



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

Presentation for NAFCU's 46<sup>th</sup> Annual Conference and Solutions Expo

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# 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

**CREDIT UNION** ■  
**JOURNAL** ■

*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 unscorable by most traditional credit score models.

- Experian

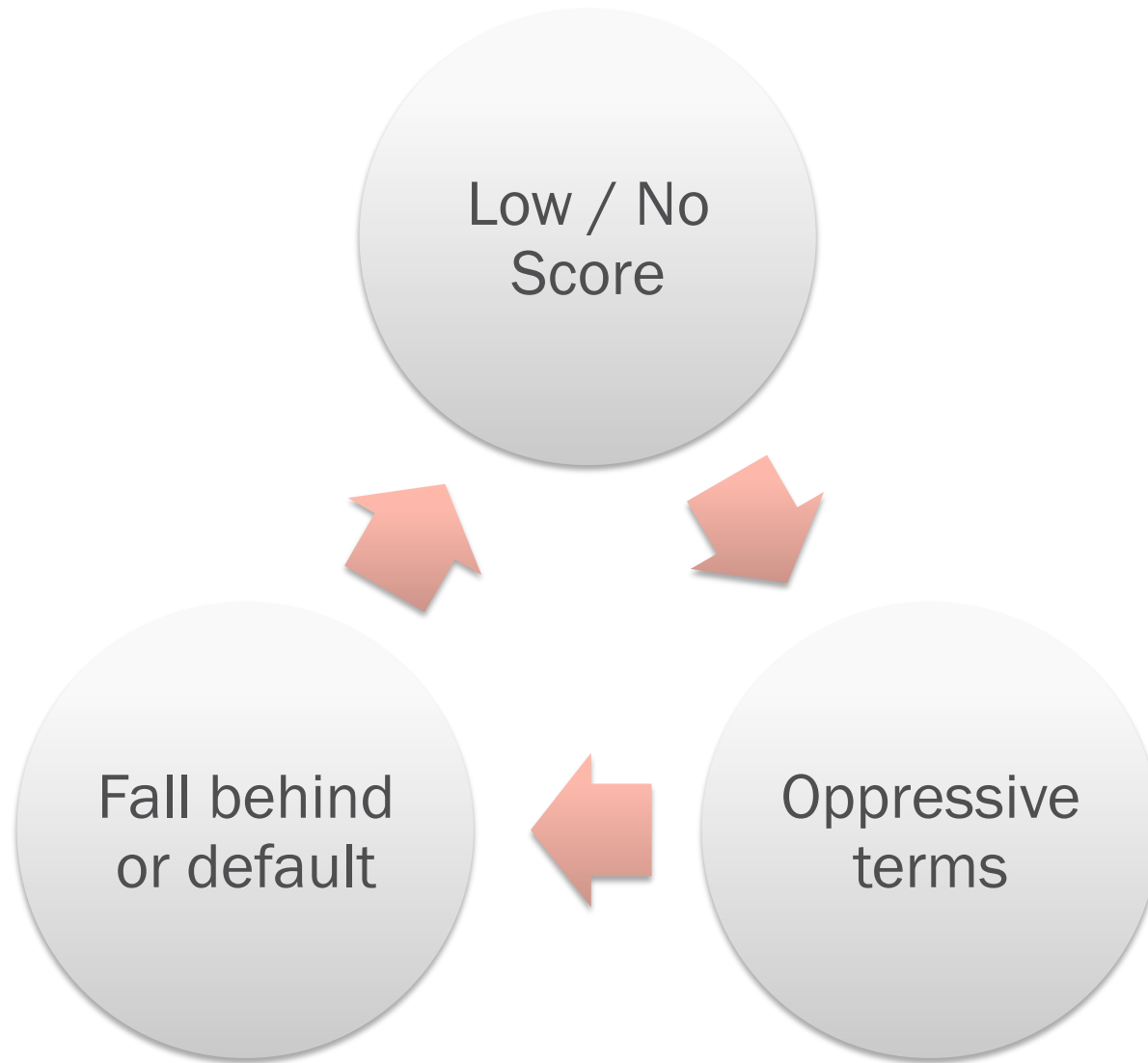
**1 in 5:** The number of Americans that are **underserved.**

- 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.

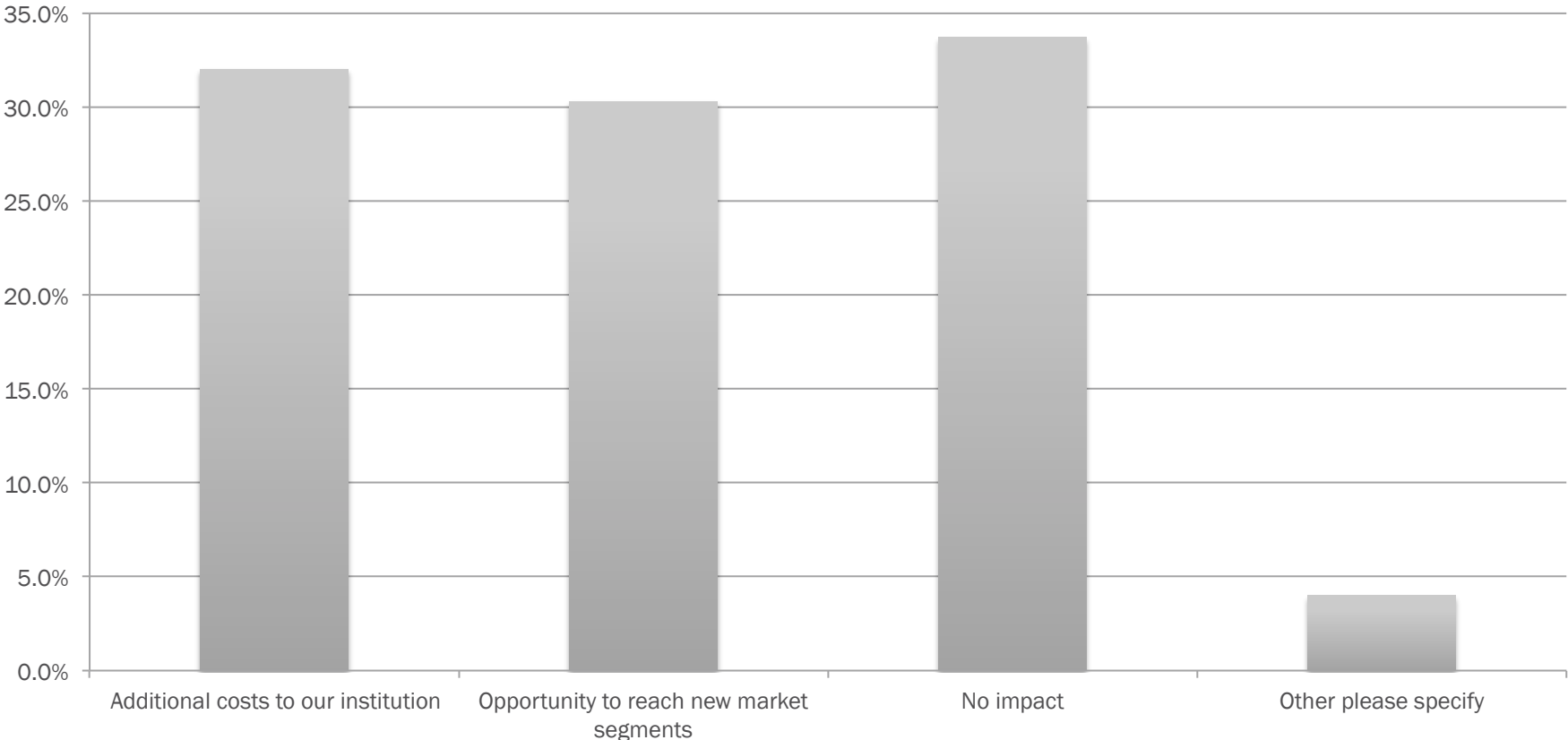
- Consumer Federation of American/Vantagescore Solutions  
Annual Credit Score Knowledge Survey

