

# What mortgage brokers should know about the new VantageScore<sup>SM</sup> introduction

VantageScore<sup>SM</sup> is a new credit scoring model that was introduced unexpectedly last week by Experian, Equifax and TransUnion. It has been created as a joint venture between these three bureaus.

## Free Teleconference on VantageScore: Implications for Brokers and Borrowers

Because of the importance of the VantageScore<sup>SM</sup> announcement, Advantage Credit will hold a free teleconference on April 4<sup>th</sup> at 1 p.m. Eastern Time on the score and its effect on mortgage brokers. Industry experts will weigh in along with Ron Litt, president of Advantage Credit and former SVP of Allied Home Mortgage Capital Corp., the country's largest brokerage. As an Advantage Credit customer, you will be receiving, by email, registration information for this free conference call, as well as access to a recorded version online.

Because Advantage Credit serves some 18,000 brokers, we want you to have as much information about the new score as possible at this time, and know our professional opinions on the score's consequences for you and your borrowers.

1. VantageScore<sup>SM</sup> will be available from Advantage Credit within a few weeks.
2. Existing score models based on FICO® algorithms will remain available for the foreseeable future, as required by lenders, wholesalers, GSEs and HUD. Implementing a new score system completely could take years, due to the level of investment and retooling required throughout the industry. The timing for this level of investment is not ideal, as market rates are the highest in four years and loan volume is declining. Without wide-spread buy in, especially by lenders, GSEs and HUD, adoption could slow or stall.
3. Fair, Isaac and Company (FICO) will undoubtedly continue competing with VantageScore<sup>SM</sup>, releasing improvements to their existing models. The industry may be more comfortable with FICO's incremental improvements to the existing system over adopting a new system entirely.
4. VantageScore<sup>SM</sup> was released with a few stated goals. One goal is to increase score consistency across bureaus by having them all use the same system. However, score differences are largely based on data disparities between bureaus rather than inconsistencies in score models, so VantageScore<sup>SM</sup> will also show different results on

each bureau's report unless identical data is reported and retained at each bureau. This is unlikely because of the way data is accumulated in each bureau's files. Data can be different between bureaus because some creditors don't report to all three bureaus, or creditors can report wrong information, or because a bureau can have inaccurate data in the file.

5. Another goal of VantageScore<sup>SM</sup> is to make it easier for consumers to understand, with specific score ranges correlating to an overall "grade." The scores start at 501 and go through 990, with each segment of about 100 points delivering an "A" through "F" grade. This method makes it easier to identify score ranges as good or poor and easier to understand, but we predict it could cause a backlash. Even if a person knows they have low scores, nobody wants to feel they 'flunked' credit and got an 'F'. Advantage takes the opinion that as an industry, we should look for ways to make consumers feel more at ease through the mortgage process.
6. A potential benefit of the score for consumers and brokers is that VantageScore<sup>SM</sup> looks at the past 24 months of activity, while FICO scores take many years into account. This can help borrowers with credit issues more than two years in the past.
7. Another stated benefit is VantageScore's ability to provide predictive analysis on consumers with "thin" credit files—those with brief or insufficient credit histories. This could help expand mortgage financing for minority buyers or those who have preferred to purchase in cash, or younger buyers.

### **Conclusion**

The VantageScore<sup>SM</sup> announcement surprised many. There are potential benefits in the use of the new score model. However, much work must be done to achieve its widespread usage and only then will its potentially far-reaching and as yet unknown effects become clear.

Questions? Please contact us via e-mail at [info@advantagecredit.com](mailto:info@advantagecredit.com). Thank you for your business. Please let us know any time how we can make your business more successful.