NCUA
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Serving the Credit-Invisible

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According to the Consumer Financial Protection Bureau, 26 million U.S. adults have no credit history with the three national credit bureaus: TransUnion, Experian, and Equifax. As a result, they have no credit scores.

Most consumers have a mix of credit activity, some "visible" and some "invisible." Visible credit is reported to the credit bureau and included in the consumer's credit score. Invisible credit is credit activity that is not reported to the credit bureau and, therefore, not included in the consumer's credit score.

"Credit-invisibles" are consumers whose documented credit history is so limited that they don't have credit scores or their credit scores are not based on a complete history of debt repayment. This is often because several of the payments types they routinely make are not reported to the credit bureaus. Another reason some consumers are invisible is that they are new to the borrowing scene and haven't established a credit history.

But a credit invisible *could* actually have a good credit history, if she or he makes on-time payments of rent, insurance, utilities or loans obtained from an organization that doesn't report to a credit bureau. A true repayment history may not be included in their credit scores, making their good credit history invisible.

This paper explores how credit unions can strategically tap into this underserved market and help credit invisible members increase their visibility in the traditional credit reporting system and build a good credit score.

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Section 1 – The Credit Invisible

Who are the Credit-Invisibles?

"Credit-invisibles" are consumers whose documented credit history is so limited they don't have credit scores or whose credit scores are not based on a complete history of their debt repayment.

According to the Consumer Financial Protection Bureau, 26 million U.S. adults have no credit history with national credit bureaus: TransUnion, Experian, and Equifax. As a result, these individuals have no credit scores. This is often because the consumer is just entering the credit world or because several types of payments they routinely make are not reported to the credit bureaus. Payments such as rent, utilities, debts from small businesses and even debts from some small credit unions may not be reported to a credit bureau. As a result, those payments aren't included in the consumer's credit score.[1]

So, while the consumer may actually have a strong history of debt repayment, the fact that the debts she or he pays are not reported, hides the true credit history, making the consumer a credit invisible.

In May 2015, the Consumer Financial Protection Bureau released a report on credit-invisibles. The report identified:

- Approximately one out of every ten adults does not have a credit history with a national credit bureau: Equifax, Experian or TransUnion.
- More than 19 million consumers—about eight percent of the adult population—have unscored credit records. About 9.9 million have an insufficient credit history, and 9.6 million lack a recent credit history.
- Consumers in low-income neighborhoods are more likely to be credit invisible or have an unscored record. Of the consumers living in low-income neighborhoods, 30 percent are credit invisible and 15 percent have unscored records. In upper-income neighborhoods, only four percent are credit invisible and five percent are unscored.
- Blacks and Hispanics are more likely to have limited credit records over Whites and Asians. About 15 percent of Blacks and Hispanics are credit invisible versus 9 percent of Whites. About 13 percent of Blacks and 12 percent of Hispanics have unscorable records compared to 7 percent of Whites. CFPB's analysis suggests that these differences across racial and ethnic groups materialize early in the adult lives of these consumers and persist thereafter.[1]

The CFPB report also identified that young people were more likely to be labeled credit invisible or have an insufficient credit profile to allow a credit score to be calculated. More than 80 percent of the 18–19 year olds were in this position, primarily because they have not had time to establish a credit history. The level fell to under 40 percent for the 20–24 age group.

Some researchers, such as John Ulzheimer, president of Consumer Education at Credit Sesame, identified that the Credit Card Accountability, Responsibility and Disclosure Act of 2009 contributed to the lack of a credit profile for young people entering the credit world. The Act mandated that, to get a credit card, people under 21 were required to obtain a cosigner or prove they had an independent income. As a result, many credit card companies ceased their formerly

[1] CFPB Office of Research, "*Data Point: Credit-invisibles,*" http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf (accessed 1 Feb. 2016).

aggressive marketing efforts on college campuses, thus restricting the younger demographic from building a credit profile. [2]

Other causes for people to be credit invisible include:

- Living in areas that do not offer credit opportunities,
- Borrowing from creditors who do not report to the credit bureaus,
- Family culture that doesn't believe in borrowing,
- Cash-dependent lifestyle, and
- Status as a first-time borrower.

