



WEBINAR 29

'THE NUTS AND BOLTS OF CREDIT REPORTS'



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credit bureau 101

Credit Bureau 101

- When to pull a credit report
- Components of a credit report
- Key elements on the credit report

When to Pull a Credit Report

- **Every time a member applies for a loan** *due to the volatile nature of credit and how quickly it can change*
- **When a new member applies for membership** *in order to cross-sell loan opportunities and pre-approve them for loan products*
- **In the Collection Department** *to get an updated snapshot of the member's situation*
- **As a pre-screening product** *in order to approve existing members for a credit card or auto loan to perform a pre-approved mailing campaign*

Components of a Credit Report

1. Identity & Demographic

- Name/address/date of birth
- Employment

2. Score & Summary Section

- Credit score identified
- Factors contributing to the score
- Revolving and installment trades added up

3. Trade lines

- Placement of information on reports
- Creditors
- Public Records/Collections

4. Inquiries

- Voluntary versus involuntary
- Like inquiries

1 – Identity & Demographic Key Elements to Review

- Look for discrepancies between what the member has identified vs. what the credit report is reporting.
 - Name
 - Social security number
 - Employment
 - Residence
 - Date of birth

Identity & Demographic

<FOR> (I) F	<SUB NAME> CU	<MKT SUB> 15 JK	<INFILE> 6/88	<DATE> 06/30/11	<TIME> 15:52CT
<SUBJECT>			<SSN> 123-12-1234	<BIRTH DATE> 1/31/1977	
<ALSO KNOWN AS> Jane Doe					
<CURRENT ADDRESS> 123 Main Street Elgin, IL 60123					<DATE RPTD>
<FORMER ADDRESS>					
<CURRENT EMPLOYER AND ADDRESS> ABC Factory				<VERF>	<RPTD>
<FORMER EMPLOYER AND ADDRESS>					

2 - Credit Score & Summary Section

Key Elements to Review

- **Score description**
 - *Have the score code along with the description print on the credit report*
- **Capacity**
- **Revolving vs. installment**
- **Payment history**
- **Number of trade lines:**
 - *As a guideline, the number of total trade lines versus the member's age should be 40%.*
- **When reviewing a credit report with a member, remember to point out positive items before discussing the negative trades.**

Score Description Codes

“Score reason codes” explain the top reasons why a credit score was not higher. These score reasons are more useful in highlighting reason for concern.

If you already have a high score (for example, in the mid-700s or higher) some of the reasons may not be very helpful; as they may be marginal factors related to the categories that are weighted the least (length of credit history, new credit, and types of credit in use).

The top 10 most frequently given score codes:

- *Serious delinquency*
- *Serious delinquency, and public record, or collection filed*
- *Derogatory public record or collection filed*
- *Time since delinquency is too recent or unknown*
- *Level of delinquency on accounts*
- *Number of accounts with delinquency*
- *Amount owed on accounts*
- *Proportion of balances to credit limits on revolving accounts is too high*
- *Length of time accounts have been established*
- *Too many accounts with balances*

Credit Bureau Score Codes & Definitions

EQUIFAX - BEACON Score Codes

- 00039** - serious delinquency
- 00038** - serious delinquency, and derogatory public record or collection filed
- 00034** - amount owed on delinquent accounts
- 00033** - proportion of loan balances to loan amounts is too high
- 00032** - lack of recent information loan information
- 00030** - time since most recent account opening is too short
- 00024** - no recent revolving balances
- 00023** - number of bank or national revolving accounts with balances
- 00020** - length of time since derogatory public record or collection is too short
- 00019** - too few accounts currently paid as agreed
- 00018** - number of accounts with delinquency
- 00016** - lack of recent revolving account information
- 00015** - lack of recent bank revolving information
- 00014** - length of time accounts have been established
- 00013** - time since delinquency is too recent or unknown
- 00012** - length of time revolving accounts have been established
- 00011** - amount owed on revolving account is too high
- 00010** - proportion of balances to credit limits is too high on bank revolving or other revolving accounts
- 00009** - too many accounts recently opened
- 00008** - too many inquiries last 12 months
- 00006** - too many consumer finance company accounts
- 00005** - too many accounts with balances
- 00002** - level of delinquency on accounts
- 00001** - amount owed on accounts is too high
- O** - beacon not available, no recently reported account information
- FA** - number of inquiries adversely affected the score, but not significantly

TRANSUNION - EMPIRICA Score Codes

- 040** - derogatory public record or collection filed
- 039** - serious delinquency
- 038** - serious delinquency, and public record or collection filed
- 030** - time since most recent account opening is too short
- 029** - no recent bankcard balances
- 028** - number of established accounts
- 027** - too few accounts currently paid as agreed
- 024** - no recent revolving balances
- 021** - amount past due on accounts
- 020** - length of time since derogatory public record or collection is too short
- 018** - number of accounts with delinquency
- 017** - no recent non-mortgage balance information
- 016** - lack of recent revolving account information
- 015** - lack of recent bank revolving information
- 014** - length of time accounts have been established
- 013** - time since delinquency is too recent or unknown
- 012** - length of time revolving accounts have been established
- 010** - proportion of balances to credit limits is too high on bank revolving or other revolving accounts
- 009** - too many accounts recently opened
- 008** - too many inquiries last 12 months
- 006** - too many consumer finance company accounts
- 005** - too many accounts with balances
- 003** - proportion of loan balances to loan amounts is too high
- 002** - level of delinquency on accounts
- 001** - amount owed on accounts too high
- file not scored because subject does not have sufficient credit
- FA** - in addition to the factors listed above, the number of inquiries on the consumer's credit file has adversely affected the credit score

