VANTAGESCORE.

Barrett Burns, President & CEO

August 31, 2009

Federal Housing Finance Agency
1700 G Street, NW
Washington, DC 20552

Re: Public Comment – RIN 2590-AA17 (Prior Approval for Enterprise Products)

To Whom It May Concern:

VantageScore Solutions LLC would like to thank the Federal Housing Finance Agency (the "FHFA" or the "Agency") for the opportunity to comment on the interim final rule ensuring that the FHFA Director has the opportunity to determine whether a new product is in the public interest before it is offered by Fannie Mae or Freddie Mac (the "GSEs") (the "Rulemaking"). VantageScore commends the FHFA for issuing this Rulemaking because we believe that it is important that all new products offered by the GSEs be in the public interest. However, we also urge the FHFA to review existing products and activities to ensure that those products the GSEs currently offer also are in the public interest.

I. VantageScore Business Model

VantageScore is an innovative consumer credit risk score developed in 2005 by the nation's three largest credit reporting companies ("CRCs")[1] to meet market demand for a more predictive credit scoring model. Unlike other credit scores, the VantageScore model addresses credit score variances among the CRCs, which is a source of confusion for lenders and consumers alike, and ultimately enhances lenders' abilities to make more insightful credit-granting decisions. The model also provides accurate and predictive credit scoring of so-called "thin file" consumers. "Thin file" consumers are individuals whose insufficiently documented credit histories have rendered them largely unscorable under other commercial credit scoring models, which sometimes can result in subprime loans. This sizeable economic subgroup, often faces tremendous difficulty obtaining credit at reasonable terms or prices despite the fact that a great many of them are creditworthy.

[1] The three major CRCs are Equifax, Experian and TransUnion.

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II. All Products Should be in the Public Interest

A. *Statutory Requirements for Approval of New Products*

On July 30, 2008, Congress passed the Housing and Economic Recovery Act ("HERA"),[2] creating FHFA to oversee the GSEs. As part of its oversight duties, FHFA must ensure that the GSEs: (i) operate in a manner that is safe and sound; (ii) foster liquid, efficient and competitive housing finance markets; and (iii) act in a manner that is in the public interest. Accordingly, a GSE must request approval from the FHFA before offering a new product; and, before FHFA can grant approval, the Agency must ensure that the product is in the public interest. In determining whether a product is in the public interest, the Director may consider, among other things:

- The degree to which the new product serves the underserved markets;
- The degree to which the new product promotes competition in the marketplace; and
- The degree to which the GSE provision of the new product might raise or mitigate systemic risk to the mortgage, mortgage finance or financial markets.[3]

The Rulemaking defines a "new product" as, "any activity that the Director determines merits public notice and comment on matters of compliance with the applicable authorizing statute, safety and soundness or public interest."[4] A "new product" does not include, among other things:

(a) The automated loan underwriting system of [a GSE] in existence as of July 30, 2008, including any upgrade to the technology, operating system, or software to operate the underwriting system; or

(b) Any modification to the mortgage terms and conditions or mortgage underwriting criteria relating to the mortgages that are purchased or guaranteed by the [GSE], provided that such modifications do not alter the underlying transaction so as to include services or financing, other than residential mortgage financing.

B. *Existing Seller and Servicer Guidelines*

As FHFA is aware, Fannie Mae requires use of the classic FICO credit score for most mortgage products, stating that "[t]he lender must attempt to obtain and use the most current

[2] Pub. L. No. 110-289 (July 30, 2008).

[3] 74 Fed. Reg. 31,603 (July 30, 2009).

[4] 74 Fed. Reg. 31,605 (July 2, 2009).

version of the classic FICO credit score developed by Fair Isaac Corporation for each borrower." [5] Freddie Mac has a similar requirement.[6] As FHFA is also aware, VantageScore is concerned that the above guidelines effectively mandate the use of a single brand of credit score for those lenders doing business with the GSEs and may constitute inappropriate endorsement of a brand. We believe that the FHFA shares our concern regarding inappropriate endorsement:

> A credit reporting corporation and a credit scoring corporation commented that FHFA's analysis should not specifically reference ''FICO'' credit scores, stating that the reference implies endorsement of the Fair Isaac Corporation product and creates an unfair advantage. FHFA did not intend to endorse a specific product. Accordingly, the market analysis in the final rule refers generally to credit scores rather than to a specific product.[7]

In addition to the issue of inappropriate endorsement, we are concerned that, by continuing to permit the GSEs to require the use of a single brand of credit score in mortgage underwriting, products currently issued by the GSEs are subject to less rigorous analysis than would a new product to be offered consistent with this Rulemaking. We discuss this concept in greater detail, below.

C. *Require "Public Interest" Test for Existing Products*

As noted above, in determining whether a product is in the public interest, the Director may consider, among other things:

- The degree to which the new product serves the underserved markets;
- The degree to which the new product promotes competition in the marketplace; and
- The degree to which the GSE provision of the new product might raise or mitigate; systemic risk to the mortgage, mortgage finance or financial markets.

We believe that by requiring use of a single brand of credit score, the GSEs' current underwriting requirements fail all of the above tests for a new product.

[5] Fannie Mae Single Family, 2009 Selling Guide, Section B3-5.1-1, General Requirements for Credit Scores (01/01/2009).

[6] Freddie Mac Selling Guide, § 37.6 (01/02/2009).

[7] 74 Fed. Reg. 39,888 (August 10, 2009).

VantageScore is a highly accurate, predictive credit score that is able to score more consumers. In fact, the VantageScore was proven to be able to reclassify 2.5 million "subprime" customers out of that market segment.[8] Accordingly, VantageScore is enjoying growing acceptance in the marketplace – three of the top ten mortgage originators use VantageScore and two of the three ratings agencies incorporate VantageScore into their analytical models.

Thus, if the GSEs were to apply the "new product" test to their existing underwriting, they would find that their current policy:

- Does not serve underserved markets optimally where many borrowers are erroneously categorized as "subprime;"
- Hinders competition in the mortgage marketplace via required use of a single brand of product; and
- Could increase systemic risk to the mortgage marketplace via reliance on a single predictive measure of credit default.

For all of these reasons, we urge the FHFA to reconsider existing mortgage underwriting standards by viewing them via the prism that it uses for new products.

III. Conclusion

VantageScore is dedicated to serving the low- to moderate-income segment of the credit market by scoring "thin file" borrowers such that they may be eligible for loans for sale to the GSEs. However, unless the GSEs and FHFA revise the GSEs' policies regarding acceptable credit scoring, many thin file consumers will remain ineligible for the loan products they deserve and the public interest will not be served. Thus, we again urge the FHFA to reconsider the GSEs' policy on credit scores.

Respectfully,

Barrett Burns

[8] Source: Experian, *VantageScore Addresses Deficiencies in Traditional Scores in the Subprime Consumer Sector* (May 16, 2007), p. 4.