The Difference between Credit-Invisibles and other Non-prime Borrowers

This paper is not a discussion of prime and non-prime lending. However, understanding the difference between a credit invisible and other borrowers requires an understanding of the difference between prime and non-prime borrowers.

The term "prime" refers to borrowers who represent a very low risk of default based on a credit score. "Non-prime" refers to all other borrowers. A "non-prime" borrower with a weak credit history (such as delinquent payments, charge-offs, judgments or bankruptcies) and a low credit score is labeled "sub-prime."

The credit invisible does not have a credit score or has a credit score that is not based on a complete history of debt repayment. While the non-prime borrower has a poor proven credit history, the credit invisible's credit history cannot be seen clearly. The credit invisible may actually have an excellent debt repayment history—it just hasn't been reported.

Why Make Loans to the Credit Invisible?

With more than 26 million credit-invisibles in America, credit unions have a potential new source for lending and membership. Credit unions serving credit invisible members have an opportunity to develop a long-lasting credit relationship with them, especially if the credit union is the first financial institution willing to take a chance and extend credit on reasonable terms. Making loans to the credit invisible, when done properly and well-managed, provides an opportunity for a credit union to increase its overall yield on assets and provide a pathway to financial stability for their credit invisible members.

Section 2 – Credit Scores

What is a Credit Score?

Calculated by the traditional credit bureaus, the credit score is a three-digit number generated from an analysis of information in a consumer's credit bureau file. The score is calculated using a mathematical formula that measures the statistical probability that the consumer will default on a loan.

It doesn't take much to generate a credit score. Usually a score is generated when a consumer has at least one account that has been reported to the credit bureau for at least six months.

[2] Kelley Holland, "45 Million Americans are Living Without a Credit Score," *CNBC*, 5 May 2015, http://www.cnbc.com/2015/05/05/credit-invisible-26-million-have-no-credit-score.html

Typically the credit score consists of five weighted factors:

- **Payment history:** How the consumer repays her or his reported obligations, as well as public records and collection account data.
- **Capacity:** Measures revolving debt balances compared to total credit.
- **Length of credit history:** How long the active credit accounts have been opened.
- **New credit:** Assesses the number of new accounts the consumer has as well as recent inquiries into her or his credit history.
- **Types of credit used:** Considers the mix of credit when determining the score.

It is also important to know what does not affect a credit score. Besides the prohibited discriminatory practices of considering age, race, color, religion, national origin, sex and marital status, several other elements are not included in the credit score. These include:

- Cash transactions;
- Employment information including salary and seniority;
- Debt ratio;
- Type of housing and where one lives;
- Interest rates and terms of the loans;
- Child support payments;
- Rent payments (in some cases);
- Inquiries that are not credit-related;
- Whether the applicant is participating in a credit counseling program; and
- Any information not on the credit report.

Credit bureaus can only use information reported directly to them. And all credit bureaus do not have the same information, because creditors may not report to every credit bureau. Remember, the credit score only represents the probability of repayment. It does not guarantee a loan will be repaid according to the terms.

Why is a Credit Score Important?

A credit score is extremely important because most lenders make lending decisions and price loan products based in part on the applicant's credit score. Generally, the better an applicant's score, the better loan rates and terms a lender will offer. Other organizations also use credit scores to make decisions.

Helping Members Build a Good Credit Score

Credit unions can help members build a good credit score by reporting outstanding debt payment histories to a credit bureau. Working with a member to qualify for a loan helps to build the credit profile. Helping the member open a credit card or other revolving type debt, whether with you or another lender, also helps build a good score because the loans will build the capacity component of the score. Initially, the loan may not be at the very best of terms, but if members start out with small loans and pay them on time, they will build a good credit score.

