

Understanding the Impact of Credit Optimization on Mortgage Lending



Introduction

At CreditXpert we are committed to making homeownership more accessible and affordable for all. Homeownership is the path to the American Dream and a proven method of generating wealth that can be passed down to future generations.

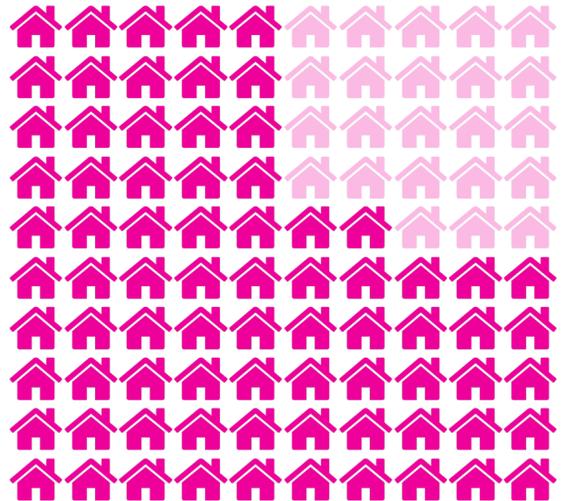
We believe those looking to purchase a home should understand what it takes to qualify for a mortgage, as well as what they can do to get the absolute best deal and lower their cost of homeownership.

For the past 20 years, CreditXpert has been analyzing consumer credit records of mortgage applicants. Over that period, our predictive analytics engine has been trained on nearly 1 billion credit records.

Through this analysis, we know that 77% of people with initial scores below 780 can increase their credit score by at least 20 points within a 30-day period.

This produces an amazing opportunity for lenders to qualify more applicants, offer better loan programs, make more compelling offers, and lower LLPA premiums.

In the coming pages of this guide, we'll explain how Credit Optimization works and how you and your borrowers can benefit from it.



77% of borrowers could stand to benefit from Credit Optimization.

Source: CreditXpert Mortgage Credit Potential Index – October 2023

The 3 C's of Mortgage Lending

In our work over the past 20 years, we have found that the applicant's credit score is the only material aspect of the deal that can change within the timeframe it takes to originate the loan.

If you consider the 3 C's of credit (yes, some consider additional Cs, but these three are the deal killers), Capacity, Collateral, and Credit, there is only one that can change in the 30 – 45 day timeframe it takes to originate a loan.

The homebuyer's capacity to repay is not likely to change in that short period and the value of the collateral, the home they have chosen, is not likely to change in value within a month. The only variable that a lender and their applicant can impact is the credit score.

That said, the majority of consumers, and most loan officers, know little about what it takes to effectively manage a credit score and what it takes to optimize that score at the time of a major purchase like a home. Consumer credit is incredibly complex and the scores are derived from a number of factors. Let's take a closer look.

Capacity

Collateral

Credit



The Components of a Credit Score

Credit scores are trusted indicators of risk that are derived from a number of factors within each consumer's credit file. Some of the factors involved cannot be changed in the short term, while others can.

A typical credit score is derived from data about the consumer's payment history, credit usage, derogatory marks, account age, number of accounts, and hard inquiries.

Payment History	HIGH
Credit Usage	HIGH
Derogatory Marks	HIGH
Credit Account Age	MEDIUM
Total Accounts	LOW
Hard Inquiries	LOW

To further complicate things, some of these components have a lesser impact on the consumer's final score. For instance, payment history, credit usage, and derogatory marks all have a high impact on the final score. Credit account age has a lesser impact and the total number of accounts and inquiries have the least impact.

But they all factor into the final score and changes to any of these components will be reflected in a new credit score.

Trying to improve a credit score in the short run can be a risky guessing game for loan officers and consumers. Seemingly straightforward rational decisions can end up hurting a credit score and not yield the intended result. Credit Optimization is a data science-driven approach that brings certainty to loan officers and consumers looking for ways to lower the cost of homeownership.

Some of the elements in a credit file that are taken into account when creating the consumer's credit score and the the impact they have on that score. While monthly payment history will have a high impact on the score, the total number of accounts or hard inquiries will have a lower impact. By focusing changes on high-impact elements, the consumer's credit score can be raised more quickly.

What Credit Optimization is Not

Most lenders are familiar with credit repair and credit counseling. These less exact and older methods for increasing the consumer's score can still be useful for some consumers, but they are only useful to a very limited set of potential home buyers. It is important to note that neither credit counseling nor credit repair can help a lender grow their business in the short term.

Credit counseling is for those consumers who still need to create a healthy relationship with their money. They do not yet have a firm grasp on how to budget or manage their finances and need coaching and long-term support.

