

Risk-Based Pricing Rule

Knowledge and execution are key to compliance



Effective Jan. 1, 2011, the Federal Trade Commission and the Federal Reserve Board will require compliance with the new Risk-Based Pricing Rule.

Under this new rule, lenders must provide consumers with a Risk-Based Pricing notice when a company grants credit on “material terms that are materially less favorable than the most favorable terms available to a substantial proportion of the consumers.” Lenders include banks, credit unions, mortgage lenders, auto lenders, retailers, public utilities — in essence, any company that uses a credit report or score in connection with a credit decision.

Special circumstances

Exceptions to the Risk-Based Pricing Notice are as follows:

- Prescreened solicitations
- Adverse action notice
- Application for specific terms
- Business credit

Compliance options

There are two options available for lenders to comply:

Risk-Based Pricing Notice

- This notice is supplied to a specific segment of consumers who apply for

credit — only those who did not receive the lender’s most favorable rate

- To determine which consumers receive a Risk-Based Pricing notice, lenders can use one of the following methods: Direct Comparison Method, Credit Score Proxy Method or Tiered Pricing Method
- The notice must be provided verbally, electronically or in writing
- The notice must be provided to a consumer after the terms have been set but before the consumer becomes contractually obligated

Credit Score Disclosure Exception Notice

- This notice must be provided to all consumers who apply for credit
- The notice requires lenders to provide consumers with a disclosure that includes the credit score used in setting the material terms of credit along with the corresponding score distribution
- The notice must be provided in writing or electronically and in a form the consumer can keep

Use Experian products and services to prepare for Risk-Based Pricing compliance

Experian® offers a number of Risk-Based Pricing Rule products and services to assist you in ensuring your compliance obligation is met. Use Experian products and services to accelerate the compliance process with ease, and leverage our knowledge and expertise to help you make informed decisions.

Score distributions — Experian can provide a distribution of credit scores in a graphical or table format to use as an input to the Credit Score Disclosure Exception Notice. For clients who will be creating their own disclosures, Experian can provide:

- Generic and other national score distributions
- Custom score distributions

Credit Score Disclosure Exception Notice — Experian can generate two versions of the notice (residential mortgage and general) that include all compliance requirements, ready for immediate consumer distribution.

- This service is ideal for clients who do not want to create their own disclosures and would rather rely on Experian to generate the exception notice
- Experian offers an option that can be delivered automatically with a credit report request
- An eSolutions format is also available that produces a mailing address for the notice to be inserted in a standard window envelope

Custom consulting — Experian's custom consulting services enable us to work with your organization to understand your portfolio and help you gain a competitive advantage, improve portfolio health and enhance profitability to meet your compliance obligations — today and in the future.

Services include one-time portfolio analysis to:

- Determine portfolio cutoff scores
- Validate scorecard performance
- Determine which consumers should receive a Risk-Based Pricing notice
- Create regulatory compliance portfolio reports

Performance InsightSM — This service provides ongoing portfolio analysis and monitoring. Experian consultants perform a thorough review of an organization's scorecards and portfolio to provide:

- Regulatory-compliant monthly or quarterly portfolio reports that assess population stability, scorecard performance and decision management
- Determination of cutoff scores, risk tier distributions and assistance with determining which consumers should receive a Risk-Based Pricing notice
- Scorecard validation
- Assistance with regulatory inquiries
- Unlimited phone and email support from an assigned Experian consultant

Risk-Based Pricing consulting service — Our consultants provide lenders with precise product pricing strategies to improve portfolio health and profitability, including:

- Product pricing tier recommendations
- Guidance for compliance with the Risk-Based Pricing Rule
- An unbiased product pricing approach
- Patented optimization technology is used to develop pricing programs for up to eight portfolios
- Unlimited phone and email support through the life of the contract

Custom consumer services — This customized service offering provides clients with the ability to assist consumers with various issues, including but not limited to dispute processing.

- Web, email, mail or direct phone customer service support
- Enhance consumer experience with dedicated customer support

To learn more about Experian's Risk-Based Pricing Rule relevant products and services, contact your local Experian sales representative or call 1 888 414 1120.

www.experian.com/consumer-information/risk-based-pricing-rule.html