Section 3 – Establishing a Credit Invisible Loan Program

The fact that some consumers don't have a credit history because they don't use credit, or the sources they borrow from aren't reporting to a credit bureau, makes them credit invisible. But being credit invisible does not necessarily mean they are not credit worthy. Some credit-invisibles are, some aren't. Because of this unknown, stronger loan review processes are needed to properly assess the creditworthiness of a credit invisible applicant. Appropriate policies, monitoring and control mechanisms are essential to the success of a credit-invisible loan program.

The Risks

Making loans to credit-invisibles does not come without risks. Proper due diligence and risk analysis is essential. Typical risks associated with a credit invisible loan program include, but are not limited to:

- **Credit Risk of Loan Default:** The lack of a credit profile makes it difficult to know the long-term credit repayment practices of a borrower or predict whether she or he will default. There is a risk that delinquency and loan-loss levels could increase if members don't pay according to the loan terms.
- **Liquidity Risk:** Establishing a new program that supports making loans to members who do not have a credit history could result in more member referrals and increased loan demand. The increased loan demand may create a liquidity crunch.
- **Compliance Risk:** Incorporating the credit invisible into a risk-based pricing program may require the credit union to provide the members with additional disclosures.
- **Strategic Risk:** The risk that goals for loan volume, loan losses, earnings and operational expectations are missed, resulting in a negative impact on the credit union.

The Rewards

In most cases, the credit invisible borrower can get credit, but generally the lack of a credit score prompts lenders to charge high interest rates and offer less favorable terms. Your credit invisible borrowers benefit from getting credit at a reasonable rate and term, and they are also building a credit file, thus helping them generate a credit score and become more "visible."

Done right, lending to the credit invisible member can generate more loans and increase the loan yield. But loans to the credit invisible member must be made with caution because there is a higher probability of loan losses. One way to mitigate risk is to start the borrower off with a smaller loan. Starting with a smaller loan allows the member to prove she or he has the ability and the willingness to repay the loan.

Planning for a Credit Invisible Loan Program

When developing a credit invisible loan program, ensure the strategic and business plans define the credit union's financial and operational goals for the program. They should also clearly identify the type of loans (such as new car, used car or signature) available under the program.

The plans should acknowledge the risks and provide the needed resources, including specialized management and staff expertise to minimize loss exposure. Training needs should be addressed to ensure staff understands the risk associated with a credit invisible lending program, including how to appropriately analyze the credit risk.

The program's plan should clearly identify the program objectives including, but not limited to, the anticipated:

- Number and balance of loans to credit-invisibles,
- Delinquency and loan loss rate,
- Net loan yield,
- Loan growth rate over time,
- Membership increases,
- Improvements in profitability, and
- Net worth risk exposure.

The plan should ensure adequate controls are in place to evaluate the loan portfolio quality. It should also identify the reports used to analyze and evaluate the program. When objectives are not met, the board should examine the reasons and implement measures to protect the credit union's net worth.

Pricing

Lending to the credit invisible is typically time-consuming and can generate higher loan losses. When pricing a credit invisible loan product, take into account the additional expenses related to processing and servicing the loan, including, but not limited to the costs associated with the:

- Detailed underwriting required for this type of loan, including additional verifications of items on the loan application,
- Loan applicant interview,
- Credit evaluation,
- Financial counseling,
- Collection expenses, and
- Loan loss reserves.

Once these costs are determined, price the credit-invisible loan products to cover these additional costs plus a contribution to the credit union's net earnings.

Net Worth Allocation

Prior to implementing any lending program, the board must evaluate whether it has sufficient capital to protect against the risks associated with the new program. The loan policy and strategic plan should identify the amount of capital allocated for potential losses and clearly state plans to adjust the lending program if those loss levels are reached.

Keep in mind that loan losses do not surface immediately, but when they do, they can provide valuable information. When a loan is written off, evaluate the factors that caused the loss and whether they are underwriting related or attributed to other factors occurring after the loan was approved, then adjust the program to help minimize future losses.