This can take many months to years. These consumers are not mortgage-ready. Maybe someday, but not now.

Credit repair focuses on disputing tradelines in the credit file. Typically, it involves a credit repair agent that works with the credit bureau to correct or update the consumer's file, which could result in a higher score. Or, in some cases a lower score.

This process can also take months and is a tool used by consumers who are not yet mortgage-ready.

Credit Optimization is something new and unique. CreditXpert solves a different problem.



Credit Optimization is for 77% All Mortgage Applicants

While credit counseling and credit repair are tools for a relatively small slice of those that have a long-term dream of owning a home, Credit Optimization applies to a very large slice of those that are mortgage ready (or could become mortgage ready within the next 30-days).

We know that as of December 2023, 77% of all credit records with initial scores below 780 analyzed by our predictive analytics engine could improve their score by at least 20 points in just 30 days.

When you start to break that down into outcomes, it means that 53% of those that would not have qualified for a 5%-down FHA mortgage could do so within just 30-days. Think about how the top of your pipeline could be impacted if more than half that were initially rejected could be turned into closed loans.

We also know that 71% of those in your pipeline could qualify for a lower interest rate. While this is clearly a good thing for your consumers, think about how much more competitive you can be as more and more consumers aggressively rate shop.

Credit Optimization can help you qualify more applicants and make more compelling offers in just 30 days.

Qualify for Better Loan Programs

53%

Could qualify for an **FHA Loan**

36%

Could qualify for a **Conventional Loan**

43%

Could qualify for a **Jumbo Loan**

Lower Interest Rates

71%

Could qualify for a **Lower Rate**

Source: CreditXpert Mortgage Credit Potential Index, December 2023

Optimizing the Applicant's Credit Score

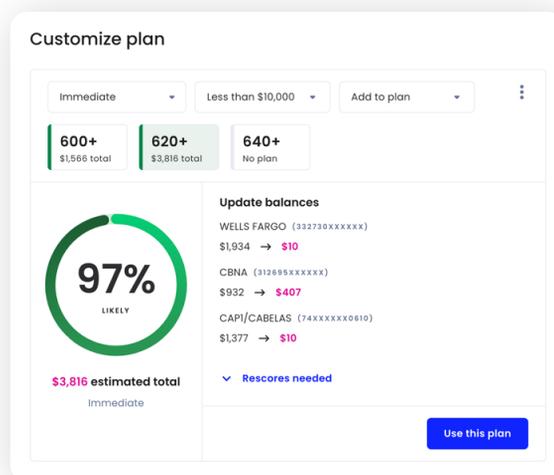
Any time you can gather a sufficient amount of data about a system and how it operates you can optimize its performance. We've seen this happen on the manufacturing floor, on the race track, and with space rockets.

This is exactly what CreditXpert has achieved for consumer credit by analyzing over a billion credit files. It is the only company in the industry that has developed a reliable method to increase a consumer's credit score in a short time.

The company has accomplished this with data-driven predictive analytics. The CreditXpert platform takes an applicant's mortgage credit file, runs simulations and recommends the precise set of actions required to increase the score within a set period of time, typically 30 days.

It may take hundreds of simulations to arrive at a plan for an optimal credit score, just like it takes a financial analyst thousands of simulations to optimize an investment portfolio, but it happens in a fraction of a second, allowing a loan officer to click a button and provide a precise plan to the mortgage loan applicant, telling them exactly what to do to raise their score, with a high degree of confidence.

This isn't guesswork. Credit Optimization plans detail the specific actions applicants must take to optimize their credit score, the precise amount of investment needed to make in terms of paying down their credit balances and provides a measure of success, usually above 90%, of reaching their target score. Once those actions are taken, their lender can submit a rescore that will take the changes into account with their new score. This can all happen within a matter of days. It all starts with loan officers clicking a single button to generate a Credit Optimization plan.



How Applicants Benefit from Credit Optimization

Credit Optimization gives the applicant the exact steps and a timeline that allows them to do the work and increase their credit score during the loan origination process.

Credit Optimization gets the best possible credit score for every mortgage loan applicant, allowing loan officers to present prospective clients with a better deal than any competitor, and help those applicants who previously couldn't qualify.

Consider this example of a borrower that starts out with a 640 credit score that can improve by 40 points within 30-days by strategically paying down \$4,200 of credit card debt. In the recent lending environment, that could drop their rate from 7.65% down to 7%. For a \$400,000 home with 10% down, that could mean monthly P&I savings of around \$158 a month and an additional savings of \$131 a month on PMI, adding up to \$70,000 in savings over the life of the 30-year, fixed-rate loan. The actual pre-optimization and post-optimization mortgage rates, 7.65% and 7.00%, respectively, are irrelevant. What matters is, that in any rate environment lower credit scores equal higher mortgage rates. Higher credit scores equal lower mortgage rates, This is true regardless of the interest rate environment.

