Expand & Grow: How to reach and educate more members using a new breed of credit scores

Presentation for NAFCU’s 46th Annual Conference and Solutions Expo

Barrett Burns
President and CEO
VantageScore Solutions, LLC
Who is VantageScore

- Generic consumer risk score
  - Likelihood of 90+ days past due

- Created by the 3 major CRCs:
  - Equifax, Experian, TransUnion

- Reflects consumer data contained in credit files present at the CRCs
  - Traditional, rental, utility and cell

- The same model is in place at each of the 3 CRCs
  - More consistent scores

- Independent company, VantageScore Solutions, LLC formed in March 2006

- Lenders of all sizes utilize VantageScore models in all industry segments
  - Mortgage, Bankcard and Auto

- All VantageScore credit scores are provided to both lenders and consumers by the CRCs
  - The CRCs independently market and sell the VantageScore credit scores
You probably heard about us last March:

VantageScore 3.0 unveiled March 2013

Score range is changed to 300-850

FICO Competitor Steps Up With New Improvement
March 12, 2013

Credit Score Battles
March 20, 2013
What (and who) you don't know can leave opportunity for your competitors.

64 million: The number of consumers in the United States that have little or no credit history and are unscoreable by most traditional credit score models.
- Experian

1 in 5: The number of Americans that are underserved.
- FDIC

40%: The number of consumers who didn’t know a credit score is used in decisions about credit availability and pricing of credit cards.
- Consumer Federation of American/Vantagescore Solutions Annual Credit Score Knowledge Survey
Being deemed unscoreable can leave a consumer in a cycle of oppressive loan terms.
What do lenders think about unscoreable consumers?

Survey respondents are generally split three ways: Many say that unscoreables are either an “additional cost” or an “opportunity for growth” for their institutions, while others say they have no impact.
How often do lenders receive loan applications from consumers without a credit score?

Roughly one-third of lenders receive loan applications from consumers without credit scores sometimes or frequently.
How risky are loan applicants without credit scores?

More than 25% of lenders believe they are “high risk,” while only 11% of lenders consider them “low risk.” Who’s right?
So who are “the unscoreables”? 
Experian: Typically unscoreable consumers who fall into prime credit tiers & hold professional or skilled-labor jobs

Professional: 30%
Government: 4%
Skilled labor: 31%
Unskilled labor: 1%
Self-employed: 3%
Retired: 31%

Anonymous consumer file data and analysis from Experian.
Experian: A significant portion of typically unscoreable consumers own their homes

Prime / Super prime
Average age
52.3

Non-home owner 58%
Home owner 42%

Near prime
Average age
33.2

Non-home owner 59%
Home owner 41%

Anonymous consumer file data and analysis from Experian (June 2012).
Experian: Home values of the typically unscoreable mirror the median U.S. home value

**MEDIAN HOME VALUE**

- **Super prime / prime**: $147,300
- **Near prime**: $110,700
- **Median US Home Value**: $154,000

Anonymous consumer file data and analysis from Experian (June 2012).
Experian: Income distribution of the typically unscoreable mirrors mainstream U.S.

An opportunity and cost indeed...
Which population segments are the hardest to target regardless of whether they have credit scores or not?

Recent college graduates and younger borrowers – typically those with thinner credit files – are the biggest challenge for lenders.
What types of data are acceptable when evaluating un-scoreable consumers?

Older credit file information and rent, utility and mobile payments are becoming acceptable and social media information is completely unacceptable.
Universe expansion

VantageScore 3.0 scores 30-35 million more consumers over conventional models

- VantageScore 3.0
  - Infrequent credit
  - New entrant
  - No recent activity
  - No open trades

Scoreable Universe

- Conventional Models
- New Model

VantageScore Solutions, LLC © 2013 | 16
Approximately 10 million of the New Scores are near prime and prime.
Universe expansion with VantageScore – scoring the traditionally unscoreable

For the Credit Union
Enables credit unions to score more members more effectively, while also attracting new members

For the consumer:
- Greater access to credit, especially for the underserved, and greater accuracy and consistency for the “full file” consumer
- A more significant number of people can now be scored fairly

Lenders receive a more accurate picture of risk, while consumers have access to the credit at fair terms.
An informed member is a better and more stable member.

VantageScore Solutions’ Core Consumer Education Initiatives:

- Online Resources
- Social Media
- Videos
- Consumer Advocate & Credit Counselor Programs
- Consumer Media Outreach
- Educational Resource
Launched ReasonCode.org, which provides deeper explanations for adverse action reason code language consumers receive in disclosures, declination letters and when they obtain scores on their own.

- Offers a searchable database of reason codes and reason code language.
- Includes tips for how to improve a score based on each reason code.
- Works for all VantageScore models.
YourVantageScore.com

A consumer-centric website with a wealth of educational content:

- Understanding credit scores and credit score ranges
- What influences a credit score
- Myths vs. Facts
- Who uses credit scores
- Understanding disclosure notices
- How credit behavior is scored
- Who’s who in the credit world
- Video and audio files
- FAQs
- Articles
- Consumer papers
Social Media

Active Facebook presence and Twitter account
- Launched in 2012
- Content is consumer education focused
- Regular updates to Facebook
- Ongoing Tweets
YouTube Videos

YouTube account with specific consumer and lender channels

- Launched in 2013
- Videos accessed on websites as well
Monthly Newsletter: *The Score*

- Consumer & lender articles
- Consumer-centric column: *Did You Know* addresses common consumer questions
Credit Score Knowledge Survey & CreditScoreQuiz.org

Partnership program with Consumer Federation of America includes an annual national survey of adults to capture credit score knowledge. Results are made public each spring.

A companion interactive website allows consumers to test their own knowledge on credit scores through an online quiz.

