Presentation for the 48th Annual NAFCU Conference and Solutions Expo

Are you taking advantage of the full credit eligible population?

June 24, 2015

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VantageScore
a higher level of confidence

Agenda

1 | Introduction

2 | Why the VantageScore model is different and its impact on minorities

3 | Consumer education

4 | The GSE "Lockout"

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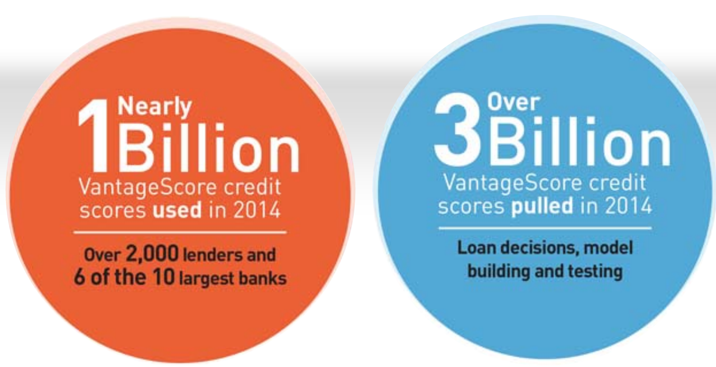
Introduction to VantageScore Solutions, LLC

- Founded in 2006 as a joint venture between Equifax, Experian, and TransUnion
- Models independently developed and managed by VantageScore Solutions
- Models and associated products marketed by Equifax, Experian, and TransUnion
- Mission: To build, and support a market for, the most inclusive, predictive, consistent consumer credit models in the United States

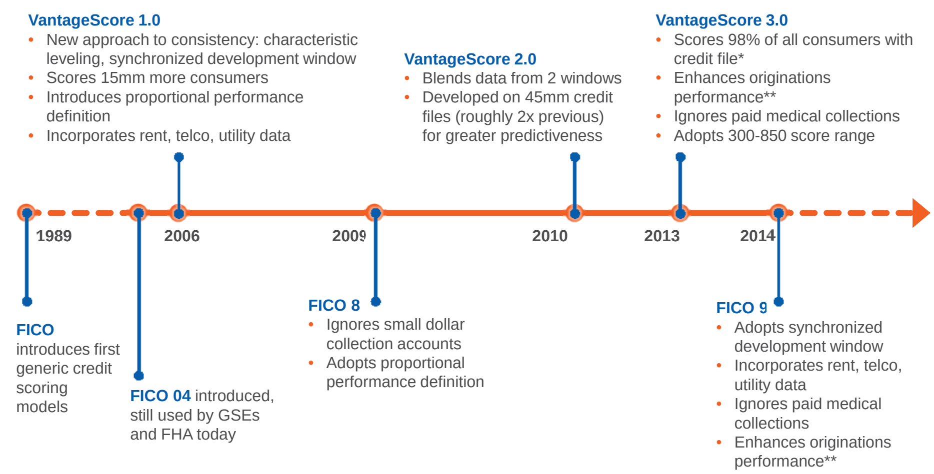
VantageScore is widely used in the market today



(1) Survey conducted by law offices of Berens & Miller using data from Equifax, Experian, and TransUnion

With more models, competition leads to innovation

A SHORT (AND SELECTIVE) HISTORY OF MODEL EVOLUTION:



* VantageScore 3.0 scores approximately 30-35mm more consumers than conventional models

** Some generic models are used both to originate new loans and to manage existing accounts. Because the propensity to default can be different between these two purposes, optimization is required. VantageScore 3.0, and later FICO 9, made improvements to enhance their predictiveness for the origination of new loans.

