smartscore

Early Concept Document

Please contact
innovation@filene.org
for updated information.

A new, FREE member benefit program.

Everything you need to get started is in this packet!

Program Summary

In today's world, an individual's Credit Score (FICO or Beacon) is a standard tool used by various entities to assist in making credit decisions and business determinations. While recent legislation has made free annual credit reports available, credit scores, a strong component in the decision process, remain available only by purchase.

Introducing Smart Score--a new tool to help members understand the relevance and importance of their Credit Score. With Smart Score, members will not only receive their current and (where possible) historical Credit Score, they'll also receive the tools and information necessary to help them understand how to protect and improve scores for future needs.

Credit Score education is an important way to help members gain more control of their personal finances. Plus, members will appreciate that their credit union took the initiative to provide them with this value added service.

Many credit unions regularly pull credit report information, including credit scores for their members, to open new accounts, to pre-approve them, for risk management, etc. Smart Score provides another way to utilize information we are already paying for.

Financial Education is a cornerstone of credit union philosophy that the banks can't touch. It's time to compete where we define the rules. Smart Score is your ticket to immeasurable member good will—and a remarkable ROI.

Few things have more financial impact for your members than their credit score. Most members don't know what their score is, let alone know what it means or how to improve it. Imagine how much your members would appreciate not only receiving their score for free—but also learning how they can protect and improve it.

You already have the resources to put Smart Score into action.

How the program works.

1) Select a group of members for whom you have recently pulled credit scores. If you like, you can further target your selection to members with certain types of accounts, age, etc.

2) Merge your score mailing list with the member packet then send. It's that simple!

3) Repeat quarterly or as you desire. The benefit of doing it quarterly will allow members to see how specific actions affect their personal score. It will make them more aware of how to maintain good credit practices and will increase your pool of qualified borrowers.

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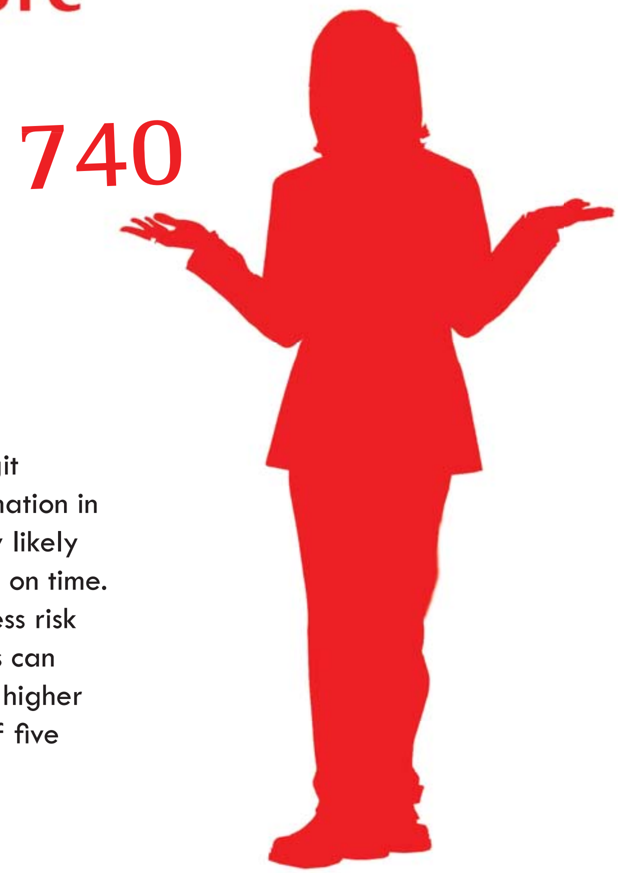


«Name1HH»
«Address1HH»
«Address2HH»
«CityHH», «StateHH» «ZipHH»

Dear «Name1HH»,

As your primary financial institution, <Credit Union Name> believes in providing you with the tools and financial education you need to improve your financial life. A very important aspect of your overall financial health is your credit score. After all, lenders, insurers, employers, landlords and others all use credit scores to determine what services you qualify for—and how much those services will cost.

