VANTAGESCORE®

Barrett Burns, President & CEO

May 21, 2009

Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552

**Attention**: (RIN) 2590-AA25

**Re**: 2009 Enterprise Transition Affordable Housing Goals

Mr. Pollard:

VantageScore Solutions LLC would like to thank the Federal Housing Finance Agency (the "FHFA" or the "Agency") for the opportunity to comment on the 2009 Enterprise Transition Affordable Housing Goals and assist the FHFA in establishing sound housing policy for Fannie Mae and Freddie Mac (the "GSEs").

## 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 across 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 more 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. FHFA Credit Score References

### A. *Housing Goals Rulemaking*

In the preamble to this rulemaking, FHFA examines a number of market conditions affecting the Agency's ultimate decision to lower the GSEs' 2009 housing goals to more attainable thresholds. One such condition that the FHFA notes is the constriction in the availability of private mortgage insurance. Beginning in late 2007, private mortgage insurers began strengthening their underwriting standards, and, as such, borrowers with high loan-to-value ("LTV") ratios began finding it more difficult to obtain loans that qualify to meet the GSEs' housing goals. In noting this development, however, FHFA makes reference not only to the affected borrowers' LTV ratios, but also references a brand name for credit scores. Specifically, the Agency states:

> Generally, the availability of MI for high LTV or *low FICO* loans is much reduced relative to a few years ago. The proportion of goals-qualifying loans in the market is thereby reduced as it becomes more difficult and more expensive for borrowers requiring mortgages with lower down payments to qualify for mortgages eligible for purchase by the [GSEs].[2]

While the reference cited above hardly constitutes an endorsement of the FICO brand, we believe that even such casual references in public rulemakings constitute a detriment to the use of credit scoring models other than FICO. We raise this concern because there are many credit scoring models used by lenders. For example, VantageScore is one such other model used by lenders that has also been proven to be predictive in scoring "subprime" borrowers; and, as the FHFA correctly notes, it is these borrowers who could benefit from wider usage of competitive credit scores in this tumultuous credit market.

Although VantageScore is concerned about these types of casual references, we believe that this instance is merely symptomatic of a more significant problem. Specifically, VantageScore is concerned that Fannie Mae and Freddie Mac, institutions regulated and managed by the FHFA,[3] regularly publish seller and servicing guidelines that effectively

[2] 74 Fed. Reg. 20,239 (May 1, 2009) (emphasis added).

[3] The Federal Housing Finance Agency (FHFA) was created on July 30, 2008, when the President signed into law the Housing and Economic Recovery Act of 2008. The Act created a world-class, empowered regulator with all of the authorities necessary to oversee vital components of our country's secondary mortgage markets – Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. (source: www.fhfa.gov).

mandate the use of a single brand of credit score for those lenders doing business with the GSE.[4] We discuss this concern in greater detail, below.

B. *Fannie Mae Selling Guide*

On May 4, just three days after FHFA's casual reference to FICO in the Federal Register, Fannie Mae issued Announcement 09-12, *Updates to Credit Score Requirements and Nontraditional Credit Report Requirements*. As the name suggests, the Announcement clarifies certain guidelines related to determining a borrower's credit score. The term "credit score," as you no doubt are aware, is defined in the glossary of the *Selling Guide* as follows:

> A numerical value that ranks an individual according to his or her credit risk at a given point in time, as derived from a statistical evaluation of information in the individual's credit file that has been proven to be predictive of loan performance. When this term is used by Fannie Mae, it is referring *to the classic FICO score developed by Fair Isaac Corporation.*[5]

From a historical perspective, this definition makes some sense where, for a long time, FICO was the only player in the credit score marketplace that was a "proven" "predictive" score. However, that is no longer the case.

VantageScore is a highly accurate, predictive credit score that is able to score more consumers. In fact, in a recent study, the VantageScore model reclassified 21% of the "subprime" consumers in the study out of that credit score interval into higher segments.[6] 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.

Unfortunately, despite Fannie Mae's fresh look at credit scores in Announcement 09-12, the GSE declined the opportunity to update its guidelines in a meaningful way by continuing its adherence to a single-brand policy. Consider how the Federal Reserve Board reacted when faced with a similar dilemma last year:

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[4] 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 version of the classic FICO credit score developed by Fair Isaac Corporation for each borrower. Fannie Mae Single Family, 2009 Selling Guide, Section B3-5.1-1, General Requirements for Credit Scores (01/01/2009)

[5] Fannie Mae Single Family, 2009 Selling Guide, Chapter E-3, Glossary, E-3-03 (emphasis added).

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

> The Board also continues to believe—and few, if any, commenters disagreed—that the best way to identify the subprime market is by loan price rather than by borrower characteristics. Identifying a class of protected borrowers would present operational difficulties and other problems. For example, it is common to distinguish borrowers by credit score, with lower scoring borrowers generally considered to be at higher risk of injury in the mortgage market. Defining the protected field as lower-scoring consumers would fail to protect higher-scoring consumers ''steered'' to loans meant for lower scoring consumers. Moreover, the market uses different commercial scores, and choosing a particular score as the benchmark for a regulation could give unfair advantage to the company that provides that score.[7]

We believe that Fannie Mae's continued reliance on a single credit score creates an unfair advantage of the type contemplated above by the Federal Reserve Board; and, as such, we urge Fannie Mae, Freddie Mac and FHFA as its regulator, to reconsider the decision to retain a one-brand policy before the Announcement goes into effect as of August 1, 2009.

## III. Conclusion

We commend the FHFA for lowering the GSEs' housing goals to more attainable levels.

VantageScore is dedicated to serving the low–to–moderate income segment of the credit market by scoring "thin file" borrowers more accurately, providing critical information that can help determine whether or not they may be eligible for loans that qualify for the GSE's new housing goals. However, unless Fannie Mae and Freddie Mac revise their respective policies regarding acceptable credit scoring models, possibly many thin file consumers will remain ineligible for loans to meet the GSEs' housing goals despite their credit-worthiness. Thus, we urge the FHFA to work with the GSEs in opening-up their policies on credit scores to competition, which, in turn, should help assist the GSEs in meeting their housing goals through a greater number of credit-worthy borrowers able to obtain credit.

Respectfully,

Barrett Burns

[7] 73 Fed. Reg. 44,532-44,533 (Jul 8, 2008)