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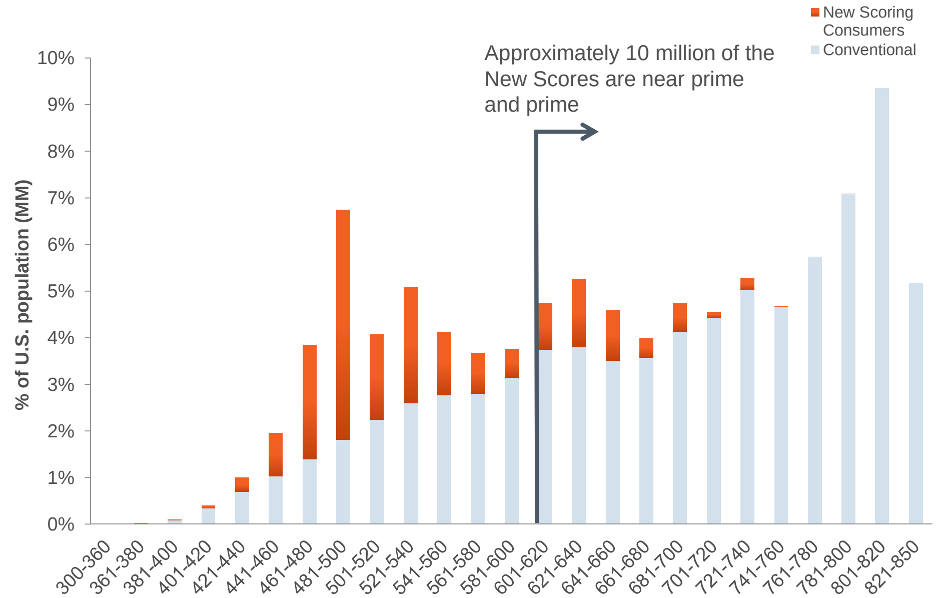
VantageScore 3.0 reliably scores 98% of consumers



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How VantageScore 3.0 reliably scores more people:

- More data: developed using 45mm credit files (more than any other model), enabling robust sampling for less common behavioral segments
- Innovative segmentation design: 13 different scorecards, including three dedicated to consumers with sparse data

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Traits of the new scoring consumers

New Entrants

- Less than 6 months of credit history

Infrequent Credit User

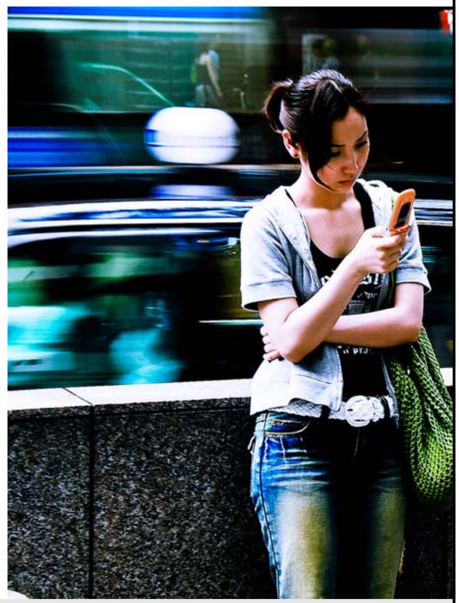
- Sparse users of credit, at least 6 months of no activity

No Recent Activity

- At least 24 months since activity

No Open Trades

- Only closed trades, public records and collections information available



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Minority Impact – The Facts

- 15% of Hispanics and 20% of African Americans fail to conventional minimum behavioral criteria but are scoreable using VantageScore 3.0
- 9.5 Million Hispanics or African American consumers are additionally scored
- Of the 9.5 million minority consumers scored, 7.5 score 600 or above
- 2.1 million minority consumers conventionally unscoreable score 620 or above