Training

Making loans to the credit invisible requires trained staff able to objectively evaluate the loan application and identify and analyze the applicant's invisible credit history. Establish a strong training program focused on the specialized non-traditional underwriting skills needed for this type of lending. NCUA's whitepaper, *Supervising Community Development Credit Unions – Balancing Their Mission and NCUA's Regulatory Responsibilities*, provides guidance on

non-traditional loan underwriting. The collection staff must be properly trained and prepared to handle the more intense collection efforts needed to ensure timely repayment of the credit invisible loan.[3]

Section 4 – Evaluating the Credit Invisible Loan Application

Developing Underwriting Guidelines

Unlike applicants with a credit score, the credit invisible lacks a documented credit history, making it difficult to evaluate past credit repayment history. The lack of a documented credit history places the responsibility on the approving official to closely evaluate the information used to support the loan decision.

When developing loan underwriting guidelines for a credit invisible loan program, identify procedures to evaluate the loan applicant, including:

- Stability of residency;
- Length of employment;
- Stability of employment;
- Employment income;
- Current debts and payment amounts;
- Outstanding debt payment status;
- Past record of judgements; charge offs or bankruptcy;
- Purpose of the loan;
- Debt ratio analysis; and
- Identification of future changes in income.

Refer to Appendix A – Sample Loan Underwriting Policy Guidelines and the Sample Loan Application Review Worksheet in Appendix B for further guidance.

Basic Underwriting

Making loans to the credit invisible brings back the basics of loan underwriting. The underwriter cannot simply rely on a credit score to identify the probability of repayment. Instead, to effectively assess the risk of a credit invisible loan applicant, the underwriter must:

- Thoroughly evaluate the information disclosed on the loan application,
- Understand the lifestyle of the applicant, recognizing that their true credit history (positive or negative) may not be reflected on the credit report,
- Understand what is causing the lack of a credit score or a weak credit score, and
- Determine whether the borrower's five "C's" of credit are favorable:
  - **Character:** Reputation of paying debts responsibly,
  - **Capacity:** Ability to repay,
  - **Collateral:** Assets used for loan protection,
  - **Capital:** Financial equity interest in the deal, and
  - **Conditions:** Terms to support the lender's interest in the loan.

The loan application must be complete and provide enough detail for the underwriter to properly assess the risk of non-payment. It should include the applicant's current employer, income,

[3] NCUA Letter to Credit Unions 05-CU-01, *Supervising Community Development Credit Unions*, February 2005

debt, and residency information. The underwriter should evaluate the information and, where necessary, verify it.

Debt Ratios

Traditionally, the debt ratio identifies whether an applicant has the ability to repay a loan based on the proportion of her or his monthly debt to monthly income. The higher the debt ratio, the less likely the applicant has the ability to repay the loan. Today, many credit unions have expanded on the use of debt ratios and dig deeper to look at the proportion of unsecured debt outstanding in proportion to the applicant's annual income. This analysis helps identify applicants who have a higher probability of going bankrupt. Together, these two ratios strengthen the credit decision.

Debt-to-income ratio: Proving the applicant's ability to repay is an essential element of sound underwriting. The debt-to-income ratio (monthly debt payments divided by monthly gross or net income), has traditionally been used to show an applicant has the financial resources to repay a loan. The lower the debt ratio, the greater the chance of repayment.

While debt ratios are a good loan underwriting tool, there are some weaknesses. For example, the debt ratio doesn't identify factors that may affect repayment such as:

- Expensive habits and hobbies, like boating, vacationing, hunting, auto racing, or gambling to name a few;
- Auto insurance costs, some pay a small amount, others pay thousands;
- Nondiscretionary expenses for things like cell phones, cable or satellite television and dining out; or
- The size of the member's household; a two-member household will spend discretionary funds differently than a six-member household.

Be cautious when using debt ratios alone to support loan approval and clearly state guidelines in your loan policy.

Unsecured debt-to-income ratio: History tells us that a major cause of consumer bankruptcy is a high level of unsecured debt. As the level of unsecured debt increases, borrowers may find it attractive to file bankruptcy just to walk away from the debt. This is true for even the best borrower with excellent credit.

