

What is a Credit Score?

What Credit Unions Need to Know

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A CU*Answers Lender*VP Whitepaper

Lender*VP
CU*ANSWERS Management Services

What is a credit score?

A credit score is a numerical three-digit value that summarizes a person's credit risk, based on a snapshot of their credit report data at a point in time. It evaluates the past and is used as a factor to help lenders determine how likely a member or potential member will be to repay the loan for which they are applying.

A credit score has an influence on not only the loan decision but more granular factors such as the loan term and the interest rate charged by the credit union. **The higher the score, the lower the assumed risk.**

Does a member have just one credit score?

Members don't have just one credit score. All three main credit reporting agencies (CRAs) – Equifax, Experian and TransUnion – create their own credit reports with marketplace reported data. These scores can vary to a wide degree based on two main factors:

- What a CRA knows about a member (in file data), and
- Which scoring model is being used (FICO version or VantageScore version).

The data that credit unions and other institutions report to CRAs, such as loan repayment history or delinquency, are used in the scoring algorithms. Since it is not mandatory to report data to all CRAs, there can be times when one CRA has derogatory data on a member that another does not. This can cause scoring differences between CRAs.

In addition, scores are calculated using different scoring models. There are dozens of credit scoring models out there, each of which may calculate a member's score a little differently. Credit scoring models like VantageScore and FICO use these different calculations to come up with a score that typically ranges from 300-850. The credit bureaus can also calculate scores based on their own proprietary models.

What is a FICO® Score?

A FICO® Score is a type or version of a credit score. Developed by the Fair Isaac Corporation, this score is widely used among lenders and credit card issuers across the U.S., with billions of scores purchased by lenders each year. Base scores range from 300-850. Among the dozens of versions offered are industry-specific and specialty FICO models.

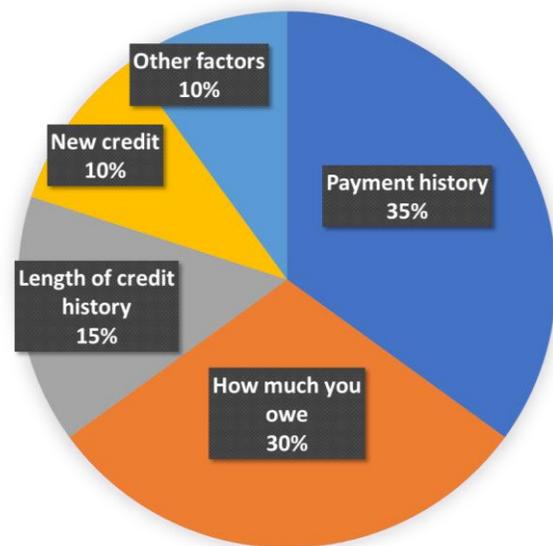
FICO® Scores are based solely on information in consumer credit reports maintained at the CRAs. The scores are accompanied by reason codes that indicate factors influencing the score.

What factors are used when calculating the FICO® Score?

Scores are generally made up of a mix of a person's payment history, how much they owe,

the length of overall credit history, and other factors.

The chart below shows an approximation of how each factor influences a person's overall FICO® Score.



What is a VantageScore?

The VantageScore model was introduced in 2006 and developed by the three nationally recognized CRAs: Equifax, Experian, and TransUnion. Utilizing decades of collective analytical experience, the teams developed new analytical techniques.

The main goals of the model are to not only be more predictive, but more consistent across all three CRAs. Although created in partnership, VantageScore is now independently managed with all intellectual property owned by VantageScore.

How is VantageScore the same as other credit scores?

Time, thought and decades of expertise has gone into the model creation. VantageScore was built in consideration of ECOA, FCRA, and the

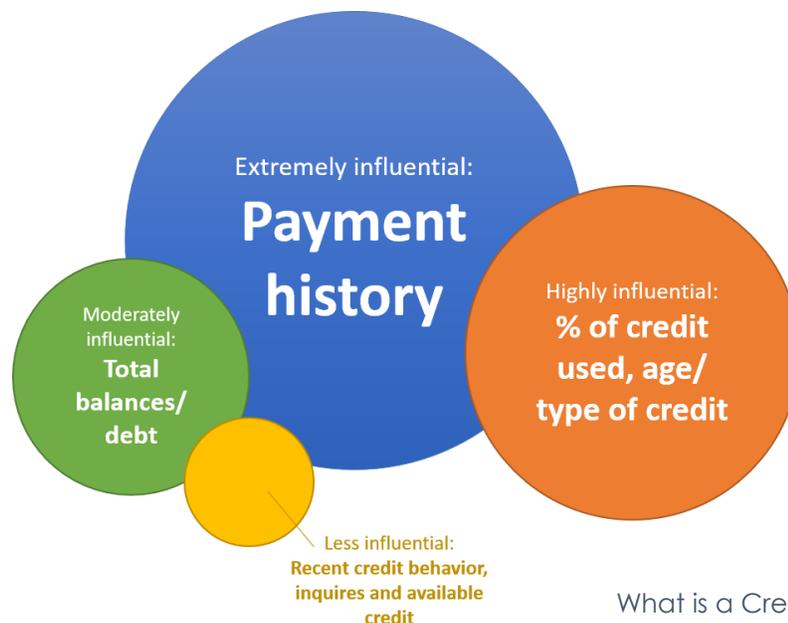


Federal Reserve/OCC Guidance on Model Governance. VantageScore is widely recognized by regulators such as NCUA, CFPB and others. The credit score delivered is a three-digit number in the same familiar range of 300-850.