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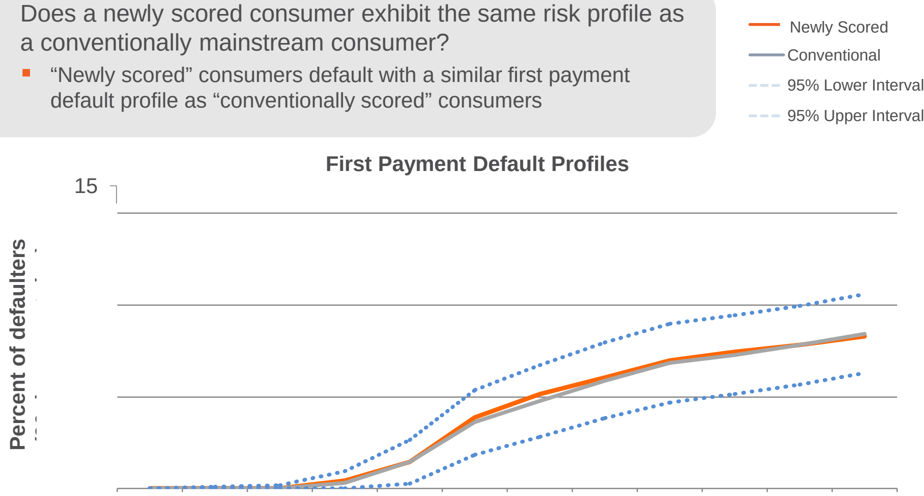
Newly scored population, very similar default profile

Does a newly scored consumer exhibit the same risk profile as a conventionally mainstream consumer?

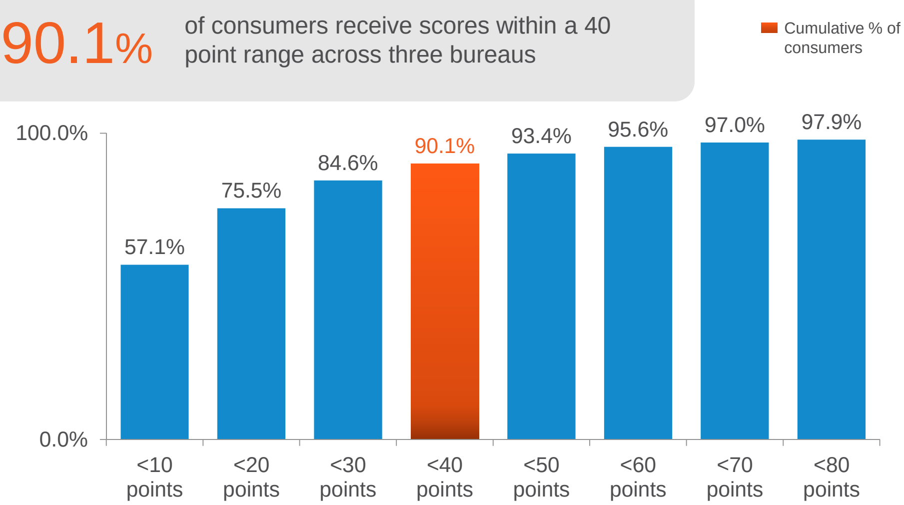
- "Newly scored" consumers default with a similar first payment default profile as "conventionally scored" consumers



Consumer consistency

PROPRIETARY CHARACTERISTIC LEVELING PROCESS MINIMIZES INFORMATION VARIANCE, ENABLING THE SAME MODEL TO BE USED AT ALL CRCS – THE ONLY TRI-BUREAU MODEL IN THE MARKET

90.1% of consumers receive scores within a 40 point range across three bureaus



Consumer friendly benefits

- 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
- Medical debt not considered when provided by a medical facility

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VantageScore 3.0 characteristics contributions

Extremely influential

Payment history: Make sure you pay all bills on time.

Highly influential

Age and type of credit — It's helpful to maintain a mix of accounts (credit cards, auto, mortgage) over time to improve your score

% of credit limit used — Focus on keeping revolving balances low, under 30% of credit limits

Moderately influential

Total balances/debt — Best to reduce the amount of debt you owe

Less influential

Recent credit behavior and inquiries — Don't open too many new accounts too quickly