# Being deemed unscorable can leave a consumer in a cycle of oppressive loan terms



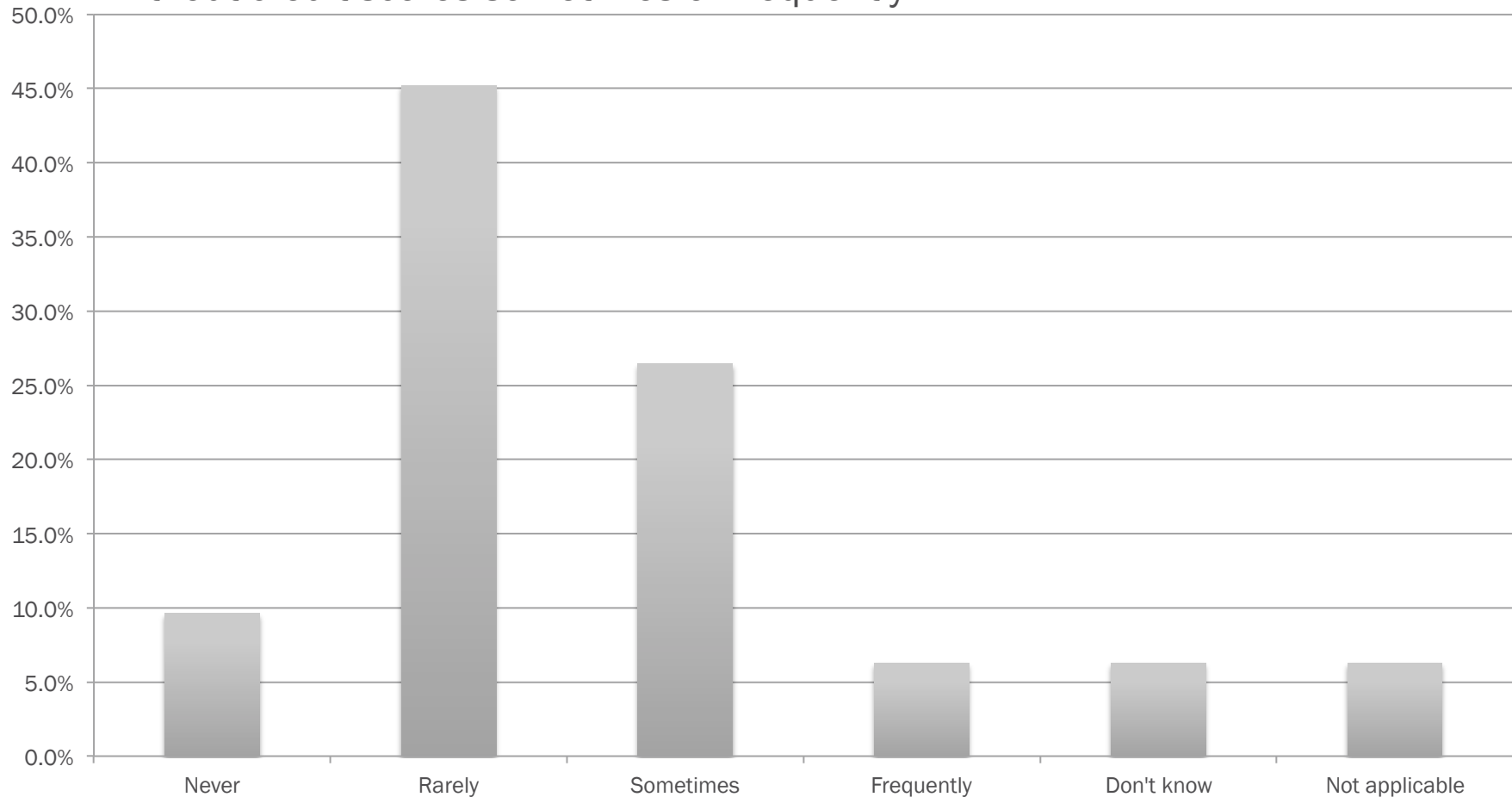
# What do lenders think about unscorable consumers?

Survey respondents are generally split three ways: Many say that unscorable consumers are either an “additional cost” or an “opportunity for growth” for their institutions, while others say they have no impact.



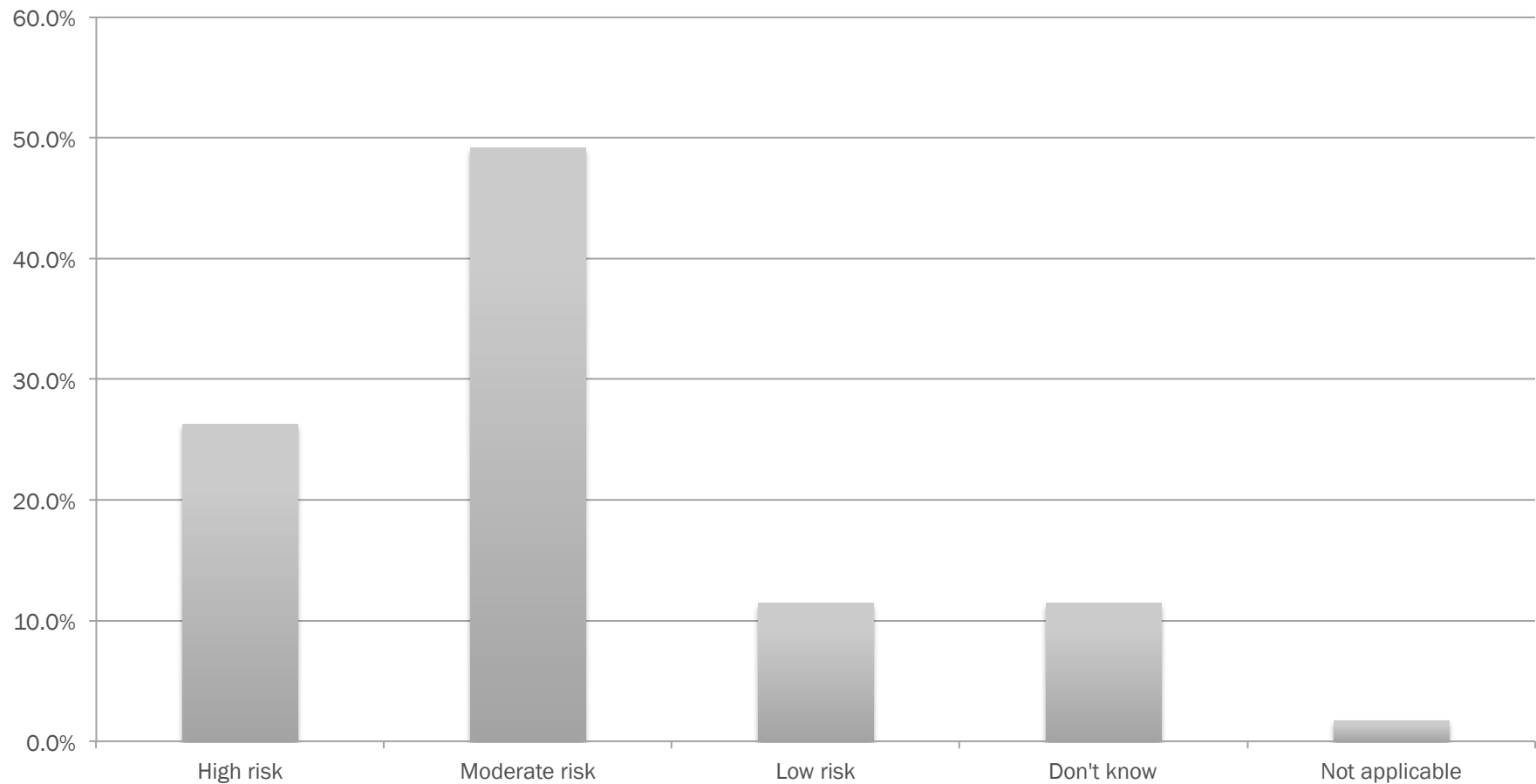
# How often do lenders receive loan applications from consumers without a credit score?

Roughly one-third of lenders receive loan applications from consumers without credit scores sometimes or frequently.



# How risky are loan applicants without credit scores?

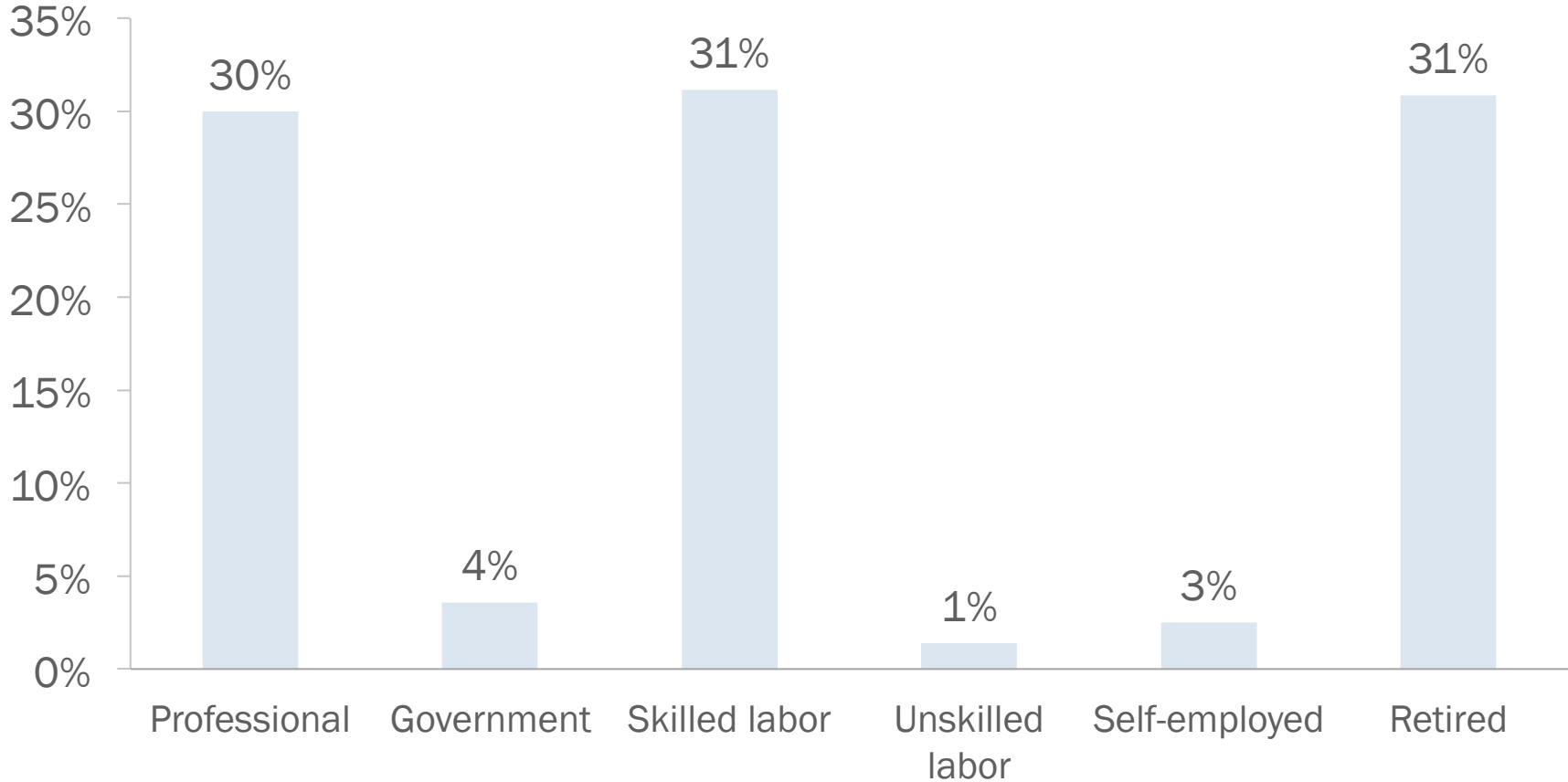
More than 25% of lenders believe they are “high risk,” while only 11% of lenders consider them “low risk.” Who’s right?





