# Tier-Based Pricing

## Tier-Based Pricing May Offer Value to More Members

You may have heard that SECU is introducing tier-based pricing but not be fully aware of what this means for you as a member. The move is part of our **Strategic Plan** to bring more value and options to all members.

Borrowers with solid credit histories and higher credit scores will likely benefit from lower interest rates. In addition, members attempting to “repair” their credit due to past overdue payments, prior charge-offs, or bankruptcy, and those who are trying to establish credit, such as first-time borrowers or those with little credit history, are also likely to benefit through access to loans that may not be made available in a one-price-fits-all model.[1]

### What is tier-based pricing?

According to the Consumer Financial Protection Bureau, tier-based or risk-based pricing occurs when lenders offer different interest rates or other loan terms to different consumers based on the estimated risk that the consumers may fail to pay back their loans.[2] In credit union terms, that means one member may have a different rate on a car loan, credit card, or other types of loans than another member would. Several risk factors determine each member’s loan approval, terms, and rate.

### What factors are considered?

Most lenders (including banks and credit unions) will pull your credit report when you apply for a loan. Your credit report, also known as a consumer report, lists your credit score, information about other loans you have, payment history, and the amount of debt you owe. See our **Credit Basics and Best Practices** article to learn more about credit scores and reports.

While important, a credit score is just one factor used to determine a loan’s interest rate. Other factors include loan terms, collateral, and the loan-to-value ratio.

Your loan term is how long it will take you to pay off your loan entirely by making the regular payments. Interest rates, monthly payments, and other loan elements can vary widely based on the length of the loan.

Loan collateral may also play a role in your approval. Some loans are secured, meaning the credit union holds collateral to help assure loan repayment, like a vehicle or home. Unsecured loans, such as personal loans and unsecured credit cards, have no collateral pledged to secure the loan, except for funds on deposit at the institution where the loan is held through an institution’s statutory lien and/or right of setoff.

The loan-to-value (LTV) ratio compares the loan amount to the value of the collateral securing the loan. A down payment may lower the LTV ratio on a loan. Mortgage loans are a common example of this, with many lenders offering improved rates for borrowers with an LTV at or below 80%.

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## What information cannot be used?

Consumer protection regulations, including the Equal Credit Opportunity Act, mandate that a lender may NOT use certain legally prohibited factors to decide whether to give you a loan or determine your rate. These include prohibited factors such as:

- Race or skin color
- Religion
- National origin
- Sex (including sexual orientation and gender identity)
- Marital status
- Age (if the applicant is of legal contract age)
- Receipt of income from public assistance programs

## The reality of tier-based pricing

The goal of a credit union using tier-based pricing is to provide fair and competitive rates and services to the entirety of its membership. It is a way for credit unions to meet all members' credit needs more effectively.

Members with less favorable credit history may have higher rates than members with strong credit. However, those members with lower credit scores may still be able to obtain loans directly from the credit union and avoid using other lenders who are likely to charge higher rates and fees.

You should always compare loan rates and terms to find the best option for you. When considering loans and lenders, make sure that you also understand all the loan terms, the rate, and any conditions or additional fees. Understand your credit score and work to improve it, as explained in our **Credit Basics and Best Practices** article. If you have questions about your credit status, you may benefit from the member-focused approach of a not-for-profit credit union.

Tier-based pricing programs can benefit a credit union's members if there is clear information on the pricing structure and it is presented to the borrower in a way they can easily understand. Recent regulatory efforts have made obtaining information more transparent than in the past. In addition to benefits for those with solid credit histories and those attempting to repair or establish credit, tier-based pricing can also be rewarding for members with higher interest rates who may be able to refinance their loan to a lower rate.

[1] *D'Amours, Norman E. (2020, March 18. 99-CU-05 | June 1999 Risk-Based Lending. National Credit Union Administration. Retrieved from ncua.gov*

[2] *"What Is Risk-based Pricing? | Consumer Financial Protection Bureau." Consumer Financial Protection Bureau, 5 Aug. 2016, www.consumerfinance.gov/ask-cfpb/what-is-risk-based-pricing-en-767*