Available credit — Only open the amount of credit you need

Improving a score and avoiding score drops

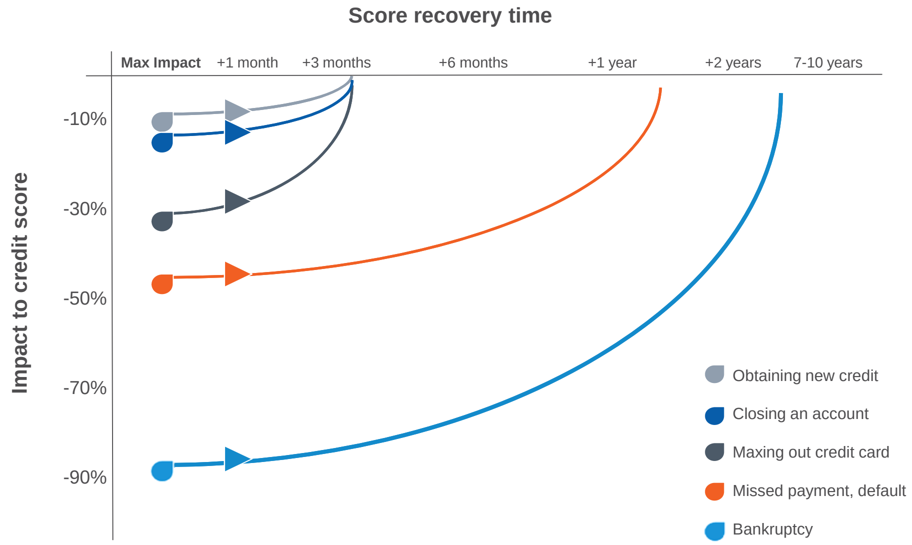
The impact on credit scores from each single credit activity appearing in your credit files varies, but there are generally things that have good or bad consequences

Low risk

Action	Lender interpretation	Score impact
Pays bill on time	Wisely handling debt	Improvement
Low credit utilization	Sufficient access to credit, unlikely to need additional funds	Improvement
Mature accounts	Experienced credit user	Improvement
Uses diverse range of loan products	Experience with different types of repayment requirements	Improvement
Inquiry about new loan	Why the need for credit – exposure or normal expansion?	Small drop
Opens a new loan	Why the need for credit – exposure or normal expansion?	Small drop
New accounts	Will consumer effectively manage new credit?	Small drop
Maxes out credit card (high utilization)	Tipping point: potential for significant exposure	Drop
Pays late – first time	Tipping point: potential for significant exposure	Drop
Pays multiple loans late	All credit at risk	Larger drop
Miss multiple payments on a loan (3 or more)	All credit at risk	Larger drop
Charge off	Default	Major score drop
Foreclosure	Default	Major score drop
Bankruptcy	Default	Maximum score drop, extended time impact

High risk

Impact from a negative event in a credit file diminishes with time



Tips for score improvement

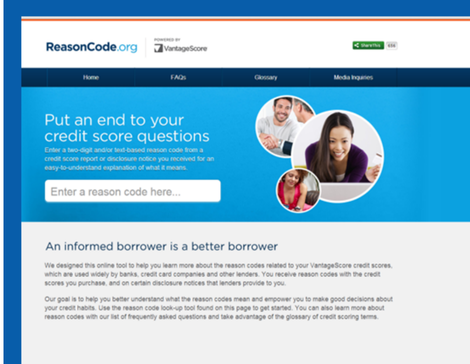
- Keep all accounts current
  - If one or more payments have been missed recently, bring all accounts current, then ensure payments are made on time for at least a year, preferably 18 months.
- Substantially reduce the total credit card line usage by reducing the balances on credit cards
  - If the balance amount on one or more credit cards is greater than 70% of the full credit line for that card, reduce balances to less than 30% and maintain that level for at least six months.
- Make additional mortgage payments to reduce the remaining loan amount
- Do not make inquiries for new credit or open any new accounts.
  - If you must open a new account, rate shop within a two-week window to minimize the number of inquiries in your credit file.
- Don't close unused credit card accounts – particularly if the account is multiple years old
- Review your credit report for errors. Contact the bureaus and creditors to correct mistakes
  - www.AnnualCreditReport.com

Consumer Education Initiatives – VantageScore 3.0

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

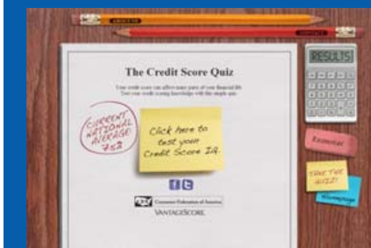
ReasonCode.org

- Search engine-equipped site provides deeper, clearer explanations of brief “reason code” language used to explain scores in disclosure notices, declination letters and websites where consumers obtain scores on their own.
- Includes tips for how to improve a score based on each reason code.
- Short, consumer-friendly “Reason Code 101” video offers primer on credit scoring and how lenders use and disclose them.
- Works for all VantageScore models.
- Provided in English and Spanish.