How is a VantageScore different from other credit scores?

The VantageScore uses an identical algorithm at all credit bureaus. In other words, the same member would have the *same score* from one bureau to the next. This is under the assumption that the same data is present at each bureau.

What factors make up a VantageScore?



What makes VantageScore special?

Because VantageScore allows a shorter credit history than previous models and a longer period of recognition for reported accounts, the ability to issue credit scores now exists for millions of consumers who wouldn't qualify based on FICO models. VantageScore 3.0, which is the latest version, gives scores to approximately 30-35 million previously unscored consumers. These individuals are labeled "credit invisibles" and their numbers are shirking because of VantageScore recognition. According to sources at TransUnion, "Borrowers that are new to credit or haven't been using it recently could benefit from VantageScore, as it might be able to prove trustworthiness before FICO has enough data to issue a rating."

Score Consistency

There are four reasons why a scoring model will generate different scores from one credit bureau to the next:

Reason	Who & Why	Remedy
1. Credit information is not reported to all credit bureaus	Many regional and community lenders do not report to all bureaus	None
2. Credit information is reported to credit bureaus at different times	Most lenders report to different bureaus at different times during calendar month	None
3. Variances in how credit bureaus define and store information	Bureau data management strategies evolve based on their unique business model	Data definitions must be aligned and standardized (characteristic leveling)
4. Scoring models developed on different information and therefore have different algorithms	Developers must use the bureau-specific data to maximize performance for that bureau	With leveled characteristics, the identical algorithm can be installed at each bureau

Remedy is unique to VantageScore

Source: VantageScore Solutions, LLC.

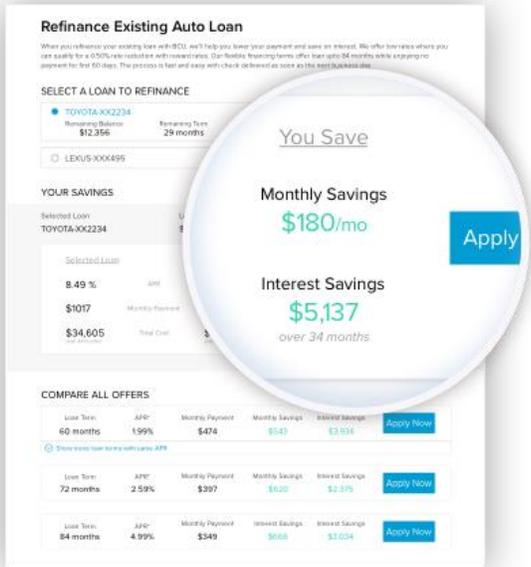
Where is CU*Answers taking credit scores in the future?

In addition to bringing in VantageScores and differentiating them in CU*BASE from a FICO® Score, we will also be partnering with credit score vendor SavvyMoney. CU*Answers is creating an integration that will bring the SavvyMoney financial tools and the VantageScores they utilize into **It's Me 247** desktop and mobile web banking.

This will give your members the ability to become familiar with their credit scores along with a host of other tools. This will require a paid and contractual relationship with the vendor, which will give you various options for offerings to your members:

- Give your members access to score updates whenever they would like. No more waiting for a semi-annual or annual credit report. This is on demand!
- Members can set up credit alerts, and monitoring to be triggered and notified based on self-determined events.
- You will have the ability to make instant offers from your credit union using the “Recommendation Engine”.
- Multiple dashboards, reports, metrics and other analytics will help you identify lending opportunities and quality leads.





SavvyMoney will assist your members in not only viewing their credit score at the current time but keep a running history as well. The tool will deliver educational factors of what is impacting the score and how the members could improve. This could be useful to credit unions as a financial counseling aid. Your members will be offered real time opportunities to save money or get out of debt more quickly.

The tool will also offer your members an informational section with articles and videos dedicated to learning about credit, credit scores and how financial decisions impact credit score.

If you are interested in learning more about SavvyMoney visit their website at SavvyMoney.com or contact

Chris Fraenza
 Sr. Director - Partnership Marketing
 925.291.0841 (o)
Cfraenza@savvymoney.com



Questions?

Contact Pete Wwinner

Vice President of Professional Services / Lender*VP

Pete.Wwinner@cuanswers.com
 616.285.5711 x280