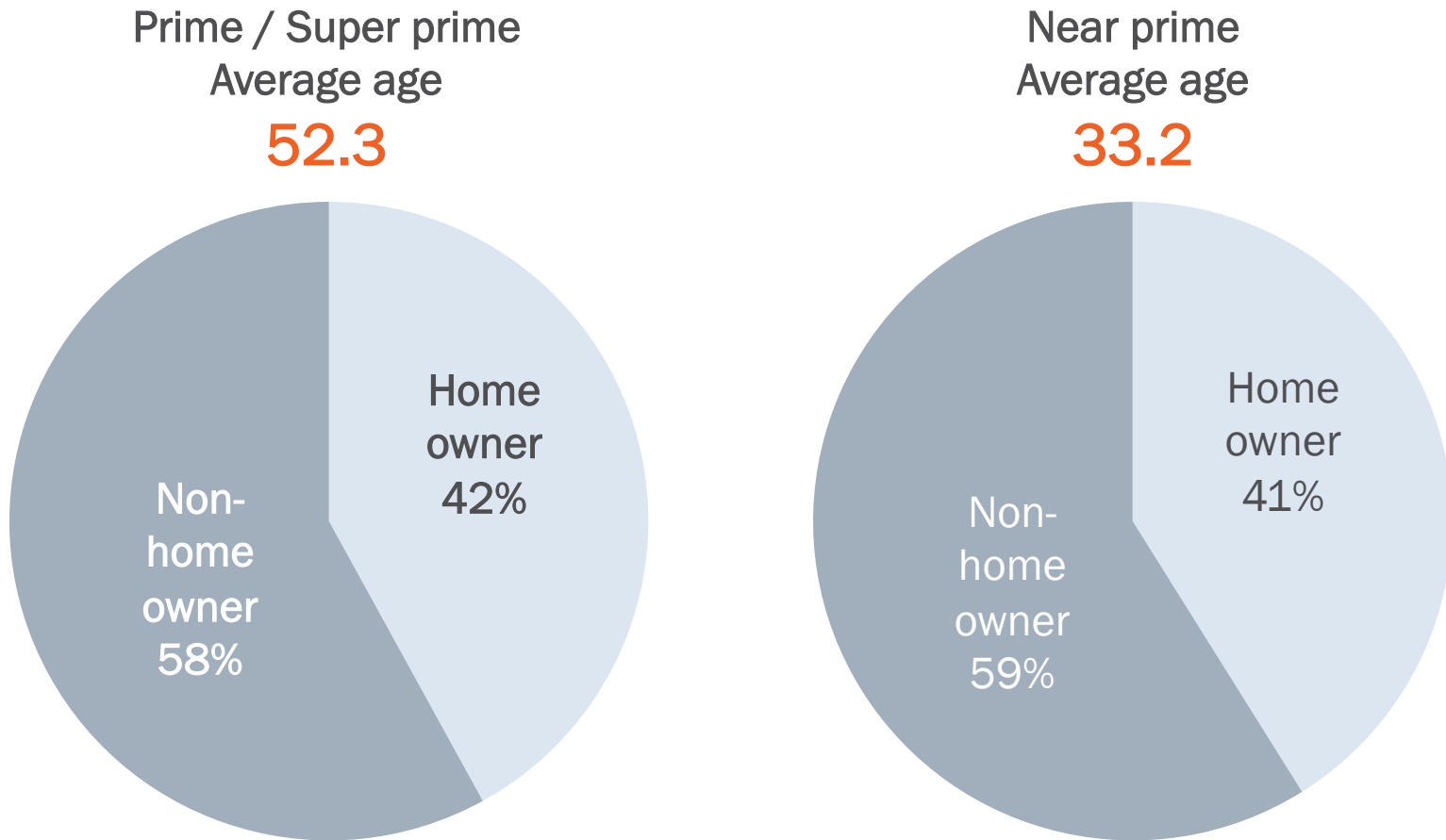
So who are “the unscorable”?

# Experian: Typically unscorable consumers who fall into prime credit tiers & hold professional or skilled-labor jobs



Anonymous consumer file data and analysis from Experian.

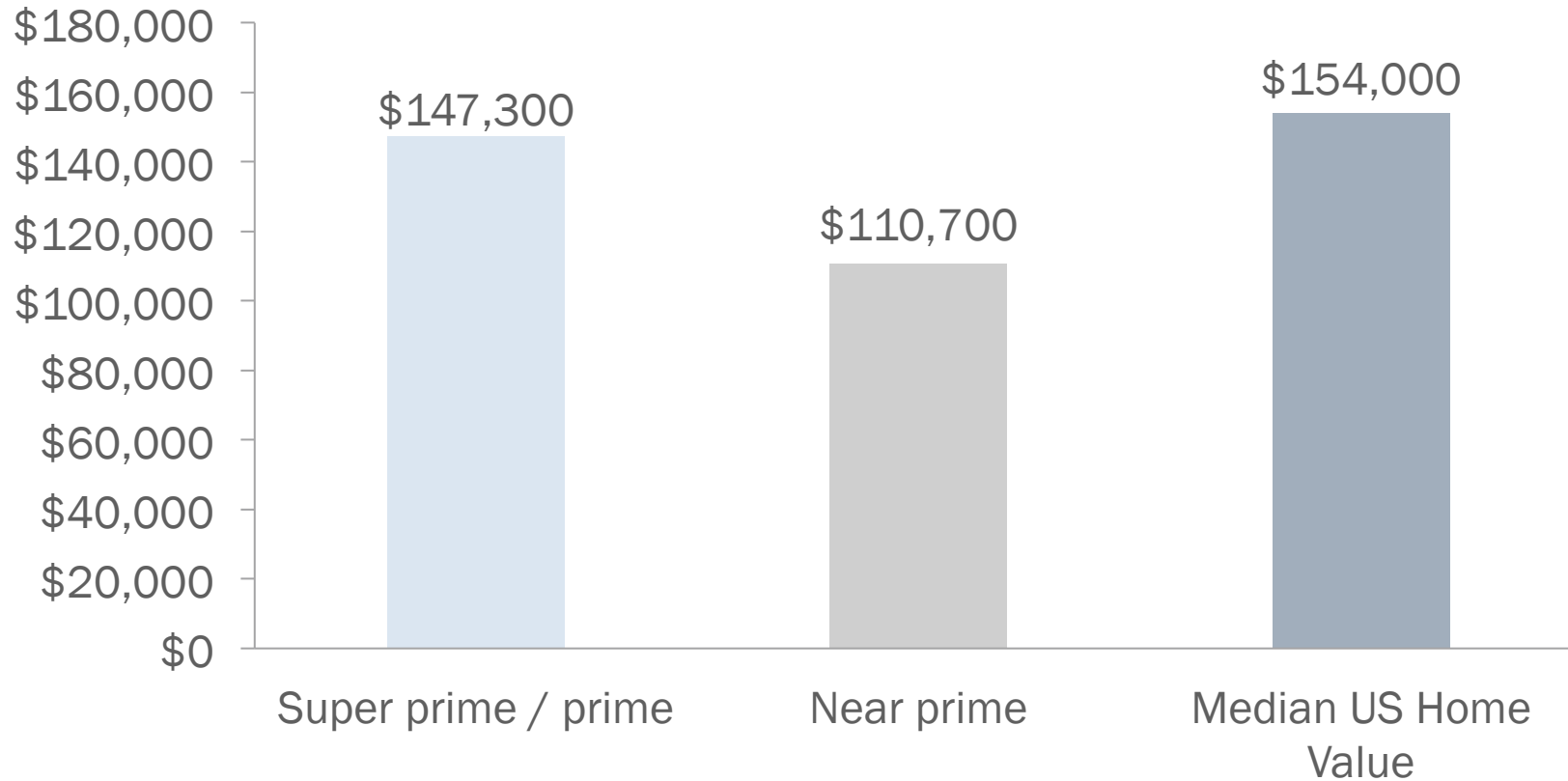
# Experian: A significant portion of typically unscorable consumers own their homes



Anonymous consumer file data and analysis from Experian (June 2012).

