



March 21, 2019

Alfred M. Pollard, General Counsel
Attention: Comments RIN 2590-AA98
Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 Seventh Street SW, Ninth Floor
Washington, DC 20219

RE: Federal Housing Finance Agency Proposed Rule on Validation and Approval of Credit Score Models (RIN 2590-AA98)

Dear Mr. Pollard,

TransUnion LLC, a Delaware limited liability company (“TransUnion”), appreciates the opportunity to comment on the Federal Housing Finance Agency’s (“FHFA’s”) proposed rule regarding validation and approval of credit score models (the “Proposed Rule”). As a credit reporting agency that compiles and maintains files on consumers on a nationwide basis (as defined in 15 U.S.C §1681a(p)) (a “CRA”), consumer reports prepared by TransUnion are a critical input into the mortgage lending ecosystem. We are proud of the vital role we play in ensuring that mortgage lending remains fair, equally accessible and safe for consumers and financial institutions alike.

Given the importance of credit scoring in evaluating a consumer’s home loan risk worthiness, we believe that score choice, which has overwhelmingly benefitted consumers and financial institutions in lending markets such as auto and credit cards, should also extend to the mortgage industry. Doing so is imperative in order for the FHFA to support its mission to ensure that Fannie Mae and Freddie Mac (the “Enterprises”) operate in a safe and sound manner and that they serve as a reliable source of liquidity, funding and fairness for housing finance and community investment – enabling more people to achieve homeownership.

TransUnion is concerned that the Proposed Rule directly conflicts with the spirit and intent of the Credit Score Competition provisions within the Economic Recovery, Regulatory Relief and Consumer Protection Act (S.2155); where Congress recognized that competition is vital in commercial markets and therefore required that the FHFA allow existing credit scoring models to compete with the incumbent scoring company. TransUnion agrees with former Representative Ed Royce (R-CA), an author of the legislation, in his critique of the Proposed Rule:

“In the proposed rule FHFA appears to take a questionably expansive reading of its regulatory authority, by imposing unnecessary prior restraints on competition by prohibiting an Enterprise from approving any credit score model developed by a company that is related to a consumer data provider through any common ownership or control, of any type or amount.”¹

¹ Letter from Rep. Ed Royce to The Honorable Mel Watt re: Validation and Approval of Credit Score Models (RIN 2590-AA98) 1/2/2019.

Congress requires the FHFA to consider several factors in validating and approving scores for consideration, including the credit score model's integrity, reliability and accuracy, its historical record of predicting borrower credit behaviors and consistency with Enterprise safety and soundness. Rather than implicitly or explicitly picking winners and disqualifying new entrants based on criteria not germane to the scoring model itself, we urge the FHFA to focus on establishing criteria for including credit scores on the basis of model merits and the provision of benefits to consumers, lenders and taxpayers. In that regard, VantageScore, a credit model that has historically been excluded from usage by the Enterprises, has years of overwhelming empirical evidence demonstrating the soundness of its scores, and the ability to safely reduce the consumer population deemed "unscorable" by the mortgage market's current, dominant model. This evidence is publicly available on VantageScore LLC's website.²

The Proposed Rule references "competitive reasons" as grounds for the disqualification of certain scoring models, such as those developed by VantageScore LLC. In paraphrasing the Proposed Rule's stated concern, VantageScore LLC's partial ownership by each of the three national CRAs could theoretically allow it to sell scores more cost-effectively, creating an unfair competitive advantage. We believe there are flaws with this rationale. Among them:

- 1) The mortgage industry and its consumers would plainly benefit from more affordable credit scores that perform as well as or better than the incumbent model. This will enable more Americans to obtain loans they can afford and achieve home ownership.
- 2) VantageScore credit scores have been successfully leveraged by lenders in other verticals, such as the credit card and auto industries, for over 10 years. The scores were developed precisely because these markets demanded innovation. VantageScore's presence has not put any other scoring models out of business. Instead the increased choice has benefited lenders and consumers by offering risk evaluation options, and ultimately providing expanded credit access to more consumers.
- 3) TransUnion, Experian and Equifax are in robust competition with each other and many other companies. The Consumer Financial Protection Bureau (CFPB) recently published a 36-page list of CRAs identified across all industries. VantageScore LLC, specifically designed to function as an independently operating entity, has had no material impact on this landscape. The effectiveness of its construction has been validated via careful regulatory and legal review.
- 4) The current state of the mortgage industry, which excludes VantageScore credit scores, as well as similar scores as options for lenders, has resulted in **actual** anti-consumer behavior that has had significant negative impacts on industry participants.
 - a. In 2018, the incumbent model, which is approaching 20 years of age, imposed an historic price increase on mortgage borrowers. The arbitrary price increase was enabled by the absence of a score alternative, rather than product innovation or changes in

² TransUnion, Equifax and Experian have equal ownership interests in VantageScore LLC.

market conditions.

- b. The incumbent model disadvantages consumers through a price royalty program which prohibits those consumers from viewing their credit scores online during the mortgage prequalification process. This status quo severely restricts transparency and limits borrower knowledge while engaging in what is for many, one of the most significant financial transactions of a lifetime.

The onerous requirements embedded in the Proposed Rule, many of which reach beyond the scope of evaluating a score on its own predictive merits, effectively disqualify VantageScore credit scores, an empirically proven alternative. TransUnion supports the introduction of score competition in the mortgage market, and finds arguments regarding the “concentration of power” specious given the current, single score status quo.

For over a decade, VantageScore LLC has competed and provided demonstrable value in other lending markets without any tangible harm to its rivals, and most importantly, consumers have benefitted from greater access to financial opportunity. At face value, FHFA’s Proposed Rule appears deliberately written to counter Congress’s clear intent through the passage of S.2155 – to promote the inclusion of existing, credible, and viable alternatives to the single, incumbent score choice in the mortgage industry. Score choice should extend to the mortgage market to help more consumers safely qualify for home ownership.

TransUnion would appreciate the opportunity to provide additional information to assist the FHFA in revising its Proposed Rule to implement Congress’ intent to ensure credit score competition. Please contact the undersigned if we can be of assistance in this regard.

Respectfully submitted,

Joe Mellman Senior Vice President, Mortgage