EXPERIAN - FAIR ISAAC Score Codes

- 40** - derogatory public record or collection field
- 39** - serious delinquency
- 38** - serious delinquency and public record or collection filed
- 33** - proportion of current loan balance to original loan amount
- 32** - no recent installment loan information
- 24** - lack of recently reported balances on revolving/open accounts
- 21** - amount past due to accounts
- 20** - length of time since legal item filed or collection item reported
- 18** - number of accounts delinquent
- 16** - insufficient or lack of revolving account information
- 15** - insufficient or lack of bank revolving account information
- 14** - length of time accounts have been established
- 13** - length of time (or unknown time) since account delinquent
- 12** - length of revolving account history
- 10** - proportion of balance to high credit on bank revolving or all revolving accounts
- 09** - number of accounts opened within the last 12 months
- 08** - number of recent inquiries
- 06** - number of finance company accounts
- 05** - number of accounts with balances
- 02** - delinquency reported on accounts
- 01** - current balances on accounts
- 9002** - the profile report does not contain any trade line which satisfies both of the following: status date within the last six (6) months or a balance within the last six (6) months. Does not contain disputed information
 - risk score not calculated due to lack of credit history

Credit Score Factors

A comprehensive list of the information considered by Fair Isaac scoring models when calculating a credit score.

1. Past Payment History

- Account payment information on specific types of accounts (credit cards, retail accounts, installment loans, finance company accounts, mortgage, etc.)
- Presence of adverse public records (bankruptcy, judgments, suits, liens, wage attachments, etc.), collection items, and/or delinquency (past due items).
- Severity of delinquency (how long past due).
- Amount past due on delinquent accounts or collection items.
- Time since (how recent) past due items (delinquency), adverse public records (if any), or collection items (if any).
- Number of past due items on file.
- Number of accounts paid as agreed.

2. Amount of Credit Owning

- Amount owing on accounts.
- Amount owing on specific types of accounts.
- Lack of a specific type of balance, in some cases.
- Number of accounts with balances.
- Proportion of credit lines used (proportion of balances to total credit limits on certain types of revolving accounts).
- Proportion of installment loan amounts still owing (proportion of balance to original loan amount on certain types of installment loans).

3. Length of Time Credit Established

- Time since accounts opened.
- Time since accounts opened, by specific type of account.
- Time since account activity.

4. Search for and Acquisition of New Credit

- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account.
- Number of recent credit inquiries.
- Time since recent account opening(s), by type of account
- Time since credit inquiry(s).
- Re-establishment of positive credit history following past payment problems.

5. Types of Credit Established

- Number of (presence, prevalence, and recent information on) various types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.)

Credit Score & Summary Section

----- PROFILE SUMMARY -----
CNT 09/00/00/00
PUBLIC RECORDS-----0 PAST DUE AMT-----\$0 INQUIRIES---1 SATIS ACCTS--30
INST/OTH BAL-----\$0 SCH/EST PAY-----\$109 INQS/6 MO---0 NOW DEL/DRG---0
R ESTATE BAL--\$132,209 R ESTATE PAY----\$1,336 TRADELINE--31 WAS DEL/DRG---1
TOT REV BAL-----\$3,595 TOT REV AVAIL-----84%+ PAID ACCT--20 OLD TRADE--8-78

----- SCORE SUMMARY -----

EXP/FAIR ISAAC RISK SCORE 2 = 792

SCORE FACTORS:

13 TIME SINCE DELINQUENCY IS TOO RECENT OR UNKNOWN
18 NUMBER OF ACCOUNTS WITH DELINQUENCY
10 RATIO OF BALANCE TO LIMIT ON BANK REVOLVING OR OTHER REV ACCTS TOO HIGH
05 TOO MANY ACCOUNTS WITH BALANCES

'Colorful' Credit

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----- SCORE SUMMARY -----
XPN/Fair Isaac Risk Model V2 = 0540          SCORE FACTORS: 38,20,18,10
38 - SERIOUS DELINQUENCY AND PUBLIC RECORD OR COLLECTION FILED
20 - TIME SINCE DEROGATORY PUBLIC RECORD OR COLLECTION TOO SHORT
18 - NUMBER OF ACCOUNTS WITH DELINQUENCY
10 - RATIO OF BALANCE TO LIMIT ON BANK REVOLVING OR OTHER REV
    ACCTS TOO HIGH

----- FACS+ SUMMARY -----
FROM 06-01-10  INQ COUNT FOR SSN=0002
FROM 06-01-10  INQ COUNT FOR ADDRESS=0001
INPUT SSN-ISSUED: 1986-1988
Credit established before age 18