When applicants can increase their credit scores, they can qualify for a more affordable mortgage, which can put homeownership within reach. This can put first-time home buyers looking to purchase that first home in the game, allowing them to qualify for a mortgage and begin building generational wealth through homeownership.



Even applicants with high initial credit scores have room to improve. This allows them to qualify for a better loan program with more favorable terms, or qualify for a jumbo loan if they need more purchasing power. Anything that lowers their interest rate is important in this environment.

In addition, higher credit scores mean that those borrowers who put less than 20% down on a new home and require Private Mortgage Insurance will pay lower premiums for this protection.

Lenders who use CreditXpert provide a level of transparency into the credit score that was not possible before.



Purchase Price \$400,000
 Down Payment \$40,000
 LTV 90%
 Original Score **640**

How much can a borrower improve their score (and what will it cost)?

	640 Original Score	673 (+33)	680 (+40)
# of Simulations		684	429
Likelihood		87%	94%
Cash Required		\$1,400	\$4,210

How much could a borrower save with a higher score?

	640 Original Score	673 (+33)	680 (+40)
Interest rate	7.65%	7.20%	7.00%
Monthly Payment (P+I)	\$2,526	\$2,416	\$2,368
Monthly Savings (P+I)		\$143	\$158
Monthly MI	\$490	\$457	\$359
Monthly Savings (MI)		\$33	\$131
Years of MI	8.92	8.49	8.3
Total Mortgage Cost	\$1,001,755	\$965,329	\$928,236
Total Savings		\$36,426	\$73,519

How Lenders Benefit From Credit Optimization

But it's not just borrowers that benefit. Lenders also win with Credit Optimization.

Better competitive differentiation

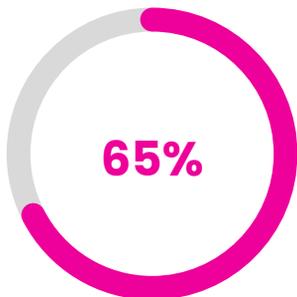
We know consumers are applying with multiple lenders for every new mortgage loan. The lender who leverages Credit Optimization to get their applicants the best possible deal will always seem like the best option to the applicant, allowing them to close more loans.

In early 2023 we surveyed borrowers that had either recently secured a purchase mortgage or refinanced an existing mortgage. We asked those borrowers whether their lender had offered to help them improve their credit score.

What we found was that 65% of those borrowers had not been offered an opportunity from their lender. This means that lenders have an opportunity to stand out from the competition by just offering to optimize an applicant's credit score. The lenders that get their first with Credit Optimization will be the lenders that close more loans, and build a reputation for building customer relationships.

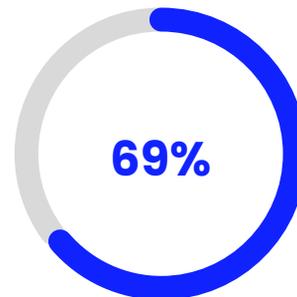
That same survey showed that applicants are serious about doing what they need to do to optimize their scores. Of the 35% that had been offered an opportunity to optimize their score, 69% took the necessary steps to reach a target score.

Lenders that **DO NOT** offer Credit Optimization



Q: Did your lender offer to optimize your score during the application process?