# Experian: Home values of the typically unscorable mirror the median U.S. home value

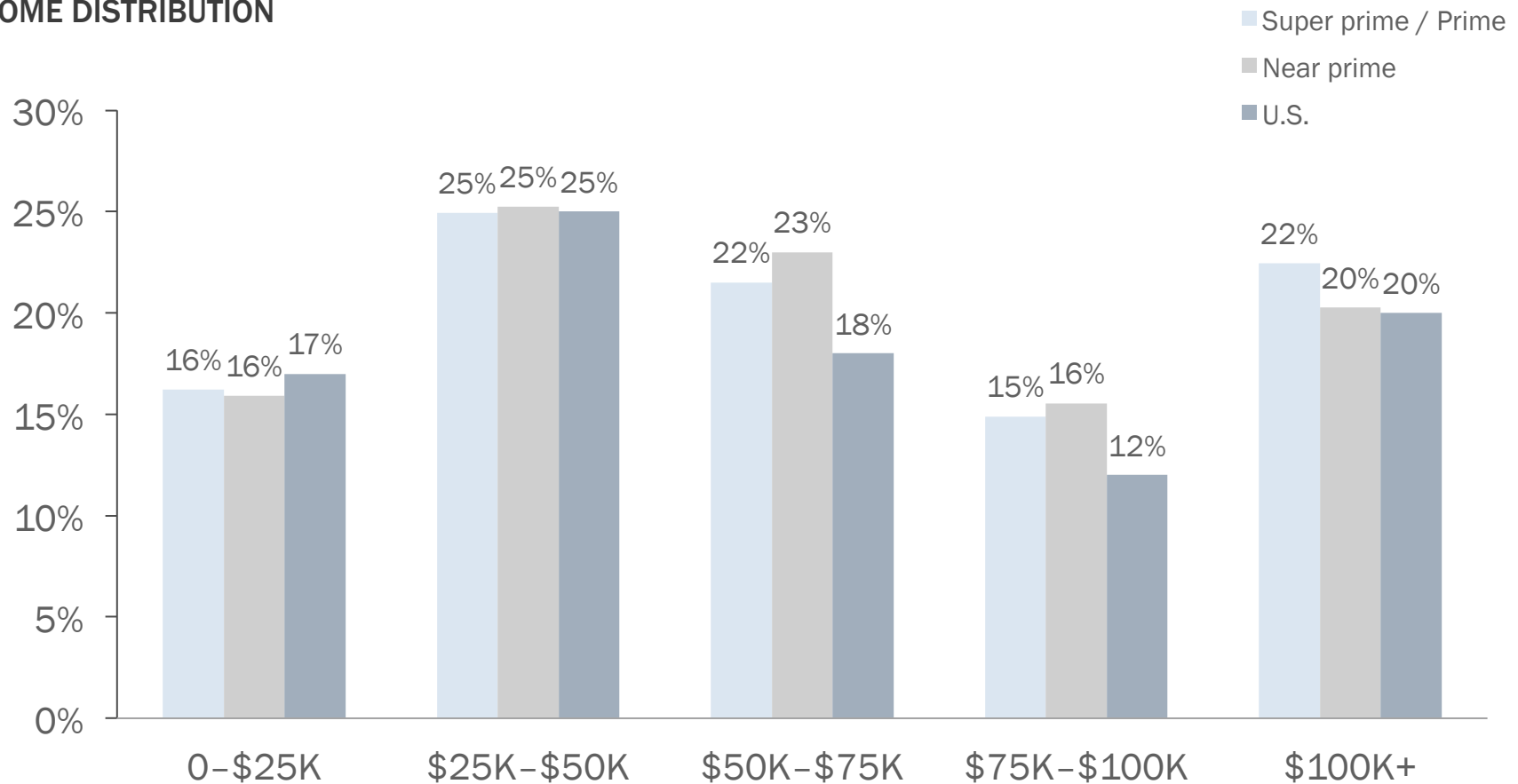
## MEDIAN HOME VALUE



Anonymous consumer file data and analysis from Experian (June 2012).

# Experian: Income distribution of the typically unscorable mirrors mainstream U.S.

## INCOME DISTRIBUTION

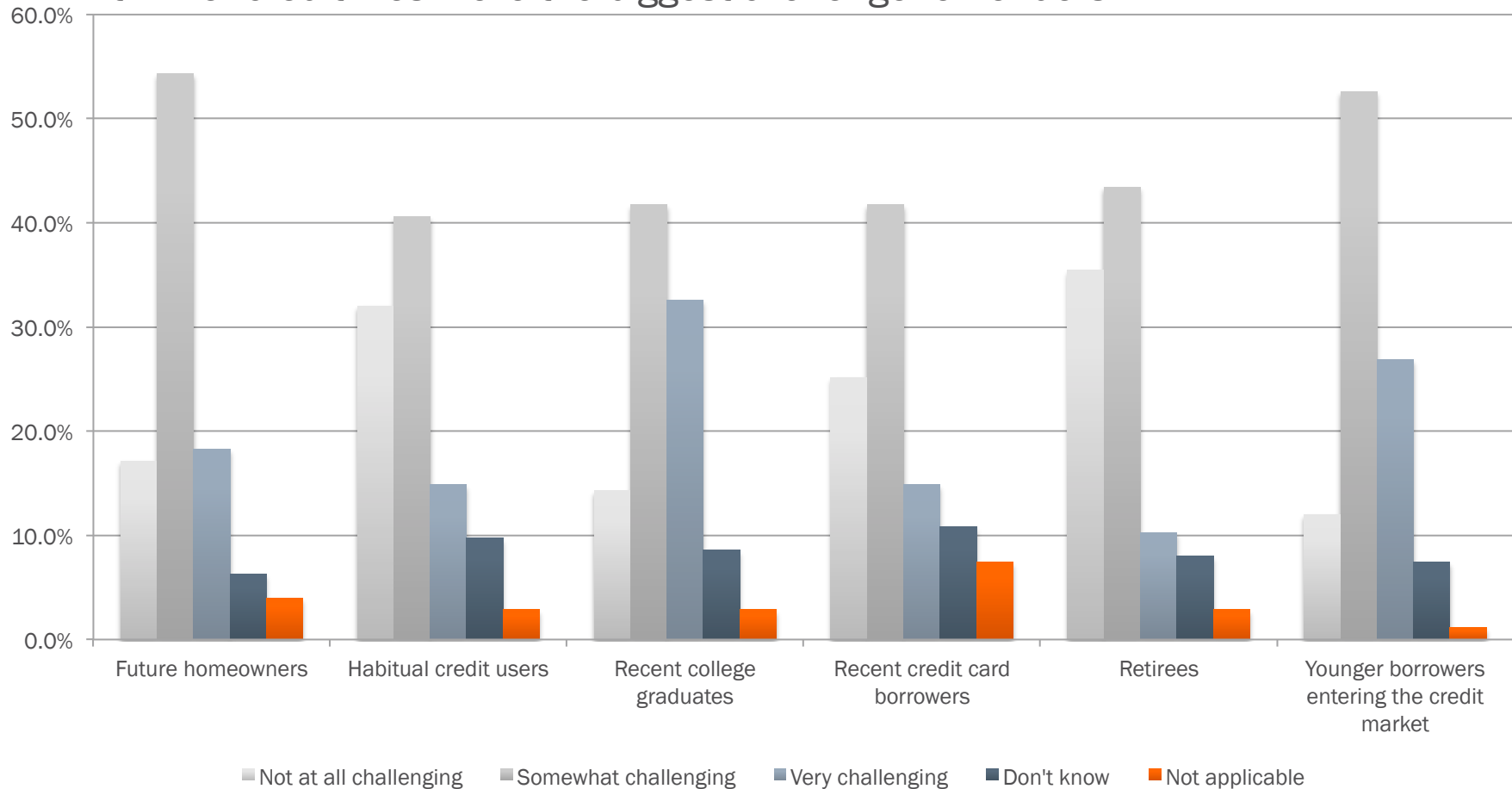


Anonymous consumer file data and analysis from Experian (June 2012). U.S. data from 2010 Census, Individual Income Levels.

An opportunity and cost indeed...