----- PROFILE SUMMARY -----
PUBLIC RECORDS      0002  PAST DUE AMT  $6,350  INQUIRIES 0005  CNT 07/04/07/99
INSTALL BAL        $5,261  SCH/EST PAY          *  INQS/6 MO 0002  SATIS ACCTS 000
R ESTATE BAL       $1,591  R ESTATE PAY        N/A  TRADELINE 017  NOW DEL/DRG 016
REVOLVNG BAL       $1,591  REVOLVNG AVAIL      000% PAID ACCT 001  WAS DEL/DRG 001
                                           OLD TRADE 11-04
```

key elements

3 - Trade lines *Key Elements to Review*

- Circle open dates and balances
- Compare balances to limits
- Individual, joint, co-signer or authorized user
- Payment history
- Current payment status
- Consumer or Creditor statements

```
*THIRD      S & L      3-04  $150,000-L  $150,228-H  OPEN      CURR ACCT
            BM H/E LOC  2  5-02-11  $149,632    5-11      (52) CCCCC--CCCCC
                        4-11    $399      CCCCCCCCCC
** CREDIT LINE SUSPENDED DUE TO COLLATERAL DEPRECIATION **
```


Understanding Codes

R- Revolving *(Usually a credit card, no definitive term, payments usually don't go toward principle)*

I - Installment *(Home or auto loan, designated term, payments are amortized to include principle and interest)*

M – Mortgage trade line

R1 or I1 = Pays as agreed never late

R2 or I2 = 30 days late

R3 or I3 = 60 days late

R4 or I4 = 90 days late

R5 or I5 = 120 days late

R7 or I7 = Making regular payments under wage earner plan

R8 or I8 = Repossession

R9 or I9 = Charge off

Authorized Users

- **Definition**
 - Not responsible for payment but it can affect adversely
 - How is it different than a co-signer?
- **Description**
 - Child on a parent's account
 - Spouse on a spouse's account
- **A piece of the puzzle for decision makers**
 - Whose account are they on? Why?
 - Do they strengthen or help the member?
- **Opportunity**
 - A new member joining the credit union

Inflated Income

- Is the member showing signs of living on 'inflated income?'
- Characteristics of 'inflated income'
 - *Escalating debt*
 - *Opening up numerous accounts*
 - *Shopping for additional credit*
 - *Cashing out equity in homes*

Note: If self employed members are using up their revolving lines and cashing out equity, they may be living off inflated income.

Trade Lines

T R A D E S		OPENED	HIGHCRED	TERMS	MAXDELQ	PAYPAT 1-12 MOP
SUBNAME	SUBCODE	VERIFIED	CREDLIM	PASTDUE	AMT-MOP	PAYPAT 13-24
ACCOUNT#	ECOA COLLATRL/LOANTYPE	CLSD/PD	BALANCE	REMARKS		MO 30/60/90
CHASE	B	9/06	\$10.6K	MIN83		111111111111 R01
		6/11A	\$10.4K	\$0		111111111111
A	CREDIT CARD		\$6399			48 0/ 0/ 0
GEMB/JCP	D	9/98	\$0			111111111111 R01
		6/11A	\$124	\$0		111111111111
C	CHARGE ACCOUNT		\$0			48 0/ 0/ 0
DISCOVER FIN B		8/10	\$7642	MIN74		1111111111 R01
		6/11A	\$10.0K	\$0		
I	CREDIT CARD		\$1665			9 0/ 0/ 0
GEMB/CARCRON F		10/09	\$764			111111111111 R01
		6/11A	\$1500	\$0		11111111
I	CHARGE ACCOUNT	1/10P	\$0			20 0/ 0/ 0
WFHM	B	1/10	\$250K	360M1875		111111111111 M01
		6/11A		\$0		1
C	CONVENTIONAL REAL		\$242K			13 0/ 0/ 0

4 - Inquiries

Key Elements to Review

Who is pulling the member's credit report and what does it tell us?

- **Finance company** – Typically the member is not worried about rates but whether it fits into their budget.
- **Mortgage company** – member is looking to refinance their home or purchase a home.
- **Like inquiries** (i.e. auto dealers) – member is most likely shopping of a vehicle and loan is being sent off to multiple companies.
- **Store credit cards** – Member likes to take advantage of store promos and less rate focused.

Is the member shopping for more credit?

- General guideline is 2 to 3 inquiries a year
- If credit is escalating is the income also increasing and/or what is the motivation for the shopping?

Inquiries

INQUIRIES

DATE	SUBCODE	SUBNAME	DATE	SUBCODE	SUBNAME
6/30/11	(SCT)	CU	:12/02/09	ZLA5071959 (CAL)	ACRANET-130
3/24/10	(SCT)	CU	: 9/16/09	FJK0152570 (SCT)	TOWER LOAN-C
1/15/10	(FLA)	EMS ATLANTA	: 9/09/09	ZLA5071959 (CAL)	ACRANET-130
12/04/09	(SCT)	CU	: 8/25/09	ZLA5071959 (CAL)	ACRANET-130

CREDIT REPORT SERVICED BY :
TRANSUNION



Credit Score 101

- Test your knowledge
- What it takes to have a credit score
- Components of the Scoring Models
- Determining the direction of the score
- Fragile 'A' credit
- Bankruptcy vs. credit scores
- Score enhancement
- Using the credit report as an opportunity sheet

Testing Your Credit Score Knowledge

1. What aspect of the credit history is the most heavily weighted factor in computing the credit score?
2. What aspect of the credit history is the second most heavily weighted factor in computing the score?