Your financial health is important to us. That's why <Credit Union Name> is pleased to be able to provide you with regular updates on your credit score completely free of charge. (While free credit reports are available annually, credit scores must typically be purchased.)

700

A credit score is a three-digit number based on the information in your credit file. It shows how likely you are to pay a loan back on time. The higher your score, the less risk you represent. Credit scores can range from 830 – 380 (the higher the better) and is a result of five basic items:

1. Payment history – 35%
2. Capacity – 30%
3. Length of credit – 15%
4. Accumulation of debt in the last 12-18 months – 10%
5. Credit Mix – 10%

At this time, your credit score range is «Range»

Credit Score Ratings

- **Excellent: Over 750**
- **Very Good: 720 to 750**
- **Acceptable: 660 to 720**
- **Uncertain: 620 to 660**
- **Risky: less than 620**

590

In order to help you track your own score, <Credit Union Name> will be sending you your credit score range quarterly. Included in these letters will be more information about the five basic components that make up your credit score. Each letter will describe ways you can improve your score.
If you would like more information about your credit score, or to set up a score enhancement appointment, please feel free to contact one of our Personal Account Specialists at <Phone #>.

Sincerely,

BestSource Credit Union

Member Information Packet

Managing Credit Cards to Raise Your Credit Score

Debt & Your Credit

Debt is one tool consumers can use to build a lifestyle. However, managing that debt sensibly can be a challenge and the implications for mismanaging debt can be far reaching and severe. The first step toward managing debt is to understand credit and credit scores.

A credit score is a predictive tool on how a consumer will manage their debt in the future based on how that consumer has managed their debt in the past. There are many factors that go into a credit score, but the main factors are: payment history, capacity (how much credit is available), length of credit, accumulation of debt, and credit mix. Each of these factors has a weight and together these different weighted factors give a numerical score. A credit score ranges from 380 – 830. The higher the score, the less "risky" that borrower is.

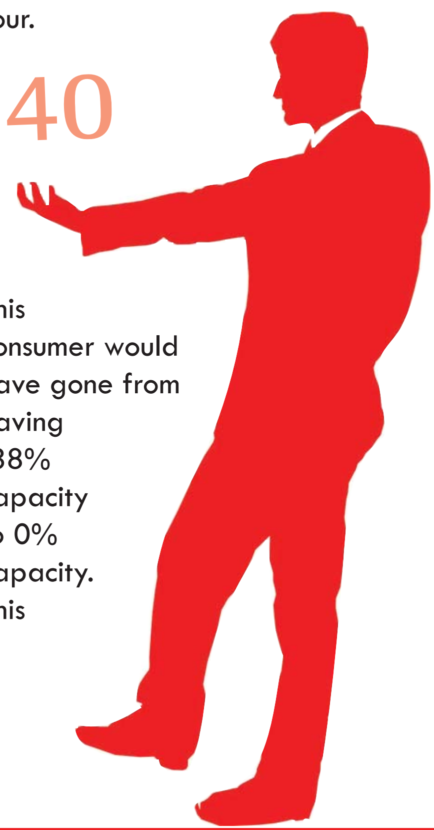
Payment History

Payment history makes up approximately 35% of a credit score. One common theme in understanding credit scoring is that time has healing power. The longer it has been since a negative incident occurred, the less it will affect your score. So, in the case of payment history, a late payment five years ago is going to have much less impact than a late payment last month. Additionally, the amount of a late payment has no impact on the score. So, for example a $10 department store late payment and a $2500 mortgage late payment have the exact same impact. Because of the higher weight of payment history making consistent on-time payments monthly is extremely important to maintaining a strong credit score. Also, keep in mind that delinquencies stay on your record for seven years.

Capacity

Capacity represents the ability a consumer has to borrow and it makes up 30% of a credit score. If a consumer has $50,000 in limits on credit cards and their current balance on those credit cards is $49,000, their capacity is 2%. Alternatively, if a consumer has $50,000 in limits on credit cards and their current balance is zero, their capacity is 100%. The lower the capacity, the lower the credit score. A low capacity demonstrates that the consumer is using all the credit they have available and could be a riskier borrower.