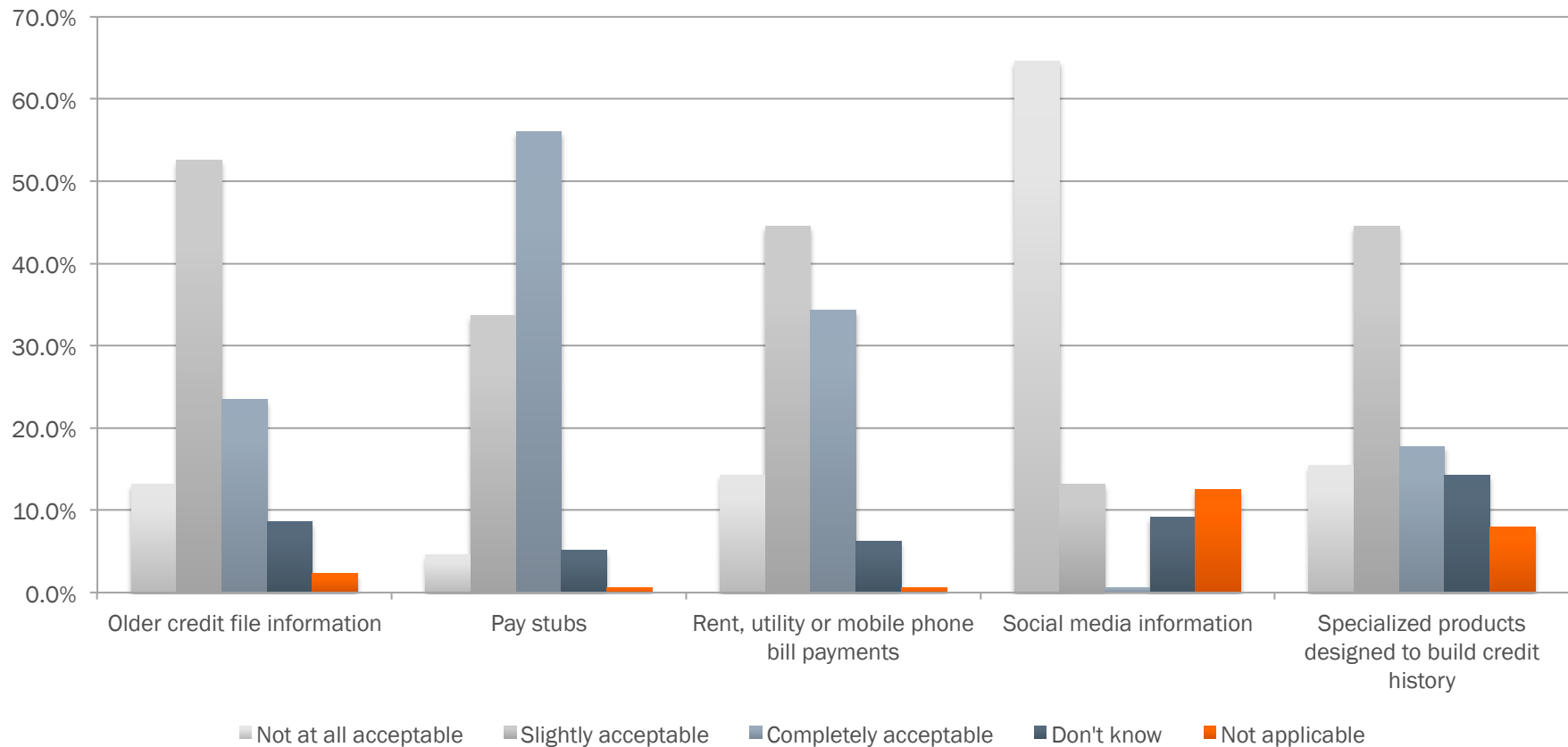
# Which population segments are the hardest to target regardless of whether they have credit scores or not?

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 unscorable consumers?

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





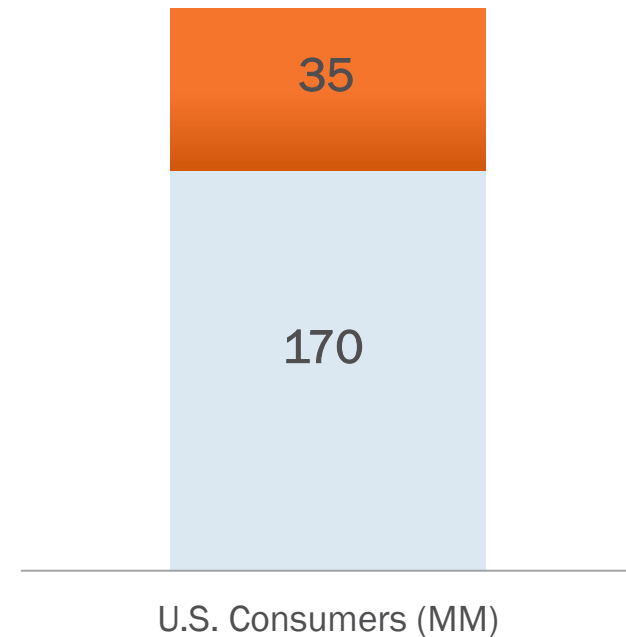
# Universe expansion

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

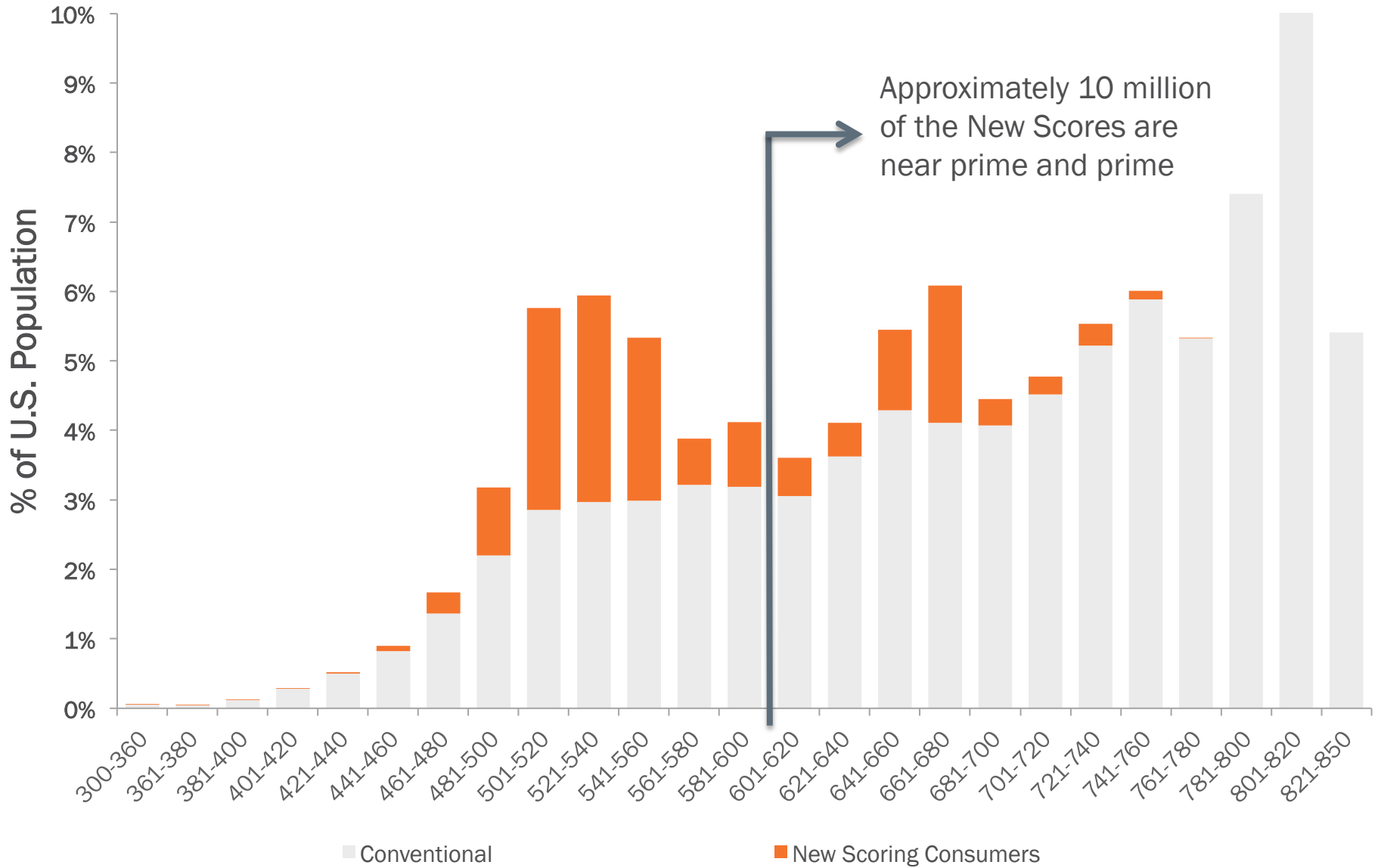
- VantageScore 3.0
  - Infrequent credit
  - New entrant
  - No recent activity
  - No open trades