3. Is the income a component of the score?
4. Is length of residence a component of the score?
5. Is total-debt-ratio a component of the score?
6. Is length of employment a component of the score?
7. Does the score take into account when good or bad credit occurs?
8. What advice do you presently give members that want to improve their score?

NEW YORK, July 12, 2010

More Americans' Credit Scores Sink to New Lows

About 1 in 4 Consumers With a Credit Account Has a Credit Score of 599 or Lower
Americans' credit scores are getting worse.

The latest analysis by FICO Inc., based on consumer credit reports as of April, shows that millions more Americans have credit scores that could prevent them from getting credit cards, auto loans or mortgages under the tighter lending standards banks now use.

Restricted access to credit is one reason for the slow economic recovery.

About a quarter of consumers - 25.5 percent, or nearly 43.4 million people - now have a credit score of 599 or below, marking them as poor risks.

That's a big jump over the historical rate of 15 percent of the 170 million consumers with active credit accounts (or 25.5 million people) falling below 599.

Yet, the number of consumers who have a top score of 800 or above has also increased in recent years.



What it Takes to Get a Score

- *Only 1 trade line*
- *6 months of payment history*
- *Activity reported in the last 6 months*

Public Records
Employment History

► **Your Credit Report Overview**

Your credit report and credit history are valuable to you because they can help you get credit or your credit-worthiness if they will extend you credit or your credit-worthiness that are higher versus lower. It's important to know your report to ensure all reported information is accurate. If there is an error or erroneous item on your credit report then there are steps you can take to get the reporting credit bureau to have the item investigated or corrected.

Pay close attention to items that seem suspicious as those items can be a red flag when attempting to secure a new line of credit. Whether you are getting started with your first car, credit plays a major role in your financial life.

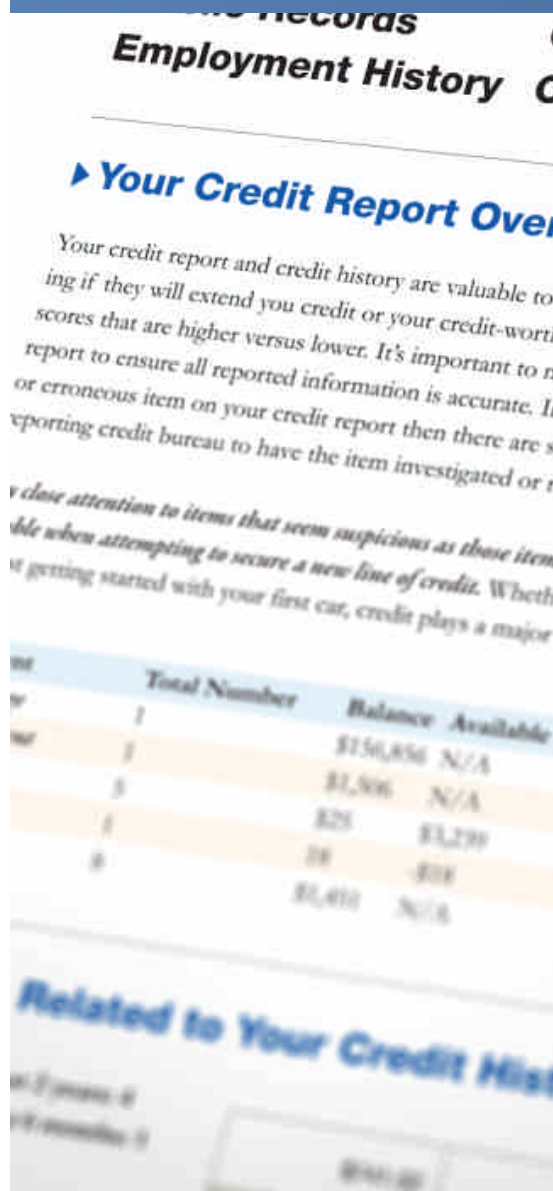
Account	Total Number	Balance	Available
1	1	\$150,000	N/A
2	1	\$1,500	N/A
3	1	\$25	\$1,275
4	1	0	\$0
5	1	\$1,400	N/A

Related to Your Credit History

at 2 years 0
at 1 month 0



How Fast Your Score Can Change

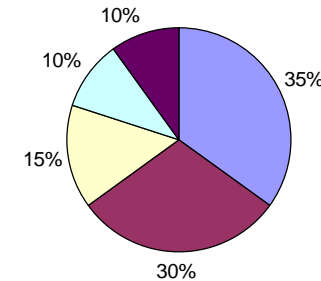


- The member's score can change whenever the credit report changes.
- The member's score probably won't change much from one month to the next.
- Bankruptcies and other public records or collections can have a major impact on credit scores and it takes time to recover.
- Simply missing a payment can also impact the credit score. However, the score can recover quickly if the payment on the account is current, provided the credit report has substance.

Components of the Scoring Models

Range of Scores

- 830 = Outstanding
- 680 = Average
- 380 = Lowest



- Weight of Five Factors That Make Up Scores

- 35% = How You Pay (*payment history*)
- 30% = Capacity (*amount owed on revolving*)
- 15% = Length (*length of new credit and total credit history*)
- 10% = Accumulation (*new credit and inquiries*)
- 10% = Mix (*percent of revolving, installment & mortgage*)



Determining The Direction Of The Score

Questions?

Does the member have recent late payments?

Is the member a “B or C” paper and never missed a payment?

Is the member a “C” paper and claimed bankruptcy in the recent past?

Is the member a “C” paper and has collections in the recent past?

Does the member have a lot of recent inquiries?

Does the member have recent loans through sub-prime lenders? (Lenders of last resort)

Does the member have low balances on revolving accounts opened in the last 3 yrs?

Are the revolving debt maxed out within the last 12-18 months?

Has the member opened up a lot of new accounts in a short time frame?

Has the member refinanced revolving debt into installment debt?

Does the member have more in revolving debt than installment debt?

Direction of Score

Down

Down

Up

Up

Down

Down

Up

Down

Down

Up

Down



The credit score on a member's credit report is an average of their credit performance over a number of years, with the most weight being placed on the current year. It is important that you try to determine which direction the score is headed. The member's overall score may look ok, but this can be very misleading and it can encourage you to make a costly mistake.