Capacity can be very confusing to consumers. Many lenders have advised consumers to close out all unused credit cards or lines of credit, particularly when a consumer is taking out a "debt consolidation" loan. This can have a significant negative impact on the credit score. Consider if a consumer had $25,000 in balances between four different credit cards with a combined total of $40,000 in limits, consolidated those to one credit card without any additional limit and closed the other four.



This consumer would have gone from having 38% capacity to 0% capacity. This

Optional Member Information

690

would have an immediate negative impact on the credit score. Often just cutting up unused credit cards is a better alternative than closing accounts.

Length of Credit

The length of time that a consumer has had credit makes up 15% of their score. Length of credit is important because as a lender, if a consumer has a high credit score, but has only had credit for 6 months, there is not a proven ability to maintain that high score. Again, time has a significant impact on the score. This is another lesson that consumers often learn the hard way. It is extremely important for a consumer to keep open the oldest account they have. Frequently consumers close this account as it is often a small department store charge account. If the oldest account the consumer has is closed, there can be a significant impact on the score.

Consider the following: the more recent the action, the more it impacts the score:

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

710

Accumulation of Debt

Another important factor used in calculating a credit score is the accumulation of debt in recent months. The more that a consumer has been "shopping" for credit, the lower their score may drop. The reason for this is a consumer who is searching for credit often is a consumer that is struggling and becoming a riskier borrower. Accumulation of debt accounts for about 10% of the credit score.

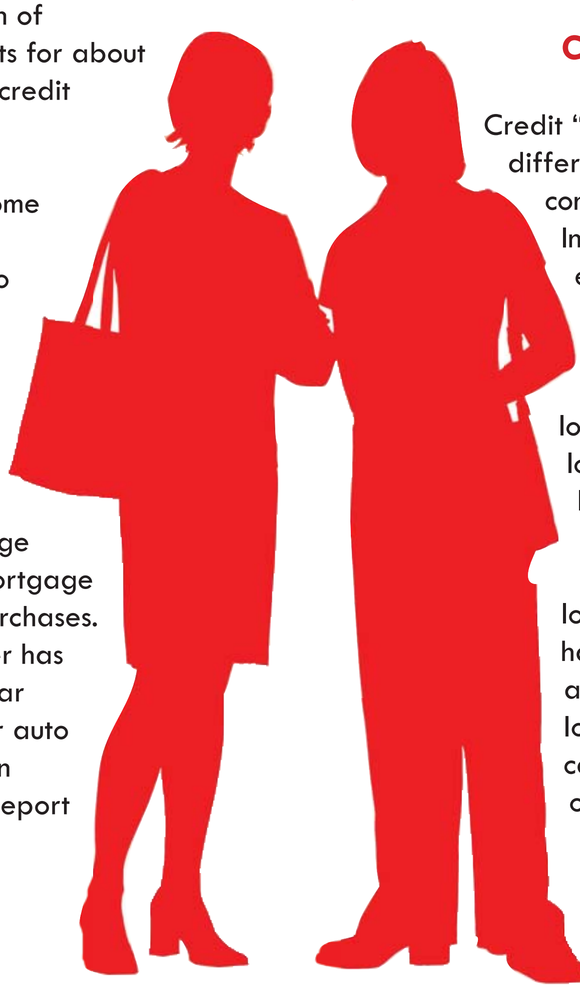
There are some important exceptions to this rule. The credit reporting agencies give consumers some leverage with both mortgage and auto purchases. If a consumer has several similar mortgage or auto "inquiries" on their credit report

600

within a few days or weeks, these do not have a significant negative impact. However, if a consumer had numerous credit card inquiries, the impact could be more significant. This is part of why it is not always advantageous for a consumer to take advantage of the many offers department stores extend for discounts if a charge account is opened.

730

720



Credit Mix

Credit "Mix" means the different types of debt a consumer might have. Installment or closed-end loans raise a score. Examples of installment loans include auto loans, mortgage loans, home equity loans or closed end debt consolidation loans. Revolving loans that are used or have a balance lower a score. Revolving loans include credit cards or other open-end lines of credit. In addition, the number of finance companies that appear on a consumer's credit report also lower the score. This is because finance companies tend to lend to higher risk consumers. Credit mix makes up 10% of a consumers credit score.