Credit Score Knowledge Survey and 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. Consumers on average score is 77 out of a possible 110 points.
- 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.
- Nearly 40,000 people have completed the quiz
- Try it today: www.CreditScoreQuiz.org
- Now available in Spanish: CreditScoreQuiz.org/Espanol



Consumer Federation of America

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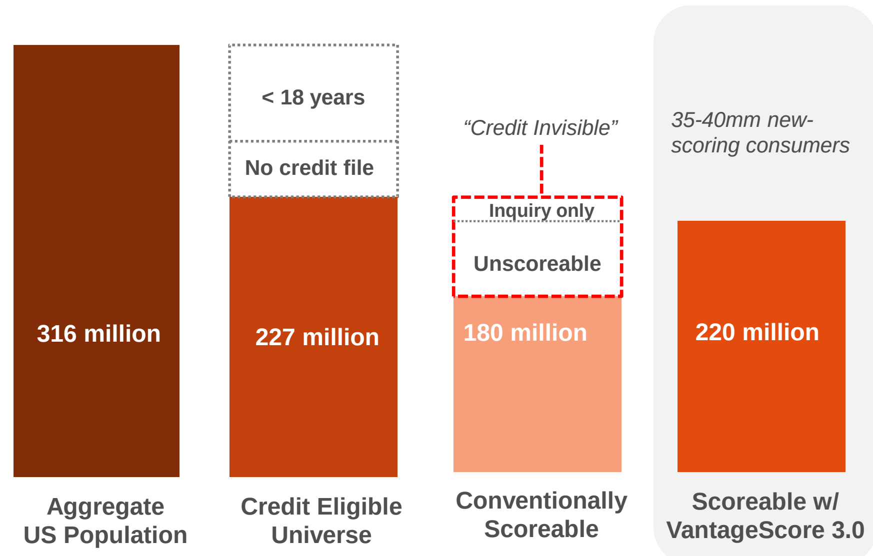
Locked Out: How competition is stifled through a government sanctioned monopoly.

Credit scores are the gateway to credit

Opening the Credit Box, Zandi/Parrott: A 50 point reduction in credit score cut-offs equates to 12.5 million households.

Urban Institute: Average credit score for loans sold to the GSEs is currently 752. But 13 million people have credit scores between 580 and 680. And one in five individuals has a credit score of 640 or lower.

The addressable market is larger than many believe



Fannie and Freddie "lock in" conventional models, mortgage market uses older technology

Three models mandated by Fannie and Freddie	Sample Dates
Equifax Beacon® 5.0	July 1998 to 2000
Experian®/Fair Isaac Risk Model V2SM	July 1995 to 1997
TransUnion FICO® Risk Score Classic 04	October 1998 to 2000

Stuck in the 1990s?

- Built *prior* to a decade of innovation in modeling technique using less granular, pre-recession data
  - *Does not* score positive rental payments
  - *Does* score medical collection accounts
  - *Less ability* to assess consumers with limited credit histories (e.g., "thin files")
- As dominant purchasers, GSEs are standard-bearers for the *entire* market
  - **QM** "patch" automatically extends safe harbor to GSE-eligible loans
  - **QRM** aligns risk retention requirements to QM (de facto, GSE eligibility)

"Locking in" older models locks out the millions of consumers unscoreable by conventional models

Conventional models cannot generate a credit score for consumers who have sparse information in their credit files:

Excluded	Definition	Illustrative examples
New to market	No account older than 6mo	Recent graduates, recent immigrants
Infrequent users	No update in past 6mo	Another family member handles finances
Rare user	Last update >24mo	Retirees, cultural aversion to credit
No open trades*	Collections, public record only	Primarily deals with cash

- *9.5 million African American and Latino consumers cannot be scored by conventional models^*

* A "trade" is a term used to describe an extension of credit (e.g., credit card, mortgage, etc.) as recorded on a consumer's credit file.
^ Estimate by VantageScore Solutions based on correlation of credit files with minority-concentrated zip codes.

