

Consumer Credit: A Local Survey

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How local financial institutions use credit reports and scores when determining consumer loans

While conducting classes and seminars on credit, I've received several questions regarding how financial institutions use credit reports and credit scores. So, I decided to survey area financial institutions and see what they are doing regarding consumer loans. The survey did not ask for information regarding mortgage or commercial lending—only *consumer lending*.

I contacted four finance companies, and three responded (75%).

I contacted 12 credit unions, and eight responded (75%).

I contacted 31 banks with offices in the Peoria area—only 18 responded (58%).

That gave me a total response rate of 62 percent. Not as good as I had hoped for, but enough to give me an idea of what is happening. The following summarizes the responses I received.

1. **To whom do you report your consumer loans: Experian, TransUnion or Equifax?**

Ideally—if you plan on paying your loans as agreed—you want your creditor to report to all three. However, because some software companies charge extra for each bureau, some banks and credit unions choose not to report to all three. In addition, TransUnion and Equifax have started charging lenders a fee just to report their loan accounts, while Experian charges a minimum monthly fee for credit reports. There is no law requiring lenders to report their accounts.

Banks: Ten reported to all three. One reported only to TransUnion; two reported to Experian and Equifax; and five reported only to Experian.

Credit unions: Two reported to all three. Six reported only to Experian.

Finance companies: All three reported to all three bureaus.

2. **From which credit bureau do you receive consumer credit reports?**

TransUnion was the first credit bureau to serve Illinois, but in 1999 and 2000, it bought up their local affiliates and closed their offices.

Experian, represented by KCB Information Services, is the only credit bureau with local offices.

Banks: Three requested a three-bureau report (one report merging all three bureaus) each time. Five requested a Trans Union report, and 10 requested Experian only.

Credit unions: One pulled TransUnion reports; one pulled TransUnion and Experian; six pulled Experian only.

Finance companies: All three pulled TransUnion reports.

3. **Do you pull your own reports, or does another office pull the reports?**

If the person you talk to doesn't pull your report, they probably won't make the decision and may not see your report—or be able to help you if you have any questions.

Banks: Fifteen pulled their own reports (83%). Three sent the applications to another office.

Credit unions and finance companies: All said they pulled reports themselves.

4. **Do you get a credit score with each report?**

There is no law requiring lenders to request a credit score. If the lender will be selling your loan to another lender, the other lender may require a score.

Banks: One said they “sometimes” requested a score; one bank never requested a score. All other others (89%) said they requested a score with each credit report.

Credit unions and finance companies: All said they pulled a credit score each time.

5. **What score model do you receive?**

There are more than 50 score models. Some are weighted to favor the lender, such as the Auto Model, Personal Finance Model and Credit Union Model. The credit bureaus have also created their own models, which they use instead of the standard Fair Isaac or FICO models. While there is no “correct” score model, Fannie Mae and Freddie Mac accept only Experian FICO V2, Experian FICO V4 Classic and Equifax Beacon 5. To avoid confusion, I always recommend the models used by Fannie and Freddie.

Banks: Two received TransUnion V4; six received Experian V2; one received Equifax Beacon 5; one received TransUnion V8. Seven (39%) did not know which score model they received.

Credit unions: Six received Experian V2; one received Experian V2 and TransUnion FICO V8. One did not know which model they received.

Finance companies: Two received TransUnion FICO V4, and one received TransUnion FICO V8.

6. **Do you request a different score model for different types of loans?**

All institutions said they request the same score model for all reports.

7. **If a consumer passes the pre-qualification requirements, do you use the credit score to approve or disapprove the loan?**

Pre-qualification requirements could include: income-to-debt ratio, length of time on job, length of time at current address, amount of down

payment, etc.

Banks: Eight (47%) said yes. Three (18%) said no. Six (35%) said sometimes.

Credit unions: Five said yes; one said no. One said sometimes.

Finance companies: All said no.

8. **Is the credit score used to determine the interest rate?**

Not that important, but it would be nice to know you get a better rate if you have good credit. Conversely, if you have poor credit, you may still be able to get a loan, but at a higher rate.

Banks: Eight (47%) said yes. Five (29%) said no. Four (23%) said sometimes.

Credit unions: All eight said yes.

Finance companies: One said no, and two said sometimes.

9. **When you inquire to the credit bureaus for the credit report, do you provide the exact purpose (type code) of the loan request?**

FICO states: "Only consumer-initiated inquiries for new credit will count against the score." FICO also acknowledges multiple inquiries for auto and mortgage loans should not count against the score, but "if the inquiries are not listed as being mortgage, auto or student loan, each inquiry will impact the score." In addition, if the creditor pulls your credit report for employment purposes and does not request an employment credit report, the inquiry will count against your score. It is illegal to use a consumer credit report for employment purposes. Many creditors will pull credit reports annually on their current customers—this is called "account review" and would not count against the consumer's score if the creditor uses the correct purpose code.

Banks: Thirteen (72%) said yes; five (28%) said no.

Credit unions: Six said yes; two said no.

Finance companies: All three said no.

10. **Have you or anyone in your organization ever attended a class or seminar on credit reports and credit scores presented by a trade organization or credit bureau?**

Banks: Nine said yes; eight said no. One said they didn't know.

Credit unions: Eight said yes and four said no.

Finance companies: All said no.

In Summary

Most locally owned institutions report to (13) and pulled from (20) Experian. All but one institution with their home office outside of the Peoria area reported to all three bureaus, but most pulled their reports from TransUnion. Other findings:

- *All locally owned institutions and the three finance companies pulled their reports themselves. Institutions with their home office out of the area were split on where credit reports were pulled.*
- *Thirteen institutions used credit scores to approve credit requests; eight "sometimes" used the scores; and eight said they did not.*
- *Sixteen used scores to determine interest rates; six "sometimes" used scores; and six said they did not use scores.*
- *Twenty used the type code when requesting a report, while nine did not correctly pull credit reports.*
- *Thirteen had one or more employees who had attended outside classes on credit reports and scores. One didn't know, and the rest (15) had never attended any classes on this topic!*

So if you go to get a consumer loan, the lender will pull a report, get a score and in most cases, use it to determine if you will get the loan. In most cases, that score will have some effect on your interest rate. In addition, most local lenders used Experian credit reports, while most out-of-town lenders used TransUnion. If the lender does not pull an Experian report, it will probably not get all your information.

A little surprising and scary: nearly one third of institutions did not use a purpose code, and were thereby pulling reports incorrectly, potentially damaging their customers' credit scores. Another surprising result: more than half were using credit scores to determine who gets loans or not—yet they had never been to a class or seminar explaining credit reports and scores. I would have to ask: who determines the score numbers and reasons to make the loans, and how? And where did they get their information?

I talked to one loan processor who didn't know which bureau they pulled from. He said, "I think they pull a score, but I never see it or the report." He said he couldn't fill out the survey, but would send it to the office (out of state) that pulls reports. I never received a survey from that bank.

If you are looking to get a consumer loan, you should ask your lender a few questions:

1. From which credit bureau do you receive your credit reports?
2. Do you make the decision, or is it made by someone in another office?
3. Have you been to a class on credit reports and scores, and do you know what they mean?
4. To which credit bureau(s) will you report my loan?
5. Do you tell the credit bureaus the purpose code when requesting my credit report?
6. Do you use credit scores to determine if I get the loan, as well as the interest rate? **iBi**

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