Using the analogy of two college graduates applying for the same job. Reviewing their experience and education they both appear to be equal in every regard. They even had the same cumulative grade point average (GPA) in college. However, their overall cumulative GPA does not reflect how they are currently doing, as demonstrated below:

	<u>Applicant # 1 GPA</u>	<u>Applicant #2 GPA</u>
Freshman Year	3.80	2.20
Sophomore Year	3.20	2.80
Junior Year	2.80	3.20
Senior Year	<u>2.20</u>	<u>3.80</u>
Cumulative GPA	3.00	3.00

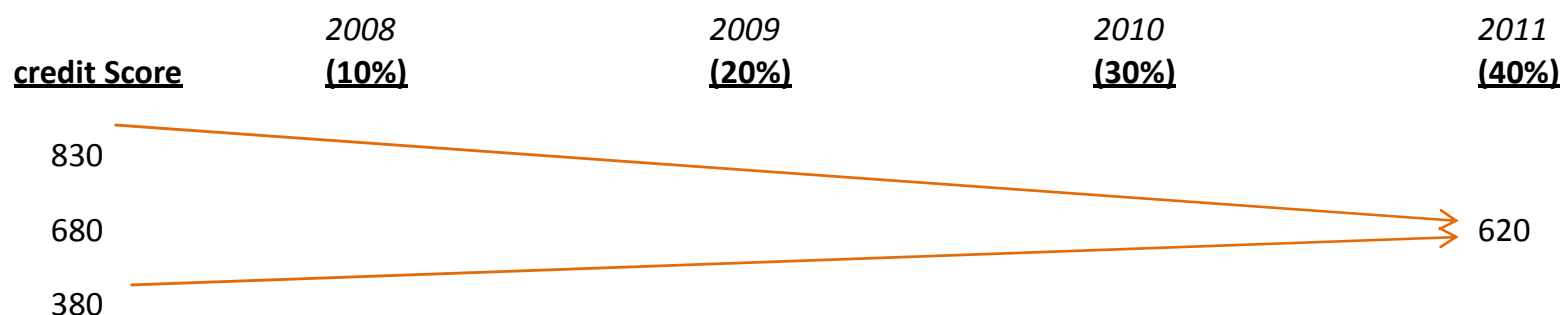
The point here is that even though both job applicants had a cumulative GPA of 3.00, Applicant #2 has significantly out-performed Applicant #1 over the last two years. Today, Applicant #2 is a 3.80 student, and Applicant #1 is a 2.20 student – a huge difference! The exact same can be true of two members applying for credit with the same score.

How a Credit Score Assigns Weights to Previous Years of Credit History

<u>Year</u>	<u>Weight Assigned to that Year</u>
2011	40%
2010	30%
2009	20%
2008	10%
Before 2007	0%

Why the Last 24 Months of History is Crucial

Credit scores go from a low of approximately 380 points to a high of approximately 830 points, with an average score around 620 points. Two members can arrive at a 620 score in very different ways:



Just as in the example of the two job applicants applying for the same job with the same cumulative GPA, look now at two members applying for credit with the same credit score of 620. They have the following characteristics:

Applicant #1

- Perfect credit
- No late pays
- No collection accounts
- No civil judgments
- No repossessions
- No bankruptcy

Applicant #2

- Very colorful credit
- Long history of late pays
- Several collections
- Had a judgment
- Previous repossession
- Been bankrupt

Key Conclusions From Example

1. Members with very good credit that score in the low 600's are a very high risk. They are standing at the edge of a cliff that is about to give way. Their score today is probably more reflective of a score in the low 500's, but it is their good credit of the past that is propping up their average score.
2. Members with credit reports full of negative information that score in the low 600's are a much lower credit risk, and should be given serious consideration for a loan approval (especially secured loans). Their score today is probably more reflective of a score in the high 600's, but their poor credit of the past is dragging down their average score.



"fragile a" credit

"Fragile A" Credit

One of the real weaknesses of the credit scoring model is that often a member will earn a good score (680+) with little or no credit to base the score upon. We refer to this as the "Fragile A." Common characteristics of the "Fragile A" are:

- *Borrowers are typically young*
- *Very few trade lines*
- *Credit histories are very limited*
- *Dollar amounts of credit they've had are small*

You should be cautious of the "Fragile A" borrower. Any type of "hiccup" in their credit can result in their score dropping from "A" to "D" overnight. This is because there is very little substance to their credit report.

The key thing for you to remember is that if you do approve them, you will need to give them the "A" paper rate today.

sample credit report

*DHAVAL T

SS:

DOB: 04/08/88

RPTD: 7-11

LAST SUB:

* AVE APT D

RPTD: 10-10 TO 11-10 U 2X

* DR APT 4

RPTD: 7-10 U

Fragile 'A' Credit Report

----- PROFILE SUMMARY -----

PUBLIC RECORDS-----0	PAST DUE AMT-----\$0	INQUIRIES---2	CNT 00/00/00/00
INST/OTH BAL-----\$0	SCH/EST PAY-----\$20	INQS/6 MO---1	SATIS ACCTS---2
R ESTATE BAL-----N/A	R ESTATE PAY-----N/A	TRADELINE---2	NOW DEL/DRG---0
TOT REV BAL-----\$396	TOT REV AVAIL-----88%	PAID ACCT---1	WAS DEL/DRG---0
			OLD TRADE--6-10

----- SCORE SUMMARY -----

FICO RISK SCORE 2 = 726 SCORE FACTORS: 14, 05, 10, 08

----- TRADES -----

SUBSCRIBER	OPEN	AMT-TYP1	AMT-TYP2	ACCTCOND	PYMT STATUS
SUB# KOB TYP TRM ECOA BALDATE	BALANCE	PYMT LEVEL	MOS REV	PYMT HISTORY	
ACCOUNT # LAST PD MONTH PAY PAST DUE MAXIMUM BY MONTH					
FCU 6-10 \$300-O					
FC SEC 6 1 12-31-10			12-10	PAID (7)	CURR ACCT
					CCCCCCC
CITI 10-10 \$3,500-L					
BC CRC REV 1 7-15-11 \$396			\$2,345-H	OPEN (9)	CURR ACCT
7-11 \$20			7-11		CCCCCCCCC

----- INQUIRIES -----

KOHL'S/CHASE	FCU	4-18-11	FC
		11-03-10	DC

Bankruptcy vs. the Credit Score

Score at Time of Loan	Grade of Paper	Approximate Loss of Points	Approximate Score After BK	Grade of Paper
750	A+	175	575	D
700	A	150	550	D-