## Scoreable Universe

■ Conventional Models ■ New Model



# U.S. Population Score Distribution using VantageScore 3.0



# Universe expansion with VantageScore – scoring the traditionally unscorable

## 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.

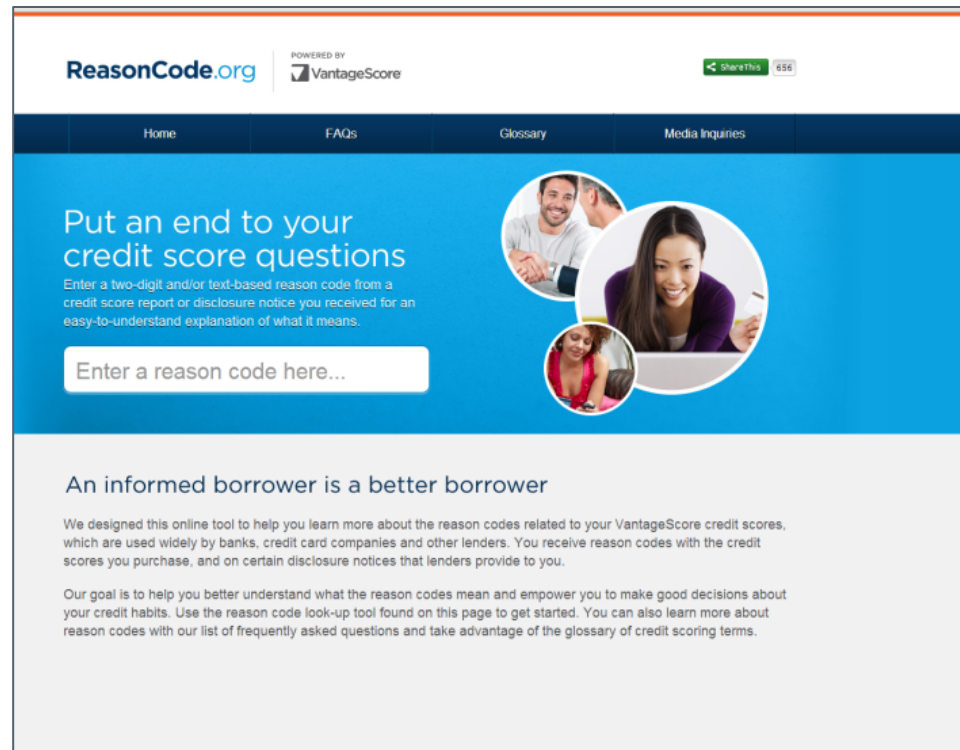
## VantageScore Solutions' Core Consumer Education Initiatives:

- Online Resources
- Social Media
- Videos
- Consumer Advocate & Credit Counselor Programs
- Consumer Media Outreach
- Educational Resource

# ReasonCode.org

Launched ReasonCode.org, which provides deeper explanations for adverse action reason code language consumers receive in disclosures, declination letters and when they obtain their own scores on their own.

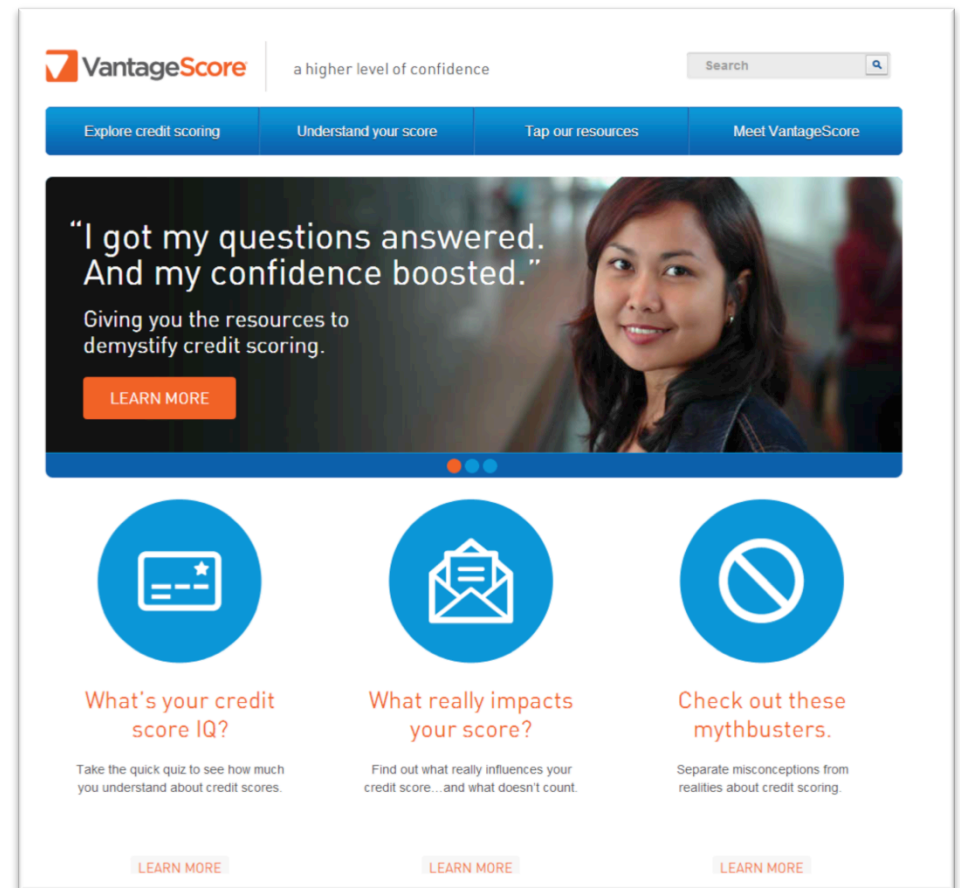
- Offers a searchable database of reason codes and reason code language.
- Includes tips for how to improve a score based on each reason code.
- Works for all VantageScore models.



# YourVantageScore.com

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

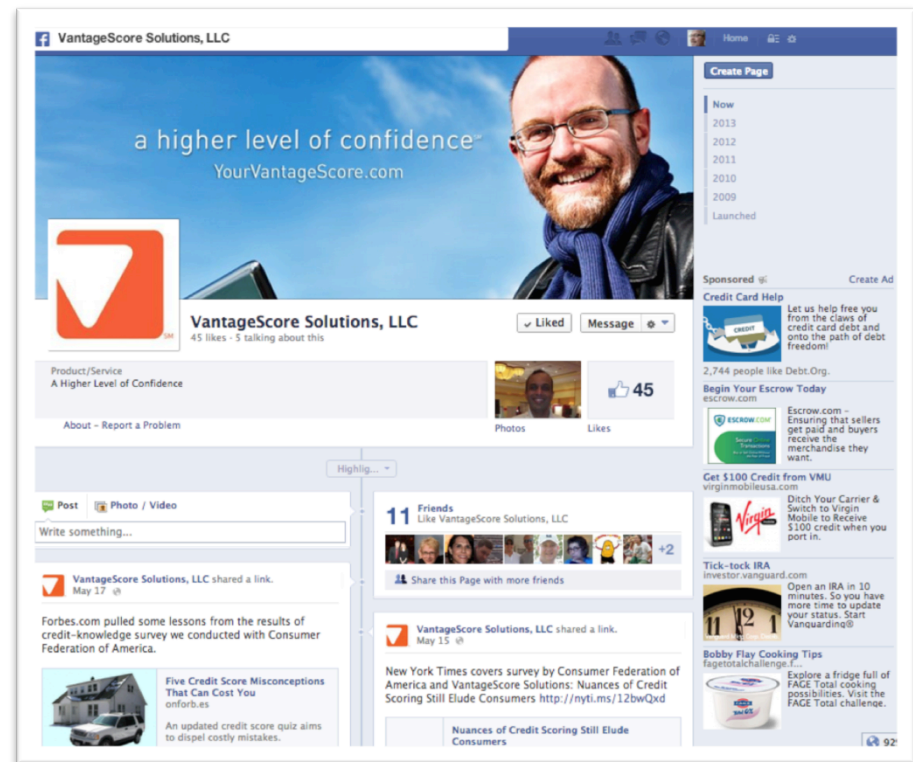
- Understanding credit scores and credit score ranges
- What influences a credit score
- Myths vs. Facts
- Who uses credit scores
- Understanding disclosure notices
- How credit behavior is scored
- Who's who in the credit world
- Video and audio files
- FAQs
- Articles
- Consumer papers



# Social Media

Active Facebook presence and Twitter account

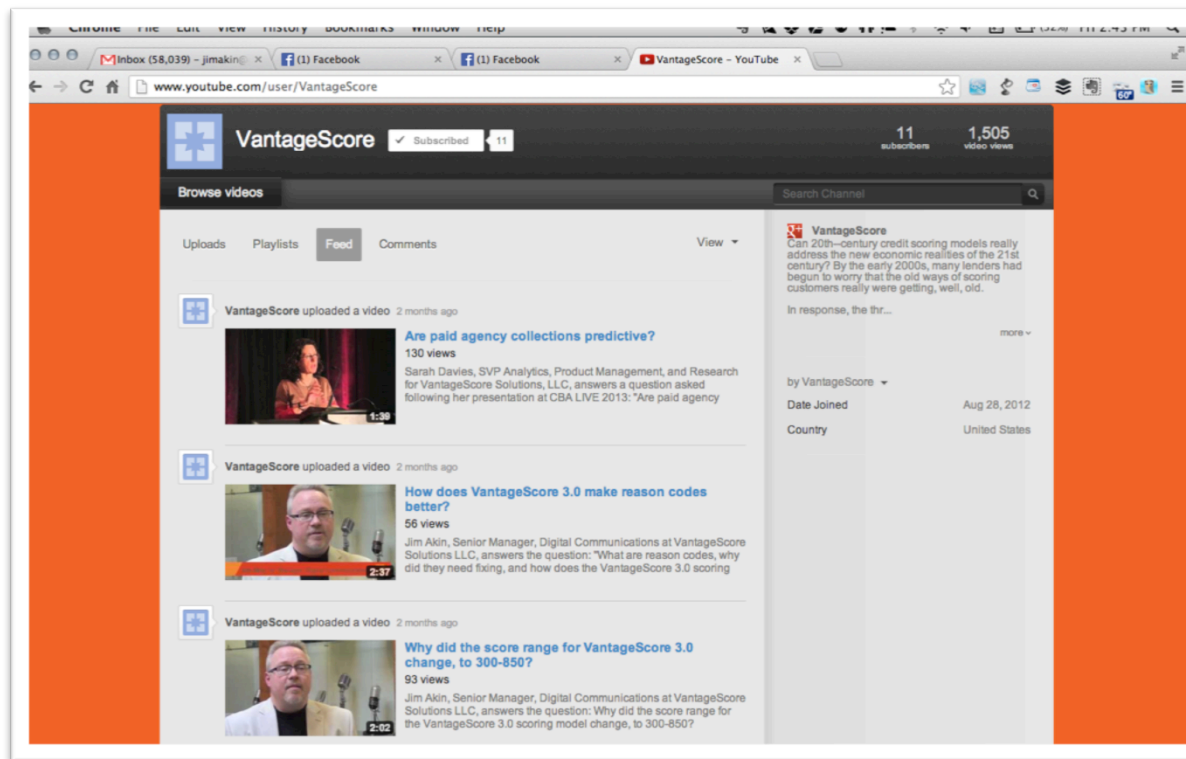
- Launched in 2012
- Content is consumer education focused
- Regular updates to Facebook
- Ongoing Tweets