What doesn't impact my score?

There are several things that many consumers believe might affect their score that do not. Those include:

- **Debt ratio**
- **Income**
- **Length of residence**
- **Length of employment**

These are items that lenders may consider when making a loan decision, but they do not go into calculating a credit score.

How can I improve my score?

Based on the above criteria, there are actions that will have a significant positive impact on your score. These include:

- **Paying down credit card balances**
- **Not closing credit cards even when they are not used**
- **Making payments on time**
- **Slowing down on opening new accounts**
- **Acquire a solid credit history with years of experience**
- **Moving revolving debt to installment debt**

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Implementation Guide

Action Item	Team Responsible	Considerations/ Measurements/ Outcome	Current Status	Start Date	Completion Date
1. Determine breadth of project: provide for entire membership or a specific group	Management Team	Is Smart Score for all members or an added value for a relationship?			
2. Order credit score information from your Credit Bureau	Marketing Team	Could take up to 30 days			
3. Create letter/packet or use Smart Score Template	Marketing Team	Use template or customize			
4. Design tracking system for scores over time	Marketing Team	Use template or customize			
5. Design piece to show scores quarterly	Marketing Team	Use template or customize			
6. Develop credit score information to be included	Marketing Team	Use template or customize			
7. Mail Packets	Marketing Team	Works best with an MCIF system			

About Smart Score

The basics of understanding & improving your credit score

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Components of a Credit Score

- 35% = based on payment history (i.e. on-time pays or delinquencies AND more weight is put on current pay history)
- 30% = capacity
- 15% = length of credit
- 10% = accumulation of debt in the last 12-18 months (# of inquiries & opening dates)
- 10% = credit mix (installment raises score, revolving lowers score AND the # of finance companies lowers the score as well)

Approximate Credit Weight Each Year

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

What actions hurt a score?

- Missing payments (regardless of the dollar amount, it will take 24 months to restore credit with one late payment)
- Credit cards at capacity (i.e. maxing out credit cards)
- Closing credit cards out (this lowers available capacity)
- Shopping for credit excessively (auto & mortgage shopping do not have a negative effect)
- Opening up numerous trades in a short period of time
- Having more revolving loans in relation to installment loans
- Borrowing from finance companies

What will improve a score?

- Paying down on credit cards
- Not closing credit cards
- 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
- Moving revolving debt to installment debt

What doesn't affect the score?

- Debt ratio
- Income
- Length of residence
- Length of employment

Scoring "Cheat Sheet"

- Almost impossible to score 700 + points with any current delinquency
- Almost impossible to score 700 + points without good capacity
- Will always score 700+ with good capacity and no public records, current or past delinquencies
- Will always score 500 point range or lower with no capacity and current delinquencies
- Will score in 600 range if doing well with how you pay and OK in capacity
- Will score in 600 range if doing well with capacity and OK with how you pay

Impact of Bankruptcy

730 Score (Time of Bankruptcy) .... Loss of 200 Points = 530

560 Score (Time of Bankruptcy) .... Loss of 30 Points = 530

Estimated ROI

The extremely low implementation cost with high rewards for the credit union and the members create a win-win program:

ROI on Smart Score product is measured in two ways:

1. Credit Union income from increased loan originations
2. Member savings from increasing their credit scores

The costs of implementing Smartscore could be offset by only a few members that established a new lending relationship with the credit union. A 2% penetration of a 5,000 member test group would yield the following results:

Credit Union Income

Products & Services	Average Annual Return for One Members $	Average Annual Return for 100 Members (2% penetration)
Auto Loan Only	$1,000	$100,000
Auto & HELOC Loans	$3,500	$350,000
Auto, HELOC & 1st mortgage	$21,000	$2,100,000

Through Smartscore's unique financial education model, if a member changes behavior and receives improved relationship pricing, the savings for the family could be significant:

Member Savings - Life of Loan

Credit Score	Auto Loan	Auto Loan
D- > C	$3,000	$2,100
D- > B	$4,200	$4,200
D- > A	$4,800	$5,200