Impact assessment: enabling originators to use newer scoring models

Impact*: Up to 144,570 households, $544mm in annual profits

	Math:	Assumption:
1	**7,589,899**	**Increase in population of consumers with a score of 620 or above**
2	÷ 1.95	Number of adults in the average household
3	× 65%	Estimated preference to own (rather than rent)
4	× 20 - 40%	Those who meet income, down payment, and other requirements
5	**= 72,285 - 144,570**	**Number of creditworthy households not being served every year**
6	÷ 7	Average life of a mortgage loan (they don't pile in all at once…)
7	× $175,000	Average principal balance
8	= $12.65 billion	Increase in annual loan volume
9	0.75%	Up-front fees: 25bps adverse market and 50bps loan level adjustment
10	2.40%	Present value of 60bps guarantee fees
11	(1.00%)	Present value of 25bps credit losses
12	**= $272 - $544 million**	**Annual revenues, net of credit losses**

* See appendix for basis of assumptions.

Impact assessment: serving more creditworthy minorities

- Estimated 28%* of 144,570 potential new homeowners are African American and/or Hispanic
- Impact: expands annual purchase mortgage lending to African American and Hispanic households by 32% over 2013 levels

$544mm in increased annual net revenues to the GSEs would more than pay for implementation costs.

Our ask: give lenders a choice of scoring model when originating loans to be sold to the GSEs

Opening the mortgage market to newer scoring models is a straightforward "triple-win":

1. Expands access to mainstream mortgage credit for many borrowers without lowering standards

2. Brings competition to a corner of the market that has too long served as a protected monopoly

3. Reduces systemic risk of relying upon a single vendor for a key input

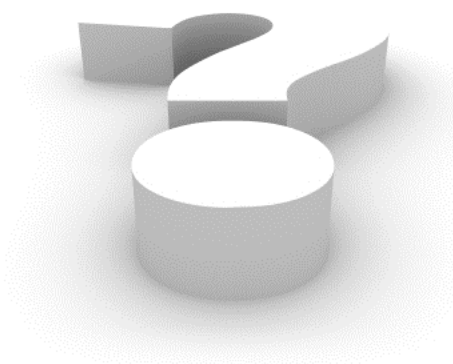
Revised guidelines can give lenders the flexibility to choose between validated models within Fannie Mae's automated underwriting system

Status

- FHFA has urged the GSEs to consider this effort this year
  - It is part of the FHFA 2015 Scorecard

- Industry input is critical

Questions and answers



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Appendix: Basis of assumptions

	Math	Basis of assumption
1	7,589,899	Analysis of consumer credit files by VantageScore and published in *"Universe Expansion,"* 2014.
2	÷ 1.95	US Census.
3	× 65%	According to the US Census, the current rate of homeownership is at a ten-year low of 64.4%.
4	× 20 - 40%	According to Urban Institute's *"How well do the GSEs serve minority borrowers?"* the acceptance rate for "weaker credit applicants" was 46% in 2012.
5	÷ 7	Rough estimate employed by some MBS traders for the life weighted average life of a new loan.
6	= 144,570	Calculated.
7	× $175,000	Fannie Mae's average acquisition had principal balance of $208k over first three quarters of 2014.
8	= $12.65 billion	Calculated.
9	0.75%	Fannie Mae LLPA matrix: 25bps adverse market and a minimum of 50bps loan level price adjustments for an applicant with a credit score <660. The maximum LLPA is 325bps.
10	2.40%	Fannie Mae charged an average of 63bps in the first three quarters of 2014. We assume 60bps at a 4X multiple.
11	(1.00%)	Urban Institute's *"Guarantee Fees – An Art, Not a Science"* estimates 25bps annual credit losses for loans with LTV>80 and credit score <700. We assume 25bps at a 4X multiple.
12	= $272 - $544 million	Calculated.

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