To combat this risk, a prudent lending practice considers the type of loan requested and evaluates the applicant's level of unsecured debt compared to their income. An unsecured debt-to-income ratio over 30 percent (financial industry standard) generally indicates the member may be experiencing financial difficulty, making bankruptcy more likely.

Purpose of the Loan: Needs versus Wants

When making a credit decision, carefully consider the purpose of the loan and evaluate whether it is a "want" or a "need." Members with limited or no credit history tend to pay loans for essential needs such as a car to get to work, a refrigerator or other necessary appliance, or a new heating system. On the other hand, they may not prioritize repayment of loans for wants such as a vacation, boat, an RV or a high-priced car.

Financial Counseling

There are many reasons an individual is a credit invisible, including a lack of financial education. Lending to credit invisible members gives the credit union the opportunity to educate them on the importance of managing their financial behavior, borrowing from traditional credit sources, and building a credit profile. Some useful financial education resources include the Federal Depository Insurance Corporation's Money Smart, and NCUA's Pocket Cents programs.

Financial counseling programs also allow the credit union to assist members with developing budgets and help them better understand how to manage money. The counseling can be offered in-house or by referring members to outside vendors.

The Interview

Potential credit invisible borrowers should be interviewed before the credit decision is made. The interview provides an opportunity for the member to tell their story and explain how they paid their bills in the past. It is also your opportunity to validate information on the loan application, ask questions, and discuss the member's debt repayment history.

Also, inquire about invisible credit, such as cash rent payments which, when verified, may reveal a strong repayment history comparable to that of a borrower with a mortgage. Consider for example, a member who rented for 10 years and made cash payments to the landlord. That member has a strong repayment history similar to a borrower that made payments on a mortgage loan for 10 years. The difference is the mortgage lender most likely reported to the credit bureau, thus the member with the mortgage loan probably has a credit report and credit score. But the landlord may not have reported the renter's prompt cash payments to the credit bureau, leaving the renter without a reported credit history or credit score. However, the renter's prompt payment history clearly demonstrates the ability to manage their finances.

Take time during the interview to ask the applicant about lapses of income or other issues that may affect the repayment of the loan, such as seasonal employment. It may help identify ways to work with the member to establish a payment pattern or savings program to build a cushion that will allow you to keep the loan current when the member's income declines. The key is to build and maintain a strong relationship with the borrower.

Increasing the Probability of Repayment

Requiring collateral and payroll deduction can strengthen the probability of repayment. The collateral should maintain its value as the loan amortizes. Asking for an additional down payment that lowers the overall loan-to-value ratio can also encourage the credit invisible borrower to make regular payments. Other ways to strengthen these loans include adding GAP insurance and extended warranties to auto loans, obtaining other tangible collateral, and asking for guarantors.

Loan Closing Meeting

Use the loan closing meeting to show the member your willingness to take a risk and to educate her or him on the importance of repaying the loan according to the terms. Many lending institutions have the member sign an agreement at closing that summarizes the risk the institution is taking, and clearly explains what is expected of the member as it relates to the loan.

The agreement emphasizes the actions you will take if she or he fails to pay as agreed, and further emphasizes that failure to pay as agreed could jeopardize approval of future loans or result in the

loss of loan collateral or both. The tone of the loan-closing meeting should be cordial, but clearly project an expectation that the member live up to her or his commitment.

Section 5 – Collection Program

Due to the increased risk of default with credit-invisibles, a successful lending program must have strong controls in place to service accounts when payments are not made timely. The collection program must be established before implementing the credit-invisible loan program and it must ensure the credit union stays aware of conditions that can affect future repayment of the loans, such as:

- Periods of late, but not delinquent loan payments,
- New loan requests,
- Notice of pending employment layoffs,
- Rising interest rates or general living expenses, and
- Cancelation of payroll deduction.