The site is a fun tool that delivers answers to each question with explanations so that consumers can inform themselves about the latest credit score information.

Useful resources and real-time nationwide results also are provided.

More than 35,000 people have taken the quiz.

Try it today: [www.CreditScoreQuiz.org](http://www.CreditScoreQuiz.org)

Now available in Spanish: [CreditScoreQuiz.org/Espanol](http://CreditScoreQuiz.org/Espanol)
Consumer Media Outreach

Proactive and reactive media relations efforts on-going focused on consumer education.

Consumer education articles distributed through Brandpoint resulting in thousands of placements annually.

Content partnership with leading credit score educator/expert John Ulzheimer.

Regulator contributor to Credit.com, one of the leading resources for independent credit information, and other consumer-centric media outlets.

Media outreach program generated 225,630,014 circulation-impressions in 2012*.

* Media monitoring and analysis tracked independently by Universal Information Services.
VantageScore 3.0

- Results
  - Performance
  - Consistency
  - Universe Expansion

- VantageScore 3.0 Performance Drivers

- Core Features

- Scoring the traditionally unscoreable
Capabilities of a model built with post recession data and new modeling techniques
Significant accuracy improvement
PERCENT LIFT (GINI) OVER VANTAGESCORE 2.0

Prime plus: 660-850
Near: 600–659
Decisioning: 620-770

- Real estate
- Bankcard
- Auto

<table>
<thead>
<tr>
<th></th>
<th>Prime plus/near prime</th>
<th>Decisioning</th>
<th>Prime plus/near prime</th>
<th>Decisioning</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Originations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8%</td>
<td>5%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>35%</td>
<td>27%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Account management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>24%</td>
<td>18%</td>
<td>11%</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>25%</td>
<td></td>
<td></td>
<td>25%</td>
</tr>
</tbody>
</table>
Improved consistency of consumer scores across CRCs

PROPRIETARY CHARACTERISTIC LEVELING PROCESS MINIMIZES INFORMATION VARIANCE, ENABLING THE SAME MODEL TO BE USED AT ALL BUREAUS

90.7%

of consumers receive scores within a 40 point range across three bureaus
Score distribution consistency for lenders

VANTAGESCORE 3.0: CONSISTENCY OF SCORE DISTRIBUTIONS ACROSS CRCS FOR OVERALL ORIGINATIONS

Identical V3.0 model across the three major credit bureaus produces highly aligned population and risk distributions.
Performance drivers

Improved and expanded data

- More granular data yielding greater behavioral value
  - No longer using ‘one size fits all’ categories
  - 900 characteristics, 150 selected, 40% new compared to VantageScore 2.0
    - First mortgage vs. home equity vs. line of credit
    - Auto vs. Student loan vs. Personal loan vs. Installment
    - Secured vs. Unsecured revolving

- Blended timeframe (09-11, 10-12), 45 million consumer credit files
VantageScore 3.0 characteristics contributions

- Payment history, 40%
- Depth of credit, 21%
- Utilization, 20%
- Balances, 11%
- Recent credit, 5%
- Available credit, 3%
New techniques deliver unique Features & Benefits in VantageScore 3.0

Post-recession model
- Developed on consumer behavior at the end, and after, the recession
- More accurate model reduces repurchase risk for mortgage lenders

Rolling 14 day de-dupe window in which major credit inquiries are de-duped
- Major credit inquiries within 14 day window are considered one inquiry regardless of the type of account (e.g. real estate, auto, installment bankcard).
- Retail and collection inquiries are not de-duped
- Utility inquiries are entirely excluded from consideration.
- Data shows that 14 day window provides greater accuracy

Authorized user
- Minimized exposure to piggy-backing fraud

Student loan
- Deferred, active status, pay-down
- Government and private
New techniques deliver unique Features & Benefits in VantageScore 3.0

Consumer-friendly

- Natural disaster
  - Temporary exclusion of trade-level delinquent behavior while retaining positive payment data.

- Paid-off mortgages
  - High credit quality consumers recognized for successfully paid-off behavior.

- Paid third-party collection accounts
  - Paid collections with third-party collection agencies not considered in VantageScore 3.0
  - Only agency collection accounts that are unpaid are a factor impacting a consumer’s score
  - All industries
    - Includes paid medical collections
  - All balance amounts
New techniques deliver unique Features & Benefits in VantageScore 3.0

Implementation

- Score range
  - Re-stated to familiar 300-850

- Reason codes
  - Consumer-friendly language
    - Reasoncode.org
  - 80 numeric codes
  - Option to use positive reason codes
Summary

VantageScore 3.0

- 30-35 million more consumers scored - meaningful credit opportunities
- Significant predictive improvement over previous models
- More consistent scores across CRCs
- 300-850 score range and fewer reason codes provides easier implementation
Barrett Burns is president and CEO of VantageScore Solutions. Over the course of a career spanning more than three decades, he has held national and international risk and credit management plus executive leadership positions at several of the nation’s most prestigious financial services companies including U.S. Trust, Ford Motor Credit, Bank One and Citibank. Burns serves on the Board of Directors for the Homeownership Preservation Foundation, the Corporate Board of Governors for the National Association of Hispanic Real Estate Professionals and on the Asian Real Estate Association of America’s National Advisory Council. Burns is a member of the National Community Reinvestment Coalition’s Mortgage Finance Collaborative Council and the Board of Regents of the Mercersburg Academy.

Frequently asked to provide thought leadership on issues regarding consumer credit and risk, he testified before the Subcommittee on Financial Institutions & Consumer Credit, in the United States House of Representatives, during a 2010 hearing entitled “Keeping Score on Credit Scores: An Overview of Credit Scores, Credit Reports and Their Impact on Consumers” and served on the Federal Reserve Board’s Consumer Advisory Council until June 2011.