Applicants that say they completed plan



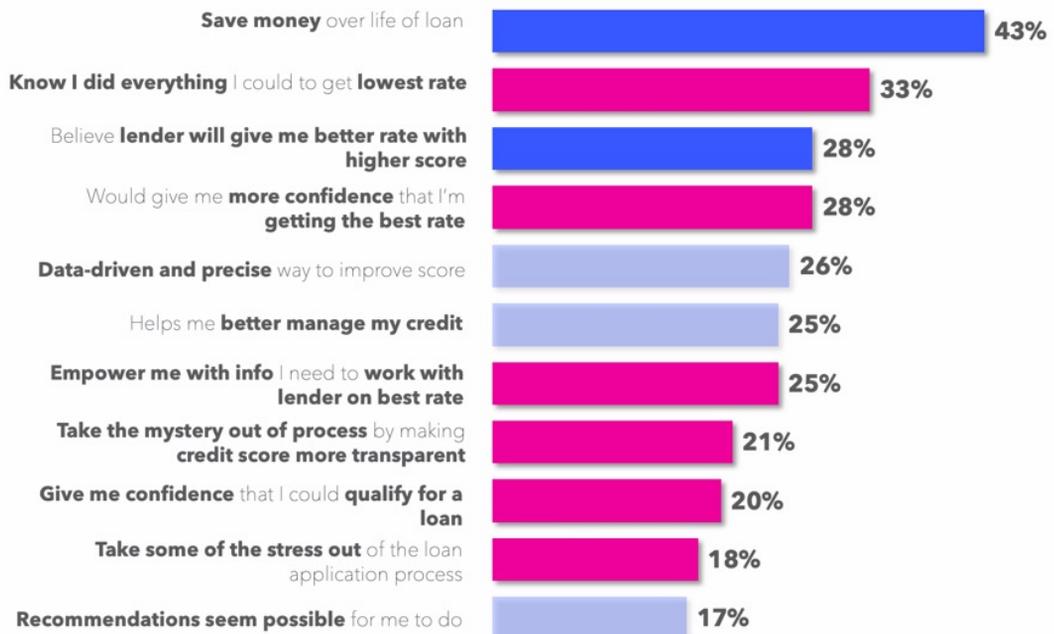
Q: Did you complete all of the necessary steps in the credit optimization plan?

Source: CreditXpert 2023 Consumer Survey

Why would you want to optimize your credit when getting a mortgage?

We also found that offering Credit Optimization to applicants helped lenders engage in new ways with their applicants by making them feel empowered, educated and confident. The graphic below answers the question of why applicants have an interest in Credit Optimization.

Think about how this might further set you apart and solidify you as the lender of choice when it comes time to compare offers. Simply put, Credit Optimization will let your applicants know that you are doing everything you can to get them the best mortgage.



Source: CreditXpert 2023 Consumer Survey

17% Lower LLPA premiums Across Your Portfolio

Last year's changes to Fannie's and Freddie's Loan-Level Price Adjustments brought these fees to light. CreditXpert enables lenders to turn them into a profit center by paying lower LLPA fees on most of their loans when they help consumers increase their credit scores.

For example, in our case above, by raising that applicant's score from 640 to 680, which is quite possible, the lender decreases their LLPA premium by \$1,800. This increases their margin, so they can put more compelling offers in front of the applicant and close more loans. Alternatively, they can take that savings directly to their bottom line, increasing profitability.

While it's important to see the impact of Credit Optimization on a single borrower, we were curious about how it could impact an entire portfolio. To do that we pulled a statistically valid sample of 387 loans from over 210,000 loans that were sold to Fannie Mae in the first quarter of 2023. We then compared the credit scores of the borrowers in this sample to what we know about credit potential (how much a borrower could improve their score by within a 30-day timeframe). From there we were able to calculate the impact Credit Optimization would have across the sample and found that LLPA premiums would be 17% lower if borrower's credit scores were optimized.

How does credit impact LLPA premiums?



Purchase Price \$400,000
Down Payment \$40,000
LTV 90%
Original Score **640**

	Original Score	673 (+33)	680 (+40)
LLPA Rate	2.00%	1.75%	1.50%
LLPA Premium	\$7,200	\$6,300	\$5,400
Additional Margin		\$900	\$1,800

Credit Optimization for Realtors

Real estate agents are not typically involved in the work CreditXpert does with mortgage lenders to benefit consumers, but they should know about it because it allows for a much higher level of service.

When a homeseeker realizes that they can get a better deal on financing, it opens them up to shop more freely. Many will stick within their original range, but others will realize that they can buy more home.

When a real estate agent refers their clients to a lender who will help them optimize their credit, they are telling their client that they care about getting them the very best deal on their new home. That's the kind of value consumers are looking for in a real estate professional.



About CreditXpert

CreditXpert was founded in 2001 with a mission to make homeownership more accessible and affordable for all. The company's predictive analytics platform helps mortgage originators, and their applicants realize the credit score potential for applicants by generating a highly accurate and detailed action plan. Since its founding, CreditXpert's Platform has analyzed more than 750 million credit records. Today, most of the top 10 mortgage originators and more than 60,000 mortgage professionals leverage the company's platform. Learn more at <http://www.creditxpert.com>.

CreditXpert action plans are tools meant to educate mortgage professionals and prospective consumer loan applicants, and are not furnished for the purpose of improving an applicant's credit record, credit history, or credit rating, or removing or modifying adverse, inaccurate, fraudulent, or other information in an applicant's credit record. CreditXpert is not a credit counseling, credit repair, or credit reporting agency. Credit scores and score changes from CreditXpert are estimates and will likely differ from credit score information used by mortgage professionals to assess loan eligibility. CreditXpert does not guarantee that scores from any other company will change by the same amount, in the same way, or at all.