Credit-invisible collection practices should aggressively pursue missed payments at quicker intervals than for other types of loans. It is important to maintain direct communication with the borrower both verbally and in writing.

To assist in the collection process, consider loss-protection insurance that reimburses the credit union the difference between the sale of the loan collateral and the outstanding balance. Also, GAP insurance that protects the credit union in the event of a loss not fully covered by insurance. Installing a global positioning system on automobiles secured by a credit-invisible loan is also another useful collection tool. However, before implementing any of these collection tools, have legal counsel review the program and opine on compliance with applicable state and federal laws.

Section 6 – Loan Monitoring Program

Monitoring Reports

To successfully manage higher-risk loans, you must continuously monitor them. There are many types of reports designed to track the performance and risk exposure in the loan portfolio including, but not limited to:

- **Monthly loan origination report:** identifies loan origination and denial activity.
- **Monthly loan summary report:** identifies the current makeup of the loan portfolio by type, risk tier and balance.
- **Delinquency report:** provides the current makeup of your delinquent and charged off loan portfolio by loan type, risk tier and balance.
- **Effective yield analysis report:** details the composition of the loan portfolio and the net income earned and effective yield of each pool.

The strategic plan should identify the type of monitoring reports the board will review. Check with your data processor to determine the types of monitoring reports available. If your data processor cannot provide appropriate monitoring reports, you may need to create your own.

Credit Score Migration

In addition to monitoring the performance of the loan program, it is also important to establish a process that monitors individual borrower performance. By making credit-invisible loans and reporting the repayment history to a credit bureau, you are helping members build a credit profile and credit score, good or bad. Tracking changes of the borrower's credit score over time identifies if the loan helped the borrower build and eventually improve his or her credit score.

Section 7 – Summary

Credit-invisibles aren't necessarily subprime borrowers; they simply don't have a credit history or have a very limited one. The reason members are credit invisible can vary from being very young and having never used credit, to being a consumer who uses non-traditional credit sources or conducts business on a cash basis. The later consumer may have excellent credit, but it just hasn't been reported to a credit bureau; thus, no credit score. And the younger consumer hasn't had a chance to prove her or his creditworthiness, yet.

Creating a successful credit-invisible loan program can be beneficial to both the member and the credit union. The member gets a loan at a reasonable rate and term and gets to build a credit history if the credit union reports to a credit bureau. The credit union benefits by adding new loans and, perhaps, generating a higher yield.

A credit union considering a credit-invisible loan program must be willing to invest the time and effort necessary to adequately review and underwrite these loans. Done right, a credit-invisible loan program can help improve the lives of your members.

Section 8 – Appendices

Appendix A – Sample Loan Underwriting Policy Guidelines

Loan underwriting policies and practices should clearly reflect and require documentation to support how the loan officer or credit committee will review loan applications and identify positive attributes that offset the potential risk posed by the credit invisible. Loan policies should identify how the underwriter will evaluate:

- **Debt repayment history:** By assessing the applicant's past credit history, even if it wasn't reported to the credit bureau.
- **Capacity (amounts owed):** Tally the amount of debt the applicant has and assess whether she or he can afford the new loan.
- **Length of credit history:** A short-term credit profile can result in no or a low credit score. Ask the member about any unreported debt payment history (such as rent or utilities that may not show on the credit report) and verify the length and repayment history of the debt.

The loan policy should identify steps to follow when reviewing the loan application. It should not only require a review of the credit report and the factors affecting the credit score, but should also require a complete analysis of the loan application to identify other attributes not shown on the credit report that can support making the loan, such as:

- **The purpose of the loan:** Does the member want or need the loan? The more the applicant needs the loan to meet necessary living demands, such as an auto to get to work, the likelier she or he is to repay it.
- **Determining the applicant's relationship with the credit union:** A member with a long, established relationship with the credit union has a higher probability of repayment of the loan. The reviewer should determine:
  - Length of credit union membership
  - Share balance
  - Repayment history on credit union loans
  - Type and amount of prior credit union loans
- **Length of residence:** Generally, the longer the applicant has been in her or his current residence, the greater the probability the loan will be repaid in a timely fashion.
- **Length of employment:** Like residency, stable employment increases the probability of repayment. Trouble typically occurs when a borrower loses a job. When reviewing the credit application, identify the length of employment and whether the applicant has been consistently employed.
- **Debt-to-income ratio:** The loan policy should include debt-ratio guidelines. In a risk-based lending program, the credit union can set different guidelines for different risk tiers and income levels. All exceptions to debt-ratio limits should be clearly documented in the loan file.
- **Unsecured debt-to-gross income ratio:** The level of unsecured debt to income is a potential bankruptcy indicator. The higher the percentage of unsecured debt to income, the more likely the member will become bankrupt.
- **Borrower maximum unsecured loan-to-net worth:** A prudent policy suggests that the board establish a maximum unsecured loan limit to protect the credit union's net worth position. Although a member may qualify for a larger unsecured loan, the credit union's net worth level should dictate the risk the credit union is willing to take in any one loan. The lower the net worth, the smaller the limit should be.
- **Available equity in real estate:** When determining the probability of repayment, review the amount of equity the member has in their home. Members with a high equity position have a greater probability of repayment and are generally less likely to file bankruptcy.

These guidelines should be incorporated into a more detailed lending policy and procedure that promotes a sound underwriting program. When developing credit union policies, always obtain legal guidance to ensure compliance with applicable state and federal laws.

Appendix B – Sample Loan Application Review Worksheet

Information in the highlighted boxes can be bankruptcy indicators

NAME ______________________________

Address ______________________ How long: __________

Date of loan __________ How long at prior address (if fewer than 3 years) __________

Purpose of loan ______________________________

Employer ______________________ Year employed current job __________

Loan amount __________ Years at prior job (if fewer than 2 years) __________

Credit score __________ Income ______________________

Prior credit score (if known) ______________________________

Total monthly debt payments __________ Total unsecured debt __________

Debt ratio ______________________ Total unsecured debt ratio __________

Collateral ______________________________

Collateral value ______________________ Loan to value __________

Percent secured debt to income __________ Percent unsecured debt __________

Loan approval justification: ______________________________

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NOTE: This sample worksheet is a guide only. Every credit union is responsible for developing their own documentation.

Appendix C – References

- Letter to Credit Unions, 99-CU-05, "Risk-Based Lending" http://www.ncua.gov/Resources/Documents/LCU1999-05.pdf
- Letter to Credit Unions, 10-CU-01, "Supervising Low Income Credit Unions and Development Credit Unions" https://www.ncua.gov/Resources/Documents/LCU2010-01Encl.pdf
- Letter to Credit Unions, 05-CU-01, "Supervising Community Development Credit Unions" https://www.ncua.gov/Resources/Documents/LCU2005-01.pdf
- Aires Questionnaires – Sub-prime Lending http://www.ncua.gov/DataApps/Pages/AIRES.aspx
- Letter to Credit Unions 174, August 1995, "Risk-Based Lending White Paper" http://www.ncua.gov/Resources/Documents/LCU1995-174.pdf
- Experian – State of Automotive Finance Market Third Quarter 2014 http://www.experian.com/automotive/auto-webinar-registration-form.html
- Myfico.com http://www.myfico.com/CreditEducation/articles/
- Office of Small Credit Union Initiatives Webinar on Risk-Based Pricing https://www.youtube.com/watch?v=jiIy4tg7BJw&feature=youtu.be
- Federal Deposit Insurance Corporation, 2013 National Survey of Unbanked and Underbanked Households https://www.fdic.gov/householdsurvey/2013report.pdf
- Center for Financial Services Innovation's 2014 Study on Consumer Financial Health http://www.cfsinnovation.com/financial-health-segments http://www.cfsinnovation.com/Find-your-topic/Consumer-and-Market-Analysis
- Consumer Financial Protection Bureau Report: Data Point Credit-invisibles http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf