Credit Scoring 1-2-3

Understanding Credit Scoring & Maximizing Your Customer's Loan Approval

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Course Objectives

At the end of this course, the student will be able to:

- Help their customer determine what type of debt is owed.
- Explain the FICO scoring system to a customer.
- Explain a credit score to their customer.
- List the items that are used and analyzed when determining a credit score.
- Describe to their customer ways that they can improve their credit and what steps to take.
- List options a customer has if they do not have enough credit.
- Explain Credit Re-Scoring to a customer and how it may benefit them when applying for a mortgage.

Course Timeline

I.	What type of Debt is owed?	5 min.
II.	FICO Scoring System	10 min.
III.	What is a credit score?	10 min.
IV.	What Credit Data is analyzed by the Credit Scoring Model?	20 min.
V.	Inquiries	15 min.
VI.	What if you do not have enough credit?	15 min.
VII.	Credit Re-Scoring	15 min.
VIII.	Helpful Reminders	10 min.
Total		100 min.
		(2 hours CE)

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I.   What type of debt is owed?

II. FICO Scoring System
- ❑ Equifax - www.Equifax.com
- ❑ Experian - www.Experian.com
- ❑ TransUnion - www.TransUnion.com
- ❑ Why are there different scores for each?
  - ■ Credit data may differ as reported to each bureau
  - ■ Credit data may not even be reported to all bureaus
  - ■ Passage of time which can result in score differences
- ❑ Credit bureaus use the FICO Scoring system
  - ■ Mortgage qualifying utilizes middle of three scores, or
    - ■ Lower of two if only two scores reporting
    - ■ Or one if only a single score is reporting

III. What is a credit score??
- ❑ New Credit (Inquiries)   10%
- ❑ Payment History   35%
- ❑ Utilization   30%
- ❑ Length of Credit History   15%
- ❑ Credit Mix   10%

IV. What Credit Data Is Analyzed by the Credit Scoring Model?
  a. Past payment history - approx. 35% of weight
     i. Includes information from public records on bankruptcies, foreclosures, tax liens, etc.
     ii. Trade line repayment history
  b. Outstanding debt utilization - 30% of weight
  c. History of credit establishment - 15%
  d. Type of credit being used - 10%
  e. Pursuit of new credit - Inquiries - 10%

- ❑ Past payment history - approx. 35% of weight
  - ❑ Includes information from public records, such as:
    - ■ Bankruptcies,
    - ■ Foreclosures,
    - ■ Tax liens,
    - ■ Judgments, etc.

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- ❑ Trade line repayment history which include:
  - ■ 30,60,90,120 day late payments
  - ■ Charged-Off accounts
  - ■ Collections

- ■ Past Payment History
  - ■ Charged-Off Account
  - ■ Late Payment Example

E C O A	Creditor Name Account Number	Acct Type	Date Reviewed	Date Opened DLA	High Credit Terms	Months Reviewed	Balance Amt Payment Amt	Past Due Amt	Historical 30 60 90
1.1	HYUNDAI FINC ▮▮▮▮▮▮ Type of Loan: AUTO	I1	10/2015	03/2014 10/2015	26790 72M427	20	21151 427 DEL DATES=, 08/2015=I3,07/2015=I2 C / XPN=01,EFX=01,TU=01	0	1 1 0
	Comments: OPEN; CURRENT ACCOUNT/WAS DELINQUENT 60 DAYS PAST DUE DATE; AUTO								

- ❑ Outstanding debt utilization- 30% of the weight of the score
  - ■ Average balance on revolving trade lines
  - ■ Percentage owed on revolving trade lines
  - ■ Ratio of revolving debt to total revolving limits
  - ■ Percentage owed on open installment loans
  - ■ Depending on balances, rescoring may be an option
    - ■ See below section on credit rescoring

- ❑ History of credit establishment - 15% of the weight of the score
  - ■ Number of months since the oldest active revolving trade line opened
  - ■ Number of months since the oldest installment trade line opened
  - ■ "Credit surfing" can be a problem

- ❑ Type of credit being used - 10% of the score
  - ■ Type of accounts being used such as:
    - ■ Revolving: Credit Cards and HELOCs
    - ■ Installment: Auto, Mortgage, Student Loans
    - ■ Open Accounts: American Express for example
    - ■ Finance Company accounts tend to be viewed as higher risk.

