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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

Dear Mr. Pollard:

Experian appreciates the opportunity that the Federal Housing Finance Agency (the "FHFA" or the "Agency") has extended to the public to comment on the 2009 Enterprise Transition Affordable Housing Goals. We certainly support FHFA's efforts to establish sound housing policy for the Government Sponsored Enterprises ("GSEs"): Fannie Mae and Freddie Mac.

I. About Experian and VantageScore

Experian is a global leader in providing information, analytical tools and marketing services to organizations and consumers to help manage the risk and reward of commercial and financial decisions. Using our comprehensive understanding of individuals, markets and economies, we help organizations find, develop and manage customer relationships to make their businesses more profitable. Experian promotes greater financial health and opportunity among consumers by enabling them to understand, manage and protect their personal information, helping them control financial aspects of key life events, and make the most advantageous financial and purchasing decisions. In keeping with its goals of promoting greater consumer heath and opportunity, Experian, along with Equifax and TransUnion developed VantageScore, an innovative credit risk score. We discuss VantageScore and its relevance to your rulemaking in greater detail, below.

VantageScore was developed in 2005 by Equifax, Experian and TransUnion ("the credit reporting companies" or the "CRCs") because the market was in need of a more predictive credit scoring model. The VantageScore model is unique in that it addresses credit score variances across the CRCs and thereby assists lenders in making more insightful credit-granting decisions. The VantageScore model also provides more predictive scoring of consumers who are typically referred to as "thin file" consumers because their relatively sparse credit histories have rendered them largely unscorable under other commercial credit scoring models. VantageScore has proven to be a real boon to those consumers and the lenders who wish to serve them.

II. FHFA Credit Score References

A. *Housing Goals Rulemaking*

The preamble to this rulemaking considers a number of market conditions which collectively influenced FHFA's decision to lower Fannie Mae's and Freddie Mac's 2009 housing goals. In discussing one of those conditions (the constriction in the availability of private mortgage insurance) FHFA notes that:

> 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].[1]

Without challenging the Federal Housing Finance Agency's motives, I must state that Experian is greatly troubled by the FHFA's use of the FICO brand name in this context. As you know quite well, there are many different credit scoring models used by lenders, as well as a variety of scorecards used within a particular brand of scoring model. VantageScore is but one such other model used by lenders – but significantly, one that has been proven to be predictive in scoring "subprime" borrowers. But if the Federal regulator defaults to the use of a single particular brand in its official publications it should come as no surprise that all too often the GSEs in their publications similarly default to the use of a single particular brand in their guides, manuals and other

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

publications. Experian is concerned that this "convenient" nomenclature shortchanges borrowers who otherwise might benefit if a wider array of scoring algorithms were used by underwriters, lenders and servicers – and particularly Fannie Mae and Freddie Mac.

I dare to say that our concern is not merely hypothetical. It has come to our attention that the seller and servicing guidelines that Fannie Mae and Freddie Mac regularly publish and update effectively mandate the use of a single brand of credit score for those lenders doing business with the them.[2]

B. *Fannie Mae Selling Guide*

The Federal Housing Finance Board's request for comment on the 2009 Enterprise Transition Affordable Housing Goals – with its reference to "*low FICO* loans" – was published in the May 1, 2009, *Federal Register*. Just three days later Fannie Mae issued its Announcement 09-12, *Updates to Credit Score Requirements and Nontraditional Credit Report Requirements*, clarifying certain guidelines related to determining a borrower's credit score. The Glossary of the Selling Guide defines the term "credit score" as:

> 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.*[3]

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[2] 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); Freddie Mac has a similar requirement "For Manually Underwritten Mortgages, Freddie Mac requires the use of FICO scores with accompanying reason codes in underwriting the Borrower's credit reputation." Freddie Mac Selling Guide, § 37.6 (01/02/2009).

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

Such a definition arguably may have made some sense years ago, but by any standard such a definition of the term "credit score" is woefully inadequate today and certainly does not serve lenders or borrowers nearly as well as they have a right to be served.

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 the "subprime" credit score interval into higher segments.[4] VantageScore is enjoying growing acceptance in the marketplace; in fact, three of the top ten mortgage originators use VantageScore and two of the three ratings agencies (Fitch and Standard & Poors) incorporate VantageScore into their analytical models.

It is unfortunate that the GSEs adhere to a single-brand policy. The Federal Reserve Board made a salient observation while revising its HOEPA rules last year:

> 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.*[5] [emphasis added].

The GSE's continued reliance on a single credit score clearly creates precisely the type of "unfair advantage" that the Federal Reserve Board had in mind when it observed that "*the market uses different commercial scores, and choosing a particular score as the*

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

[5] 73 Fed. Reg. 44,532-44,533 (Jul 8, 2008).

benchmark … could give unfair advantage to the company that provides that score." Against that backdrop Experian urges Fannie Mae, Freddie Mac and the Federal Housing Finance Agency as their regulator to reconsider the decision to retain a one-brand policy before the Announcement goes into effect as of August 1, 2009.

III. Conclusion

Experian commends the Federal Housing Finance Agency for lowing the GSEs' housing goals to more attainable levels. Experian is committed to promoting greater consumer financial health and opportunity and believes that reversing the GSEs' policy on credit scores will ultimately assist the GSEs in meeting their housing goals because a greater number of credit-worthy borrowers will be able to obtain credit.

Respectfully,

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