650	B	125	525	E
600	C	100	500	E
550	D	75	475	E-
500	E	50	450	E-

Note: Members lose a lot of points with high scores and fewer points with low scores (They have already lost them).

There is a big difference in the paying habits of an “A” paper member who filed bankruptcy versus an “E” paper member. Most “A” paper members will resume their “A” paper paying habits, “E” paper members usually continue to pay like “E” paper.

Note: Member’s scores can vary greatly depending on:

- How the creditors are reporting
- New credit they have established since the bankruptcy
- Capacity if available (if they got a new credit card)

There is a “*Bankruptcy Bill of Rights*” that requires creditors included in the bankruptcy to no longer report them as delinquent or as having a balance. They should report no balance and “*included in bankruptcy.*”

Score Enhancement Techniques That Drive Members' Score Up

- Score enhancement is a unique competitive advantage credit unions have over all other lenders provided they embrace the concept and put this into practice.
- Why do we believe this will is very powerful tool?
 - We believe most members do not know their scores (even though this is changing).
- Most members would really appreciate knowing:
 - *What makes up their score?*
 - *How to improve their score*
 - *Where to go and get help*
- Members deserve the right to earn a lower rate if they really take the time to clean up their credit.
- Employees of credit unions must become knowledgeable so they can help members.
- Any financial institution willing to show their members or customers “how to pay less” will have tremendous credibility with their members and get all their business.



1. What Makes Up your Credit Score?

- 35% = Based on payment history (i.e. on-time pays or delinquencies)
 - More weight on current pay history
- 30% = Capacity (capacity is King)
- 15% = Length of credit
- 10% = Accumulation of debt in the last 12-18 months
 - # of inquiries
 - Opening dates
- 10% = Mix of credit
 - Installment (can raise) vs. revolving (can lower)
 - Finance company loans-They can lower your score

2. What Actions Will Hurt Your Score?

- Missing payments (Regardless of \$ amounts, it can take 24 months to restore credit with one late payment)
- Credit cards at capacity (i.e. maxing out credit cards)
- Shopping for credit excessively
- Opening up numerous trades in a short time frame
- Having more revolving debts in relation to installment debts
- Closing credit cards out (this could lower available capacity)
- Borrowing from finance companies



3. How You Can Improve Your Score:

- Pay off or pay down on your credit cards
- Do not close credit cards because capacity may decrease
- Move your revolving debt into installment debt
- Continue to make payments on time (older late pays will become less significant with time)
- Slow down on opening new accounts
- Acquire a solid credit history with years of experience

4. Approximate Credit Weight for Each Year:

- 40% = Current to 12 months
- 30% = 13-24 months
- 20% = 25-36 months
- 10% = 37+ months

Savings to Member “A” Member vs. “E” Member

	<u>542 “E” Member</u>	<u>681 “A” Member</u>
Loan Amount	\$25, 000	\$25,000
Term	60 months	60 months
Rate	16.95%	3.95%
Payment	\$620.64	\$459.85
Total Payments	\$37,238.55	\$27,590.95

	\$37,238.55
	- <u>27,590.95</u>
Savings	\$ 9,647.60



Using the Credit Report as an 'Opportunity Sheet'

► Your Credit Report Overview

Your credit report and credit history are valuable tools for determining if they will extend you credit or your credit-worthiness scores that are higher versus lower. It's important to know your report to ensure all reported information is accurate. If there is an erroneous item on your credit report then there are steps you can take to get the reporting credit bureau to have the item investigated or corrected.

Pay close attention to items that seem suspicious as those items can be a red flag when attempting to secure a new line of credit. Whether you are getting started with your first car, credit plays a major role in your financial future.

	Total Number	Balance	Available
1	1	\$150,000	N/A
2	1	\$1,500	N/A
3	1	\$25	\$1,275
4	1	\$0	\$0
5	1	\$1,400	N/A

Related to Your Credit History

Calculating interest rates of the competition

- Autos
- Mortgages
- Unsecured loans

Trade in your credit card debt

Using the Credit Report as an 'Opportunity Sheet'

What rate is your member paying the competition?

How much can we save them?

SUBNAME	SUBCODE	OPENED	HIGHCRED	TERMS	MAXDELQ	PAYPAT	1-12 MOP
ACCOUNT#		VERIFIED	CREDLIM	PASTDUE	AMT-MOP	PAYPAT	13-24
ECOA	COLLATRL/LOANTYPE	CLSD/PD	BALANCE	REMARKS		MO	30/60/90
GOODYEARCBNA	A	12/05	\$1600			111111111111	R01
		7/11A	\$1000	\$0		111111111111	
I	CHARGE ACCOUNT		\$ 950			48	0/ 0/ 0
5TH 3RD BK	B	2/10	\$18.0K	72M310		111111111111	I01
		6/11A		\$0		1111	
I	AUTOMOBILE		\$15.5K			16	0/ 0/ 0
5TH 3RD BK	B	6/07	\$24.0K	72M442		111111111111	I01
		6/11A		\$0		111111111111	
I	AUTOMOBILE		\$11.1K			48	0/ 0/ 0
CUFCTRBL	Q	3/07	\$36.8K	180M373		111111111111	I01
		6/11A		\$0		111111111111	
I	MANUFACTURED HOUS		\$30.8K			48	0/ 0/ 0
KAY JEWELERS	J	10/06	\$1562			111111111111	R01
		3/10A	\$1562	\$0		111111111111	
			\$1200				



show members what they can save

By Calculating Interest Rates of the Competition



Be Sure to Use a Texas Instruments BA II Plus Calculator!

NOTE: The credit report must show the following 3 factors:

- Gross loan amount
- Monthly payment (On mortgages, if the payment includes taxes and insurance. They must be backed out.)
- The term (You can only calculate the rate on installment loans.)

Step 1: Enter the high credit off the credit reports or original balance = \$20,000

Step 2: Press PV (Present Value) ***PV=20000.00***

Step 3: Enter the number of months on loan = 60

Step 4: Press N ***N=60.00***

Step 5: Enter payment of loan = 444

Step 6: Press +/- (To make the payment negative)

If this is not completed, an ERROR 5 will appear when computing interest.

Step 7: Press PMT

Step 8: Press CPT (Compute)

Step 9: Press I/Y to figure the interest the member is paying at your competition.



show members what they can save

By Calculating Interest Rates of the Competition



Be Sure to Use a Texas Instruments BA II Plus Calculator!

*There may be a slight delay while calculating. ***I/Y= 11.91***

To compute the savings the member would receive by refinancing with the credit union... ****Do not erase any of the above****

Step 10: Enter your current rate on loan = 5.95

Step 11: Press I/Y ***I/Y=5.95***

Step 12: Press CPT

Step 13: Press PMT (To calculate the payment at the credit union) ***PMT= -386.19***

Step 14: Add old payment to new payment.

(This will figure the difference between the credit union & the competition = 149)

$(-386.19 + 444 = 57.81)$

Step 15: Multiply the number of payments left in the loan = 53

$57.81 \times 53 = \$3,063.87$

\$3,063.87

What Credit Card Companies are Doing to Your Members

- Raising interest rates
- Lowering credit limits
(This has a huge impact on capacity)
- Charging more fees
- Increasing late fees & over limit fees
- Increasing minimum monthly payments
- Taking away perk programs

Trade In Your Credit Card Debt

Pay us the same payment you are currently paying credit card providers and you will be out of debt completely in approximately 2.5 years.

Name of Creditor	Limit	Balance	Payment/4%	Available
Discover	\$5000	\$4000	\$160	20%
Capital One	\$2000	\$1600	\$64	20%
MBNA	\$4000	\$3200	\$128	20%
CU	\$1000	\$800	\$32	20%
<i>Total</i>	\$12,000	\$9600	\$384	80% - Credit Used

Note: The above assumes 12.95% interest, a loan amount of \$9600 with payments of \$384.00 (4% balance) = Approximately 30 months.



HYLS – High Yield Lending Strategy

1. *Number of years as an active member*
2. *Total dollar amount on deposit with the credit union*
3. *Number of current & prior satisfactory loans in excess of \$1,000 with the CU*
4. *Highest dollar loan amount the member has had with the credit union*
5. *Direct deposit*
6. *Length of residence*
7. *Length of employment*
8. *Valid credit score*
9. *Credit score with no credit flaws*
10. *Inquiries in the past 24 months*
11. *Number of open or closed trade lines in the past 24 months*
12. *Number of Open or Closed Trade Lines as a Percentage of the Member's Age*
13. *Total dollar amount past due with all creditors*
14. *Payment history on most recent auto loans*
15. *Payment History on the Last Prior Vehicle Loan*
16. *Loan to value on vehicle loan*
17. *Number of vehicle loans in the past 24 months*
18. *Loan amount versus term*
19. *New vehicle loan being purchased vs annual gross income*
20. *Total secured loan balances outstanding vs annual gross income*
21. *Debt to income ratio*
22. *Total outstanding unsecured debt vs annual gross income*
23. *Total unsecured dollar amount outstanding*
24. *Total mortgage debt vs annual gross income*
25. *Number of late payments on mortgage loans*
26. *Available equity in real estate*
27. *Cashing out real estate equity*

SAMPLE SCORE CARD

HYLS

[Log Off](#)

HYLS Underwriting Guide

