an innovative, patent-pending scoring methodology to provide lenders with a consistent interpretation of consumer credit files. This means lenders can help more creditworthy borrowers, and millions of Americans who use credit infrequently can be accurately scored.