VANTAGESCORE.

Barrett Burns, President & CEO

April 9, 2010

Alfred M. Pollard
General Counsel
Attn: Comments/RIN 2590-AA26
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552

Re: 2010-2011 Enterprise Affordable Housing Goals; Enterprise Book-Entry Procedures

Dear 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 proposed regulation setting forth housing finance goals for Fannie Mae and Freddie Mac (together the "GSEs") for 2010 through 2011. We applaud the Agency for undertaking this initiative and for proposing to prohibit the GSEs from relying on private mortgage backed securities to meet their 2011 housing goals. We agree that until there is loan level data included in such securities, purchasers cannot determine with any degree of certainty the quality of the loans comprising the securities.[1] We also urge the FHFA to emphasize to the GSEs that by integrating VantageScore's credit scoring model into their automated underwriting systems, the GSEs will adopt a useful tool to meet their housing goals.

## 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")[2] to meet market demand for a more predictive credit scoring model. Unlike other credit scores, the VantageScore model uses the same algorithm deployed at all three CRCs, helping to minimize credit score variance among the CRCs, which is a

[1] We understand that the American Securitization Forum's "Project Restart" addresses this issue by recommending that loan level data is included in all new issuances of private label MBS. Project Restart is completed and awaiting implementation.

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

source of confusion for lenders and consumers alike; and ultimately enhances lenders' abilities to make more insightful credit-granting decisions. The model also provides highly predictive credit scoring of "new entrants" and "insufficient credit users." These consumers are individuals whose insufficiently documented credit histories render them largely unscorable under other commercial credit scoring models. Despite the fact that a great many of these consumers are creditworthy, this sizeable economic subgroup often faces tremendous difficulty obtaining credit at reasonable terms or prices. For example, they can wind-up receiving subprime loans or becoming the victim of predatory lending.

## II. Housing Goals Rulemaking

The Safety and Soundness Act, as amended by the Housing and Economic Recovery Act, requires the Director of the FHFA to establish new affordable housing goals effective for 2010 and beyond. Given this directive, the FHFA is publishing this rulemaking to set the housing goals for 2010 through 2011.

Note that the Agency expects the GSEs to meet these goals notwithstanding current stressors in the marketplace, and does not intend for the GSEs to undertake uneconomic or high-risk activities to support these goals. Attaining these goals, however, will be challenging given the turmoil in the marketplace. The adverse market conditions include: (i) tightened credit underwriting practices; (ii) sharply increased standards of private mortgage insurance companies; (iii) collapse of the private label mortgage-based securities market; and (iv) increasing unemployment. These developments contribute to a decrease in the overall number of single-family loans likely to qualify for affordable housing goals credit.[3]

## III. Recommendations

As indicated above and as predicted by the FHFA, in the coming two years there will be an overall decrease in the number of single-family loans that will be eligible to qualify for affordable housing goals credit. Notwithstanding this, the FHFA expects the GSEs to meet the goals set for them. Given this, we believe that the time has never been more appropriate for the GSEs to adopt VantageScore as part of their automated underwriting platforms. We will describe in detail below how VantageScore can assist the GSEs with their challenge of meeting their goals in these challenging economic times.

[3] 75 Fed. Reg. 9,038 (February 26, 2010).

A. *VantageScore Scores More People*

VantageScore provides credit grantors with a reliable, predictive scoring solution. It is estimated that between 35 and 50 million adults, which is equivalent to 18 to 25 percent of the adult population, may be considered thin file, and therefore could be unscorable by other scoring models. This results in a significant number who may be prevented from accessing credit or who may receive credit that is incorrectly priced because lenders are unable to leverage their standard decisioning strategies. Note that although we do not have data regarding how many of these unscorable borrowers are low-to-moderate income (because income is not a part of our model), we anticipate that there is an overlap between the two populations.

VantageScore expands the trade update criteria from six months to 24, allowing VantageScore to score people who may have been "out of the credit market" for up to two years. Additionally, VantageScore will score consumers whose oldest trade is less than six months old. Our ability to better distinguish between consumers with a clear track record of unfavorable credit behaviors from those simply starting to develop credit histories is a significant advantage. As such we are able to provide scores for many thin file consumers, who typically fall into the following population groups:

- Young adults just starting their careers;
- Recently divorced or widowed individuals with little or no credit in their own name;
- Newly arrived immigrants;
- Previous bankrupts; and
- People who shun the traditional banking system by choice.

Simply put, VantageScore scores more people, including those who likely would fall into the lower income brackets and those whose loans would qualify to meet the GSEs' affordable housing goals.

B. *The GSEs Incorrectly Lock the Entire Mortgage Industry into Only One Credit Score Brand*

Notwithstanding our ability to reach into these underserved markets and assist the GSEs in meeting their housing goals, our efforts have been rebuffed – as too costly, too time-consuming or simply too much effort. Fannie Mae in particular has expressly stated its lack of desire and intention to reach into these markets to meet their housing goals and has informed VantageScore that if it were to consider purchasing loans with a VantageScore brand credit score, that the portfolio would be subjected to overly-burdensome heightened scrutiny, effectively dissuading any lender from even trying. This is true even though Fannie Mae has tested our score and agrees that VantageScore is better than, or at least equal to, the predictive power of the single credit score brand, (FICO), in use today.

The GSEs' reticence and excuses are concerning for three reasons. First, we understand that regulators, lenders, consumer and housing advocacy groups and other marketplace participants embrace choice of credit scores in the marketplace. Nevertheless, because the GSEs refuse to consider the use of any credit score brand except for FICO, the entire United States mortgage industry is locked into that one credit score brand.

Second, as noted above, the pool of loans eligible for purchase to meet housing goals in the next two years will be smaller. If the GSEs continue to exclude VantageScore from their underwriting platform, they will have affirmatively declined to take action to meet their goals.

Third, the borrowers impacted by the GSEs' refusal to consider the use of any other credit score brand are the same borrowers who should be the beneficiaries of the overarching mission of the GSEs to provide access to affordable credit. These are borrowers whose only fiscal mistake is being new to the credit markets or using credit judiciously, but they suffer from the credit crunch more than any other. They are very likely creditworthy, but have no way to demonstrate it via other credit models. By relying on a single brand of credit score, the GSEs shut the door on access to credit to additional creditworthy borrowers.

## III. Conclusion

VantageScore Solutions would again like to thank FHFA for the opportunity to comment on the proposed regulation setting forth housing finance goals for the GSEs as well as our dismay at their ongoing refusal by the GSEs to use any credit scoring brand other than the one currently in use. We believe that this decision will deny many creditworthy borrowers with access to credit, will impede the ability of the GSEs to meet their housing goals and will continue to be an overall detriment to the housing credit market.

Respectfully,

Barrett Burns