VANTAGESCORE

Barrett Burns, President & CEO

July 22, 2010

Alfred M. Pollard
General Counsel
Attn: Comments/RIN 2506-AA27
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552

Re: Enterprise Duty to Serve Underserved Markets: RIN 2590-AA27

Dear Mr. Pollard:

VantageScore Solutions LLC would like to thank the FHFA for the opportunity to comment on the duties of Fannie Mae and Freddie Mac (together, the "GSEs") to serve the underserved. We understand that, according to Section 1129 of the Housing and Economic Recovery Act of 2008 ("HERA"), the GSEs have the duty to serve three specified underserved markets – manufactured housing, affordable housing preservation and rural markets for the purpose of improving their mortgage finance opportunities. We strongly support the FHFA's efforts to make the prudent extension of credit more available for low- and moderate-income families; and we urge the FHFA to consider taking steps to ensure that the GSEs are using all available tools to reach this goal, including prohibiting the GSEs from mandating that the entire mortgage industry utilize only one brand of credit score.

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 applies the same algorithm to each of the three CRC's data. As a result, credit score variances for an individual consumer, which can be a source of confusion for lenders and consumers, is significantly minimized. VantageScore's approach to scoring ultimately enhances lenders' abilities to make

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

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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 have rendered them largely unscorable under other commercial credit scoring models, which sometimes can result in their receiving subprime loans or falling prey to predatory lenders. 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.

II. Serving the Underserved Markets

We understand that, pursuant to HERA, the FHFA is required to evaluate the GSEs' performance with respect to developing loan products, more flexible underwriting guidelines and other innovative approaches to providing financing to the underserved markets.[2] Also as part of this rulemaking, the FHFA notes that the GSEs have an obligation to create a strategic plan to serve the underserved markets. As part of this plan, the FHFA will evaluate the GSEs' development of more "flexible underwriting guidelines." And, as such, the FHFA "expects the Enterprise to indentify underwriting obstacles that could prevent service to underserved families."[3]

VantageScore has identified one such underwriting obstacle, which is the reliance on one brand of credit score model that excludes a number of underserved borrowers from the credit marketplace. We believe that this reliance is misplaced for two reasons. First, we believe that VantageScore scores more people who are likely to fall into the lower income brackets and who likely comprise the three underserved markets that the GSEs are required to serve. And, second, the FHFA, along with the Federal Reserve Board (the "Board") and the Department of Housing and Urban Development ("HUD") have acknowledged that government regulations should not endorse one brand of credit score over another because it gives that brand an unfair advantage over the other. A similar result exists when the government-run GSEs choose to do business with only one brand provider, creating an uneven playing field in the housing finance marketplace. To support these conclusions we first provide a brief overview of VantageScore's unique scoring capabilities and then a selection of pronouncements from FHFA, the Board and HUD suggesting that brand endorsement is not appropriate.

Summary of VantageScore's Unique Business Model

As you know, 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

[2] 75 Fed. Reg. 32,100 (June 7, 2010).

[3] 75 Fed. Reg. 32,110 (June 7, 2010).

percent of the adult population, may be considered unscorable. 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 significant 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 the following:

- 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.

Regulatory Pronouncements Against Brand Endorsement

As noted above, we are aware of three instances over the past two years where the agencies have separately published statements in the Federal Register taking the position that the government should not endorse one brand of credit score over another. We provide these examples, below:

- **Federal Reserve Board/HOEPA Rulemaking/July 2008:**

  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.*[4]

- **FHFA/2009 Enterprise Transition Affordable Housing Goals/August 2009.**

  Credit Score Terminology. The proposed rule provided a market analysis to support the proposed adjustment of the housing goals levels for 2009, and discussed the effect of tighter underwriting standards of private mortgage insurers and the reduction in mortgage insurance availability for borrowers with low credit scores. 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.*[5]

- **HUD/New Credit Score Requirements/July 2010**

  While FHA's historical data and analysis is derived from the 'FICO-based' decision credit score, it is *not FHA's intent to prohibit the use of other credit scoring models* to assess an FHA borrower's credit profile. In this notice, FHA seeks comment on the best means for FHA to provide guidance to the industry on acceptable score ranges for other scoring models, to ensure that the scales used for all scoring systems are consistent and appropriate for an FHA borrower.[6]

We believe that these pronouncements reflect the agencies' perspective that endorsement of one credit score brand is not appropriate for a government agency. We agree. We further believe that the government-run GSEs are acting in a manner that endorses a specific brand via their failure to accept any other credit score brand in their underwriting model.

[4] 73 Fed. Reg. 44,532 – 44,533 (July 30, 2008) (emphasis added)

[5] 74 Fed. Reg. 39,888 (Aug. 10, 2009) (emphasis added).

[6] 75 Fed. Reg. 41,217 (July 15, 2010) (emphasis added).

III. Conclusion

VantageScore Solutions would again like to thank FHFA for the opportunity to comment on the proposed regulation setting forth the GSEs' required service to the underserved. We strongly support the FHFA's efforts to make the prudent extension of credit more available for low- and moderate-income families; and we urge the FHFA to consider taking steps to ensure that the GSEs are using all available tools to reach this goal, including prohibiting the GSEs from mandating that the entire mortgage industry utilize only one brand of credit score. We believe that VantageScore is uniquely situated to assist the GSEs in serving the underserved markets, and we welcome any opportunity to work with the GSEs and FHFA to help achieve this goal.

Respectfully,

Barrett Burns