

## **CreditXpert Inc.**

### **Position Statement on Authorized User Accounts**

Authorized user accounts on credit files have exploded to the forefront of credit issues and they are affecting all parties within the credit economy—both lenders and consumers.

Authorized user accounts involve people “renting” the credit history of a high credit scoring individual to improve their own credit rating. An authorized user account can be a spouse that is added to a credit card, a child or even a close friend.

Recently, another form of authorized user accounts has become prevalent. Piggybacking is a form of for-profit credit renting, a growing practice that allows people with bad credit to piggyback on the strong payment histories of credit card holders by becoming an authorized user on the account.

#### **EFFECT ON THE CREDIT ECONOMY**

“Authorized user accounts on credit files are not an accurate reflection of a consumer’s credit behavior and, therefore, do not provide a true representation of risk to lenders,” said David Chung, managing director of CreditXpert Inc. “For that reason, authorized user accounts should not be considered when determining a borrower’s credit rating.”

Authorized users have no legal responsibility for the account. It is a one-way street with all the benefits and all the rewards accruing to only one party—the party not responsible for credit usage. Even if the authorized user is a consumer’s child, it is the parent that is responsible for the debt, and the credit score is based upon the parent’s behavior—not the child’s. This is not a true reflection of the child’s credit behavior and risk level.

It is estimated by Fair Isaac that about 30 percent of the 165 million consumers with scoreable credit files have someone on their account as an authorized user. This means that some 50 million consumers may be affected by the changes being contemplated.

“Keep in mind that the authorized user account issue is an evolutionary trend in the credit industry,” said Chung. “We need to deal with the authorized user account issue in an objective and rational manner to ensure the integrity of the entire credit system and to do what is best for all parties within this system.”

CreditXpert Inc. estimates that at least one authorized user account—and most commonly, 2 to 3 authorized user accounts—are on 30 percent of all credit files. “Of those credit files, we estimate that 60 percent will experience a credit score change when authorized user accounts are not considered in scoring,” said Chung.

When discussing the authorized user account issue it needs to be understood that it does, in fact, affect all users of the credit system.

It hurts lenders because if the true risk of a borrower is not uncovered and that in turn causes increases in defaults, lenders will lose money and be forced into tightening credit. That action will affect all consumers—hurting countless borrowers who will be paying higher interest rates for their loans.

If a borrower is loaned money based on authorized user accounts, and that credit rating is not their actual credit behavior, then that loan was provided under a false risk assessment. From a risk assessment standpoint, the authorized user account should be excluded when reviewing the true credit risk of a borrower.

## **MAINTAINING THE INTEGRITY OF THE CREDIT SYSTEM**

“Our long-run goal is to constantly evolve the credit system to ensure it works effectively for everyone within that system”, noted Chung. “That is the smart way to do business. This is the next natural step in the evolution of credit. There will always be changes that occur—both good and bad. We need to develop solutions that will benefit both the lender and the consumer.”

In fact, CreditXpert estimates that an equal number of borrowers’ credit scores will increase and an equal number of borrowers’ credit scores will decrease when authorized user accounts are not considered. Some segments of the market estimate that 3.3 million people in the United States will effectively lose their credit score because their credit history was established only through authorized user account.

The issue is not whether the removal of authorized user account in the computation of credit scores is punitive, but rather how information is used in making decisions. CreditXpert’s goal is to uncover the truth so it can determine the actual issues in the authorized user account discussion.

Effective decisioning is an important aspect of the authorized user account issue. If a borrower’s credit score is artificially inflated due to authorized users on their account, the lender may be putting that borrower into the wrong loan, one that they may not be able to handle. Conversely, if the borrower’s credit score is artificially deflated because of authorized user accounts on their file the lender may not be placing them with the loan they should be getting.

## **INNOVATIVE SOLUTION**

“Because CreditXpert Inc. has its finger on the pulse on the credit economy, we have developed the first product to help lenders effectively deal with the issue of authorized user accounts—the CreditXpert AU Filter<sup>™</sup>,” said Chung.

The CreditXpert AU Filter will provide lenders with a clear vision of the creditworthiness of an individual by stripping away any false information, providing clarity to the decision making process. The CreditXpert AU Filter is compatible with all three bureaus’ scoring models.

Additionally, the CreditXpert AU Filter shows the changes in credit scores both with and without authorized user accounts and provides lenders with reason codes that could be used in declining loans. All reason codes are written in a consumer-friendly manner so the applicant can easily understand the primary reasons why they were refused.

The CreditXpert AU Filter was designed to ease the transition to the new bureau scoring models that will exclude scores, once these scores are widely accepted and used.

“CreditXpert Inc. takes the position that we can all do better as an industry—we all share the same credit ecosystem and we need to work together to ensure it serves all parties effectively,” said Chung.

CreditXpert continually reshapes the mortgage lending landscape—as the pioneer of the first credit analysis service and the sole provider of comprehensive credit optimization solutions. Today, with the introduction of the CreditXpert AU Filter lenders now have the critical tools to ensure success in today’s difficult mortgage market.

### **CreditXpert Inc.**

CreditXpert Inc. is the pioneer and premier provider of highly personalized credit management tools—including simulation, optimization and analysis—that help mortgage originators and credit issuers make more informed lending decisions. The CreditXpert® Solution Suite is the sole comprehensive solution capable of identifying opportunities holistically—revealing the best way to manage credit and disclosing the impact of inaccurate information. It provides complete flexibility to match real-world situations so users can achieve the best results. Based on world-class credit scoring, data mining and predictive modeling expertise, the CreditXpert Solution Suite is an advanced hybrid of artificial intelligence, statistical techniques and analytical methods that provides the most accurate predictions and the most compelling results.

CreditXpert’s rich background in credit began in the 1990s with its parent company, the leading developer of credit scoring models. Its scoring models were deployed directly on a credit bureau system and were used by the top three credit card issuers. Building on this expertise, CreditXpert continues to revolutionize the credit economy with innovative software solutions that help clients increase revenue, build stronger customer relationships and retain more customers. For more information about CreditXpert, please visit [www.creditxpert.com](http://www.creditxpert.com).

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