- ❑ Pursuit of new credit - Inquiries - 10% of the weight of the score
  - ■ How many inquiries impact the score

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- Which inquiries impact the score
- Number of inquiries in the last 12 months
- Inquiry de-dupe logic
- Mortgage and auto inquiry buffer

V. Inquiries

- ❑ Auto, Student Loans, & Mortgages
  - Inquiries within a 30 to 45 day window will be treated as a single inquiry (De-duplication window)
  - Window can vary based on FICO® score model
  - Does each inquiry cost two or three points???
  - Strength of credit matters when discussing how credit inquiries impact score
- ❑ Special Circumstances
- ❑ Mortgage qualifying guidelines can vary from program to program, due to the varying impact certain actions can have on a score.
- ❑ The following need to be reviewed on a case by case basis for specific program guidelines:
  - Disputed Accounts
  - Authorized User Accounts
  - Collection Accounts (Medical vs. other types)
  - Short Sales, Bankruptcies, and Foreclosures

- Disputed Account Example
- Authorized User Examples
- Collection Account Examples
- Short Sales, Bankruptcies, & Foreclosures Waiting Periods

VI. What if you do not have enough credit?

Tips on Establishing Credit:

- Secured Credit Cards – Great way to start!
- Credit Limit Does not matter
  - ❑ Percentage of usage and activity matters
- Ideally 6 months of on time payments
- Make sure the card reports to all 3 bureaus
- Be careful not to max out the balance
- Alternative Credit can be a substitute…..

	SCORES	
BEACON 5.0 FACTA	▮▮▮▮▮▮▮▮▮	Equifax - 01
	BEACON NOT AVAILABLE, NO RECENTLY REPORTED ACCOUNT INFORMATION	
9002 FAIR ISAAC		Experian - 01
	9002 DERIVED CREDIT RISK SCORE NOT CALCULATED DUE TO MODEL EXCLUSION CRITERIA.	
FICO RISK SCORE, CLASSIC	▮▮▮▮▮▮▮▮▮	TransUnion - 01
	NOT SCORED: INSUFFICIENT CREDIT	

Alternative Credit & Zero Credit Score Financing

- ■ Telephone Bills, Electric, Water, Car Insurance, Cable, Internet, etc.
- ■ 12 mos. of payment history reported
- ■ Must be in the customer's name
- ■ Must have perfect payment history
- ■ Verification of Rent
    - ■ Cancelled Checks
    - ■ VOR from apartment complex of management co.
    - ■ NO CASH

❑ Credit Supplement – Alternative Tradelines (accounts)

** TRADELINE SUPPLEMENT

1) T Mobile

2) Duke Energy

3) BRIGHT HOUSE

CREDIT HISTORY

| E C O A	Creditor Name Account Number	Acct Type	Date Reviewed	Date Opened DLA	High Credit Terms	Months Reviewed	Balance Amt Payment Amt	Past Due Amt	Historical 30 60 90
1. I	BRIGHT HOUSE	I1	09/2015	04/2008 08/2015	149 MTH149	87	149 149		0 0 0
	Type of Loan: UTILITY								
	Comments: VERIFIED PER RAICHELLE								
2. I	Duke Energy	O1	09/2015	05/2005 08/2015	269 MTH269	99	0 269		0 0 0
	Type of Loan: UTILITY COMPANY								
	Comments: VERIFIED PER DEESHA								
3. I	T Mobile	O1	09/2015	10/2005 08/2015	154 MTH154	99	0 154		0 0 0
	Type of Loan: CELLULAR PHONE								
	Comments: VERIFIED PER MICHELLE								

VII. Credit Re-Scoring Overview (Expedited Request)

❑ Targeting specific accounts to be paid down or paid off in order to maximize a borrower's credit scores.

❑ Once account is updated, our credit vendor talks directly with the credit bureaus to update the status.

❑ On average, it takes 3 to 5 business days to update once documentation submitted

❑ Once update has been completed, a new credit report will be issued with updated credit scores.

Credit Re-Scoring Step-by-Step:

■ **Step One:** The credit report is analyzed for any potential improvements through both a manual review and automated credit score simulation software.

CREDIT ASSURE™

APPLICANT :

	Equifax	TransUnion	Experian
Potential Improvement*	+48	+42	+82
Opportunity Type	Credit Management	Credit Management	Credit Management
	Order	Order	Order
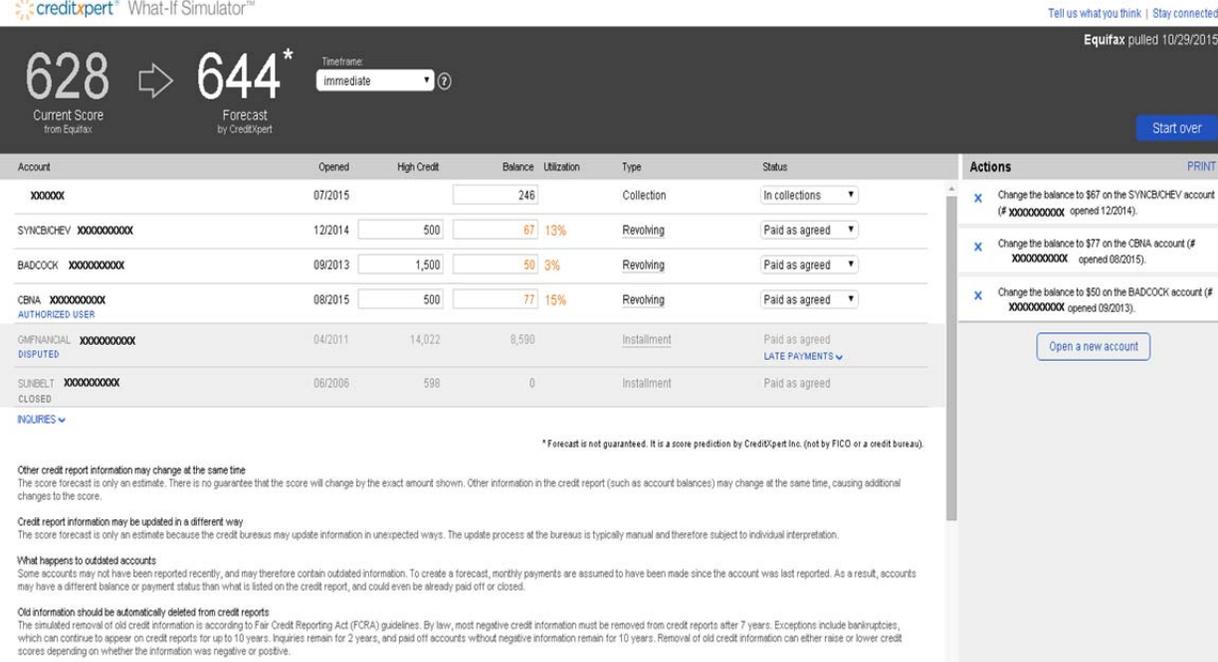
creditxpert® What-If Simulator™   Tell us what you think | Stay connected

Equifax pulled 10/29/2015

628 ⇨ 644*

Current Score from Equifax   Forecast by CreditXpert

Timeframe: immediate ▼ ⑦

Start over

Account	Opened	High Credit	Balance	Utilization	Type	Status
XXXXXXX	07/2015		246		Collection	In collections ▼
SYNCB/CHEV XXXXXXXXXX	12/2014	500	67	13%	Revolving	Paid as agreed ▼
BADCOCK XXXXXXXXXX	09/2013	1,500	50	3%	Revolving	Paid as agreed ▼
CBNA XXXXXXXXXX AUTHORIZED USER	08/2015	500	77	15%	Revolving	Paid as agreed ▼
GMFNANCIAL XXXXXXXXXX DISPUTED	04/2011	14,022	8,590		Installment	Paid as agreed LATE PAYMENTS ⌄
SUNBELT XXXXXXXXXX CLOSED	06/2006	598	0		Installment	Paid as agreed

INQUIRIES ⌄

Actions   PRINT

X Change the balance to $67 on the SYNCB/CHEV account (# XXXXXXXXXX opened 12/2014).

X Change the balance to $77 on the CBNA account (# XXXXXXXXXX opened 08/2015).

X Change the balance to $50 on the BADCOCK account (# XXXXXXXXXX opened 09/2013).

Open a new account

* Forecast is not guaranteed. It is a score prediction by CreditXpert Inc. (not by FICO or a credit bureau).

Other credit report information may change at the same time
The score forecast is only an estimate. There is no guarantee that the score will change by the exact amount shown. Other information in the credit report (such as account balances) may change at the same time, causing additional changes to the score.

Credit report information may be updated in a different way
The score forecast is only an estimate because the credit bureaus may update information in unexpected ways. The update process at the bureaus is typically manual and therefore subject to individual interpretation.

What happens to outdated accounts
Some accounts may not have been reported recently, and may therefore contain outdated information. To create a forecast, monthly payments are assumed to have been made since the account was last reported. As a result, accounts may have a different balance or payment status than what is listed on the credit report, and could even be already paid off or closed.

Old information should be automatically deleted from credit reports
The simulated removal of old credit information is according to Fair Credit Reporting Act (FCRA) guidelines. By law, most negative credit information must be removed from credit reports after 7 years. Exceptions include bankruptcies, which can continue to appear on credit reports for up to 10 years. Inquiries remain for 2 years, and paid off accounts without negative information remain for 10 years. Removal of old credit information can either raise or lower credit scores depending on whether the information was negative or positive.

| Feedback

Results for TransUnion
For: ▮▮▮▮▮▮
Mode: Rapid Rescore (Timeframe: Immediate)
Credit Report Date: 10/27/2015
Disposable cash setting: $1,000.

Summary

Potential score change: +12

Results based on a credit report that is 17 days old.

■ **Step Two**: Once the suggested actions have been taken, the customer then calls their credit card or finance company and requests a balance letter for documentation. Once this has been received, we can then start the final step.

■ **Step Three**: We then submit the documentation to our credit vendor who works directly with the credit bureaus to update the account. Once the updates are complete, we are given notification to reprocess a new credit report. The process can take as little as 3-5 business days to complete after receipt of the creditor documentation.

VIII.   Here are a few helpful reminders:
   ■ NO additional charge for this service
   ■ This is NOT credit repair and,
   ■ We are NOT a credit repair company
   ■ Results are not guaranteed & can vary
   ■ Ideal for paying down credit card balances
   ■ Processing times can vary

This can be a great solution for:
   ■ Upfront Pre-Qualifications, and
   ■ Current transactions experiencing financing issues