# YouTube Videos

YouTube account with specific consumer and lender channels

- Launched in 2013
- Videos accessed on websites as well





# Monthly Newsletter: *The Score*

## Monthly Newsletter

- Consumer & lender articles
- Consumer-centric column: *Did You Know* addresses common consumer questions

The screenshot shows the VantageScore website with a dark navigation bar at the top containing the logo and links: "Meet VantageScore", "Explore our model", "Tap our resources", and "Connect with us".

On the left side, there is a vertical menu with the following items: "Underserved credit consumers", "Uses of credit scores", "Validating credit scoring models", and "What impacts credit scores". Below this menu is an "ARCHIVE" section with links for "2013" and "2012". At the bottom of the left sidebar is a "CONTINUE THE CONVERSATION" section with social media links for "Follow on Twitter", "Follow on LinkedIn", and "Follow on YouTube".

The main content area features four articles:

- Be the buyer every seller wants**: Accompanied by a photo of a man and a woman. The text discusses ensuring the best deal from a mortgage lender by becoming a financially stable, creditworthy, and preapproved purchaser. A "LEARN MORE" button is present.
- Consumer lending drives index of banking activity up**: Accompanied by a graphic titled "Index of Banking Activity". The text notes volume growth in excess of 30 percent for both consumer loan applications and approvals from February to March. A "LEARN MORE" button is present.
- Did You Know: Many lenders use multiple scores to assess credit risk**: Accompanied by a blue graphic with the text "Did you know?". The text explains that lenders assess risk by accessing one or more credit reports and pulling credit scores. A "LEARN MORE" button is present.
- Five Questions with Gary Acosta, CEO, National Association of Hispanic Real Estate Professionals**: Accompanied by a small portrait photo of Gary Acosta.

# 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.

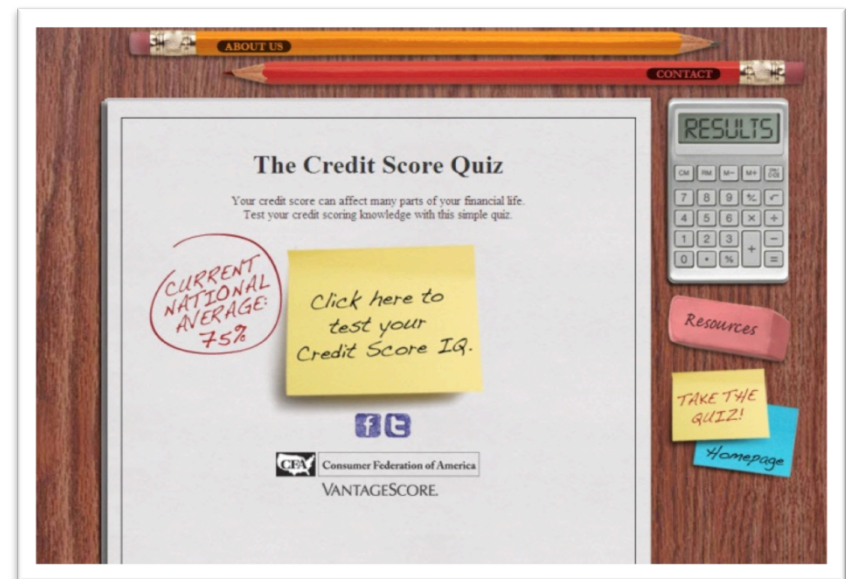
Useful resources and real-time nationwide results also are provided.

