CREDIT SCORING

eurofinas

SPECIALISED CONSUMER CREDIT PROVIDERS IN EUROPE

WHAT IS IT?

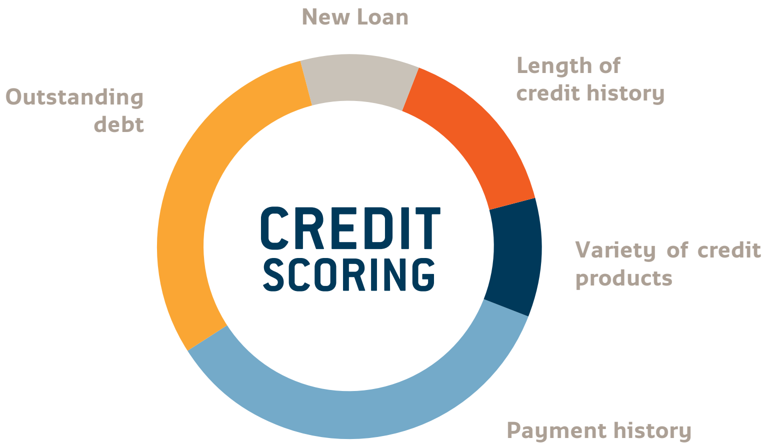
Credit scoring is a process used by lenders to assess relevant data of an applicant borrower in order to determine his/her risk of default.

HOW DOES IT WORK?

In order to assess a credit application, consumer credit providers rely on modern financial technologies combined with the analysis of statistical data. Credit scoring systems help lenders to make accurate, objective and fair decisions quickly - determining the appropriate level of credit for an individual consumer based on a set of relevant data.

This data includes:

1. Information provided by a customer in his/her application
2. Existing internal customer data
3. Data from external sources (such as public databases or private credit reference and/or fraud prevention agencies)



The information is processed with the consent of the applicant borrower. The data is analysed and assigned positive or negative points based on a scorecard. The outcome is the applicant's credit score.

The credit score will, in line with an institution's lending and risk policy rules, indicate whether or not a loan can be granted. The score is a very important factor for the credit decision but it may not be the only one (e.g. the lender may use additional anti-fraud information or take into account specific characteristics of the individual transaction).

WHY IS IT A VALUABLE TOOL?

Credit scoring is an indispensable tool for the lending institution to assess and manage its risk exposure. The provision of a loan always carries a level of risk for the lender. With the help of credit scoring, a lender can statistically determine the risk level of an applicant borrower, i.e. how likely he/she is to successfully repay his/her loan.

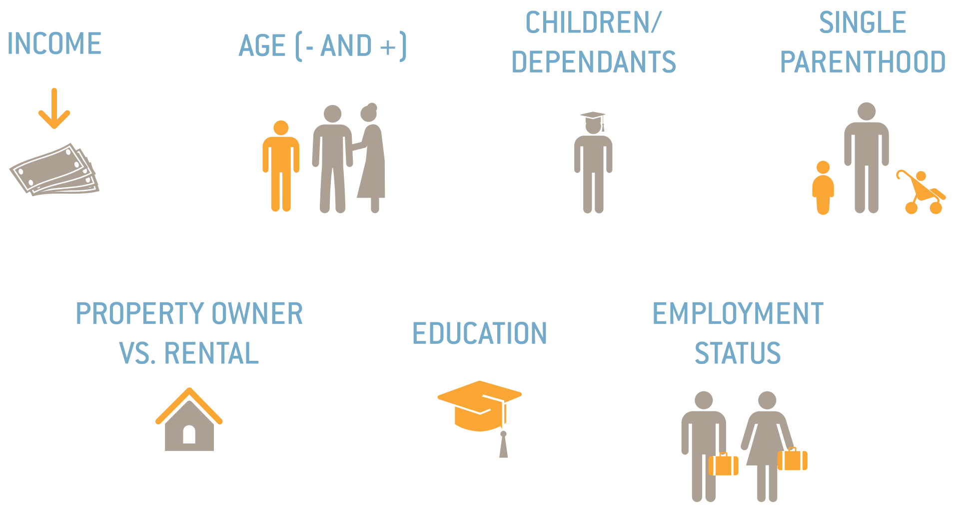
Automated credit scoring is of central importance in the digital economy. It enables lenders to make swift, objective and accurate credit decisions. The process is largely automated which limits the risk of human errors and fraud. Thanks to it, consumers can enjoy a convenient and rapid processing of their applications. A customer applying for a credit online or at the point of sale is provided with a response in real-time. Moreover, a customer can feel confident that the decision is based on relevant factors in a standardised fashion.

HOW ARE CREDIT SCORING SYSTEMS DEVELOPED?

Credit scoring is dependent on scorecards developed for specific products and market segments. They are developed by lenders themselves or with the help of third parties and are based on statistical analysis of historical loan data. The purpose, when developing a scorecard for credit products, is to identify the characteristics which carry a positive or negative significance for the risk of serious arrears or default. In the development of a new scorecard, several hundreds of parameters can be evaluated and every scorecard is unique. However, all traditional scorecards will include demographic information, data on past performance as well as amount of credit outstanding and available.

KEY SCORECARD PARAMETERS

A scorecard is always tested before implementation and is continuously monitored to guarantee that it functions properly.



WHAT IF THE CREDIT SCORE IS TOO LOW?

If the credit score is insufficient, it is likely that the lender will decline the application. A negative decision does not necessarily mean that the applicant is unreliable. However, based on the risk policy of the lender and the information available, the risk may simply be considered too high. If a credit application is unsuccessful, an applicant borrower should be informed about the decision, the principle reasons why the application was not approved, as well as his/her right to appeal and ask for a review by a staff member.

Different lenders apply different scoring systems and have a variety of policies in place. This reflect their risk policies as well as commercial experiences. Therefore, an application may be approved by one lending institution and not by another.

RULES IN PLACE

The provision of credit is subject to a comprehensive regulatory framework at both EU and national levels in order to safeguard financial stability as well as consumers' rights. Sector-specific legislation is applicable together with general consumer protection laws and a data protection framework.

At European level, the following legislation is applicable:

- Consumer Credit Directive
- Mortgage Credit Directive
- General Data Protection Regulation
- Unfair Commercial Practices Directive
- Unfair Contract Terms Directive

CONSUMER CREDIT
CONTRIBUTING TO THE REAL ECONOMY

Consumer credit enables people to purchase goods or services for personal or household purposes. Consumer credit facilitates access to assets and services as diverse and essential as:

Eurofinas members financed **427 billion euros** worth of new loans in 2016 with outstandings reaching **1024 billion euros** at the end of the year. **Companies represented through Eurofinas employ more than 91,000 individuals.**

EUROFINAS THE VOICE OF SPECIALISED CONSUMER CREDIT PROVIDERS IN EUROPE

Eurofinas brings together associations throughout Europe that represent finance houses, universal banks, specialised banks and captive finance companies of car, equipment, etc. manufacturers. The scope of products covered by Eurofinas members includes **all forms of consumer credit products** such as personal loans, linked credit, credit cards and store cards.

More information on Eurofinas and consumer credit can be found at **www.eurofinas.org**

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ACCURACY PRIVACY EFFICIENCY
RELEVANCY INTEGRITY

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