Scorecard for: Roseanne Example

How to Interpret the Adjusted Credit Score: [\[More \]](#)

[New Loan Application](#)

Top Positive Factors

- 25. Number of Current and Prior Satisfactory Loans in Excess of \$1,000 w/the CU
- 7. Length of Time the Member has been employed at their Current Job and Previous Job
- 14. Payment History on the Most Recent Open Vehicle Loan - granted in the past 4 yrs
- 15. Payment History on the Last Prior Vehicle Loan
- 24. Total Mortgage Debt vs. Annual Gross Income

Top Negative Factors

- 25. Number of Late Payments on Mortgage Loans
- 11. Number of Open or Closed Trade Lines as a Percentage of Member's Age
- 13. Total Dollar Amount Past Due With All Creditors
- 8. Valid Credit Score
- 10. Inquiries on the Past 24 Months

Total Positive Points **455**

Total Negative Points **-200**

Total Factor Points **255**

Credit Score **539**

Adjusted Credit Score **794**

What Have We Learned Today?

The credit report is a key tool to assist us in many aspects of our business

- Analyzing for member's credit worthiness---intent to pay
- Opening up a new account---big opportunities
- Collections needs to be pulling credit reports on delinquent accounts and doing their analysis before making that phone call to the member

What Have We Learned Today?

- How to read the 4 codes that the credit bureau provides, to let us know how the score was obtained and which of those codes are warning signs.
- How vital it is to use capacity as a measuring tool for member's ability to pay...are they living off credit cards or the equity in their home? This is known as 'Inflated Income.'
- How to assist members in reducing capacity and increase their score.

What Have We Learned Today?

How the credit bureau score is determined:

- *35% payment history*
- *30% capacity*
- *15% length of credit*
- *10% new credit/inquiries*
- *10% mix of credit*

Who knew that so few factors were looked at to determine the score? The credit bureau agencies seem to want to keep this information a secret.

What Have We Learned Today?

The credit report is an 'Opportunity Sheet'... the trade lines are screaming at us to pay them off. We must start listening to those screams and pay off the competition on every loan you make for your members.

Order filling won't get it done.

Thanks for Joining Me Today!



"You can't build a reputation on what you're going to do." **Henry Ford**

"Just Do It!" Nike



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LENDING SOLUTIONS CONSULTING, INC.

ED SWANSON



Ed Swanson is a 28-year veteran of the financial services industry and a 25-year veteran of the credit union industry. He has spoken for over 35 Credit Union Leagues throughout the country on a variety of lending and member service related topics. Swanson helps credit unions to strengthen themselves in areas of consumer lending, loan underwriting, risk based lending, mortgage lending, indirect lending, collections, sales development, member service and incentive programs. Swanson was also an annual instructor at the CUNA Consumer Lending Management School for seven years and has been a featured speaker at CU Conference's, 'Focus on Lending' conference for the past twelve years.

Ed Specializes In *(But not limited to):*

- *Lending in Today's Marketplace*
- *Underwriting Higher Risk Loans*
- *Risk Based Pricing*
- *Home Equity Lending*
- *Improving Delinquency Numbers*
- *Payday Lending*
- *Serving Members of Modest Means*
- *Sub-Prime Lending*
- *Cross-Selling that Actually Works*
- *Implementing an Incentive Program*
- *Building a Sales Culture*
- *Understanding Credit Scoring*
- *Auto-Lending*
- *Building Member Relations*

"Ed Swanson is as well versed in lending, collections, mortgages & sales as anyone you will ever meet. He has spent his entire career in the credit union movement. At Baxter CU, Ed and I worked side by side in all phases of lending, collections, mortgages, & sales & achieved world class results. Delinquencies & charge offs were both below .2% with a 91% loan-to-share ratio. You will absolutely love Ed, we guarantee it!"

Rex Johnson, LSCI Founder



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Webinar 1 - Successful Sales Training in 7 Easy Steps

Tuesday, October 11, 2011 - 1pm Central

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Tuesday, October 18, 2011 - 1pm Central

Webinar 3 – Seeking Solutions and Overcoming Objections

Tuesday, November 1, 2011 - 1pm Central

Webinar 4 – Follow-Up and Follow Through

Tuesday, November 8, 2011 - 1pm Central