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 unscorable

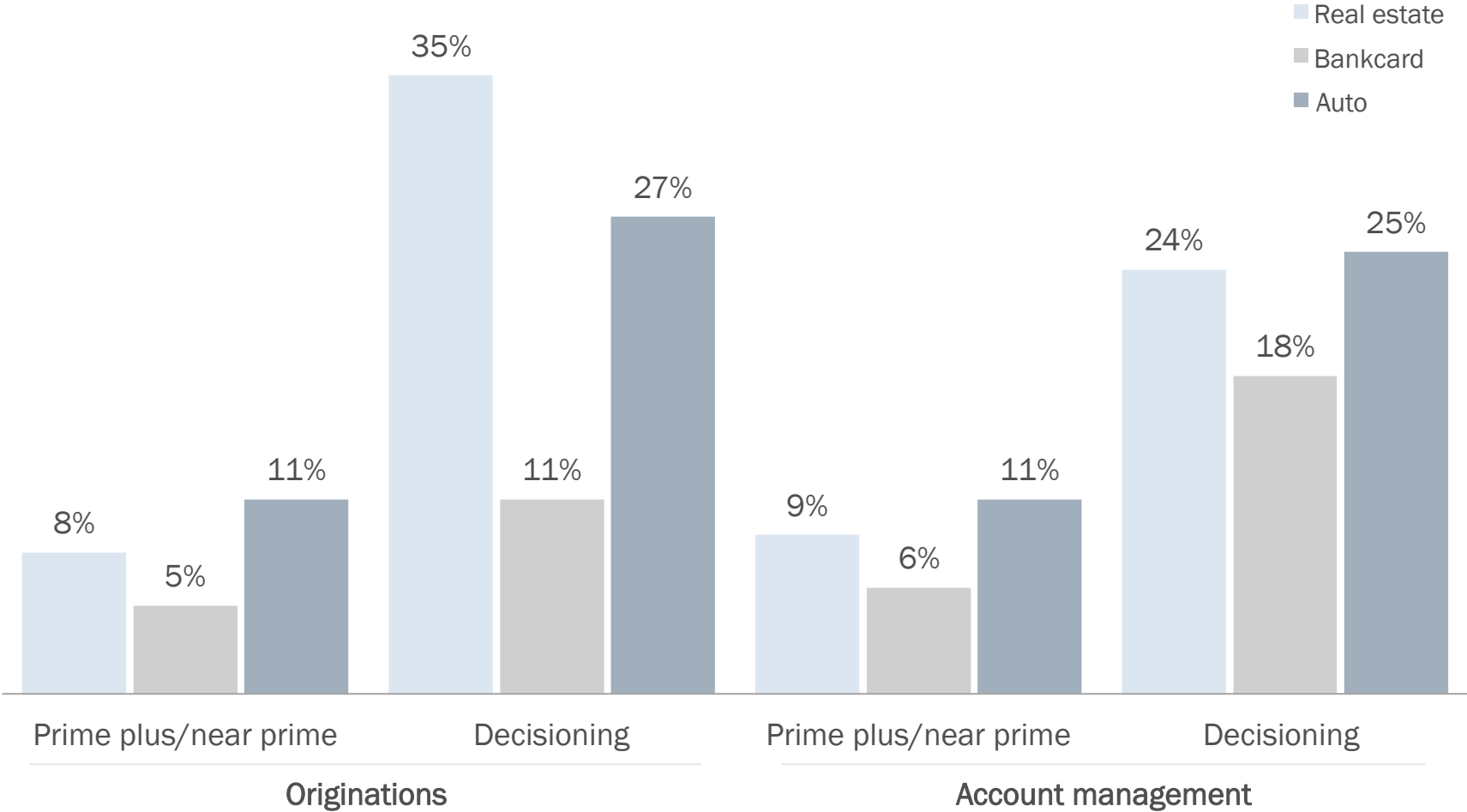


## Capabilities of a model built with post recession data and new modeling techniques

# Significant accuracy improvement

PERCENT LIFT (GINI) OVER VANTAGESCORE 2.0

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



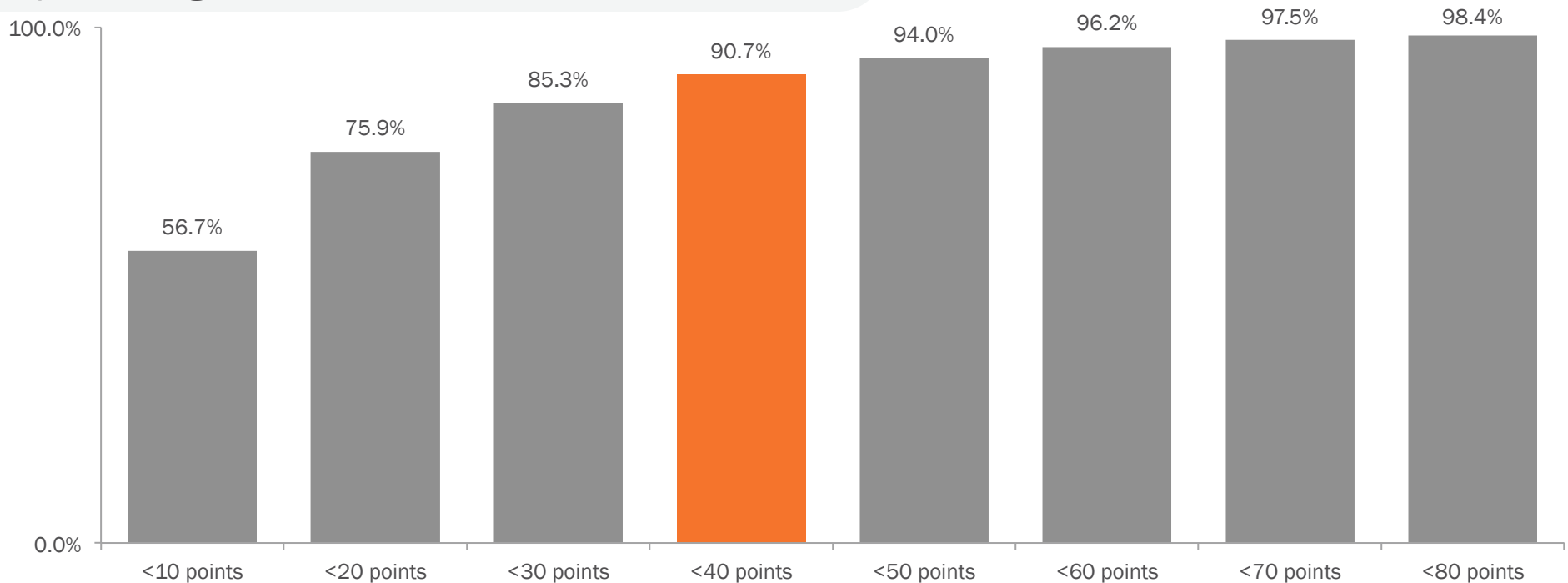
# Improved consistency of consumer scores across CRCs

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

90.7%

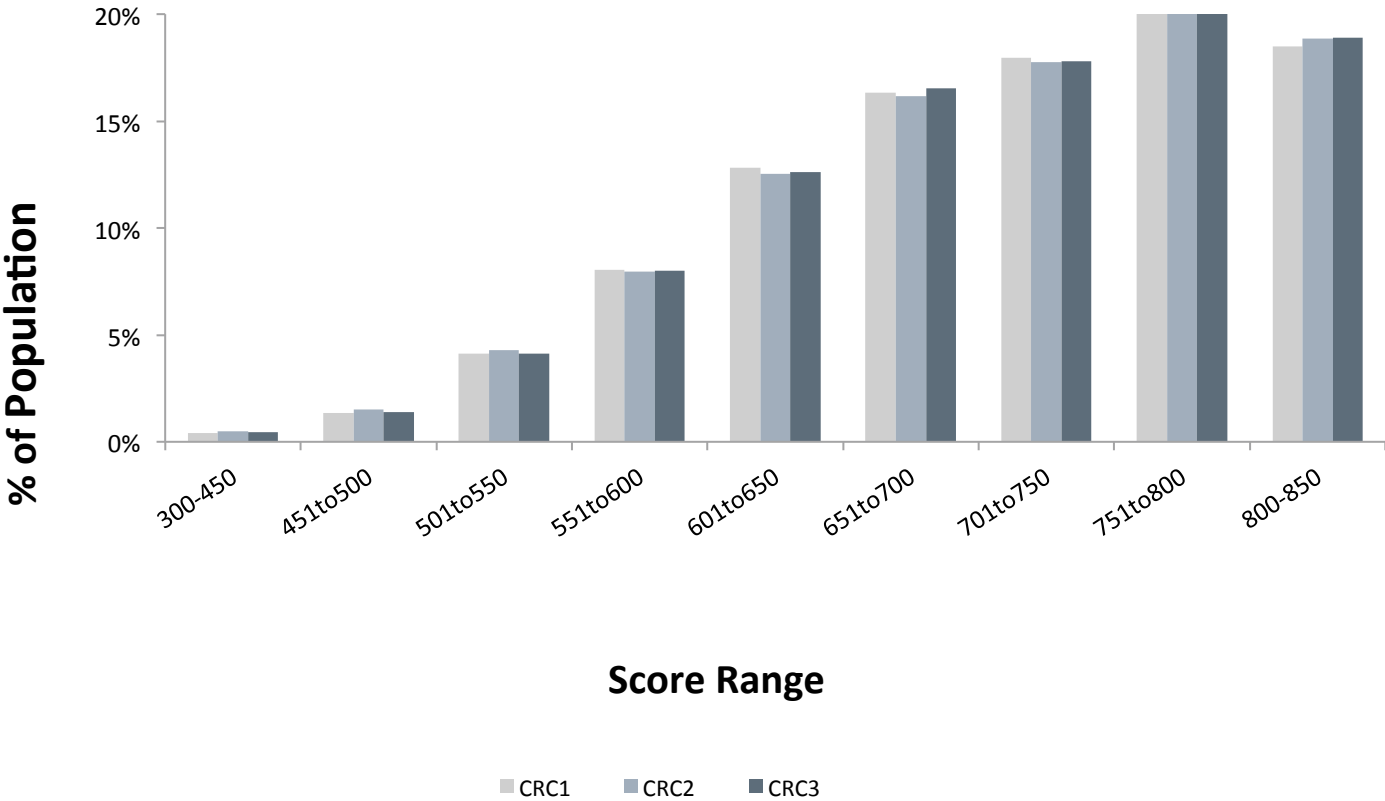
of consumers receive scores within a 40 point range across three bureaus

Cumulative % of consumers



# 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

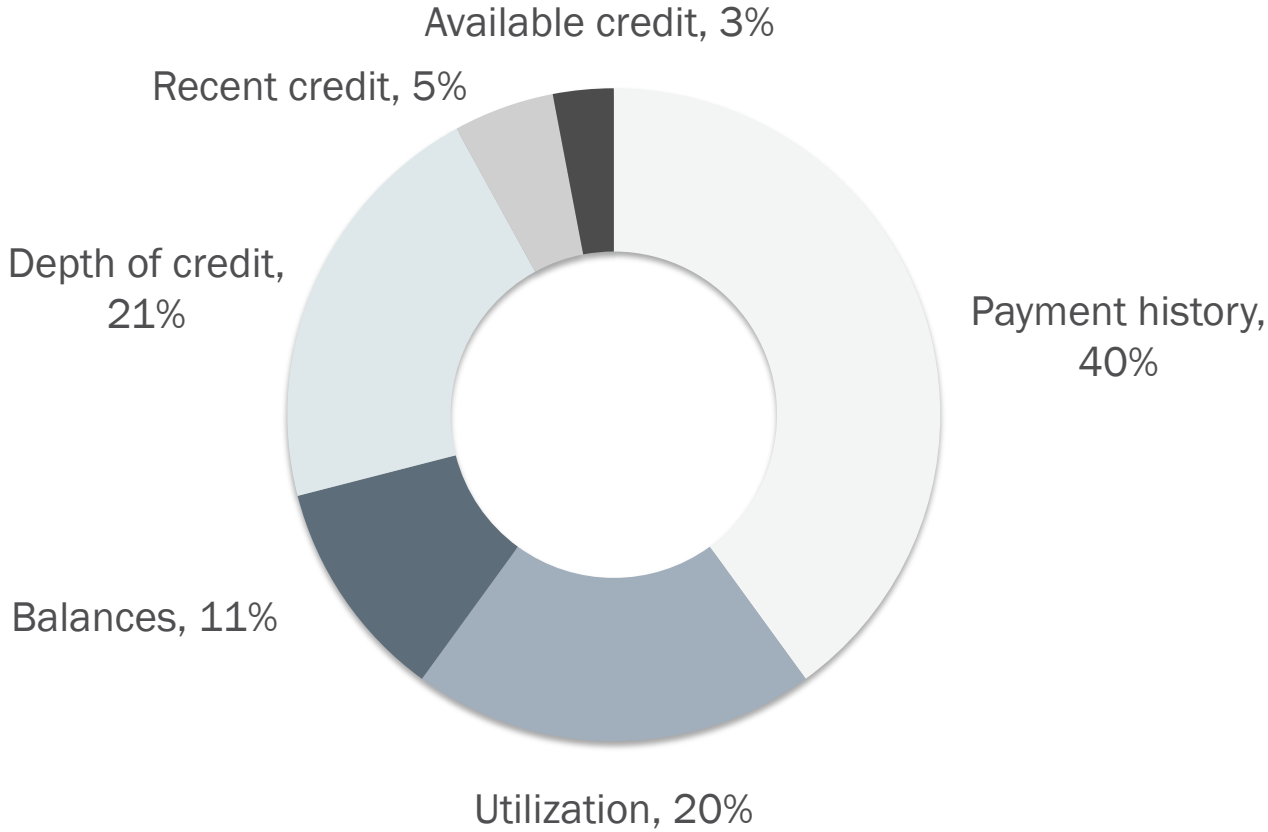


# Performance drivers

## 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



# 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



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.

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