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VANTAGESCORE BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

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OFFICE OF THE CHAIRMAN

Barrett Burns, President & CEO

January 20, 2011

The Honorable Timothy F. Geithner  
Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

The Honorable Ben S. Bernanke  
Chairman  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551-0001

The Honorable Shaun Donovan  
Secretary  
U.S. Department of Housing and Urban  
Development  
451 7<sup>th</sup> Street, SW  
Washington, DC 20410

The Honorable Sheila C. Bair  
Chairman  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW, Room MB-6028  
Washington, DC 20429

The Honorable Mary L. Schapiro  
Chairman  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Mr. John Walsh  
Acting Comptroller of the Currency  
Office of the Comptroller of the Currency  
250 E Street, NW  
Washington, DC 20219

Mr. Edward J. DeMarco  
Acting Director  
Federal Housing Finance Agency  
1700 G Street, NW, 4<sup>th</sup> Floor  
Washington, DC 20552

Dear Madam or Sir:

I write to you on behalf of VantageScore Solutions LLC ("VantageScore") to address a very discrete matter that may arise as you and your regulator colleagues consider how best to address the "risk retention" provisions of Section 941 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (P.L. 111-203), and in particular the exemption of "qualified residential mortgages" or "QRMs" from those risk retention requirements. Section 941 of the *Dodd-Frank Act* amends the *Securities Exchange Act of 1934* by inserting a new section 15G immediately after section 15F as added by the *Dodd-Frank Act*. Section 15G(e)(4)(B) provides in pertinent part that:

*The Federal banking agencies, the Commission, the Secretary of Housing and Urban Development, and the Director of the Federal Housing Finance Agency*

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shall jointly define the term 'qualified residential mortgage' for purposes of this subsection ...

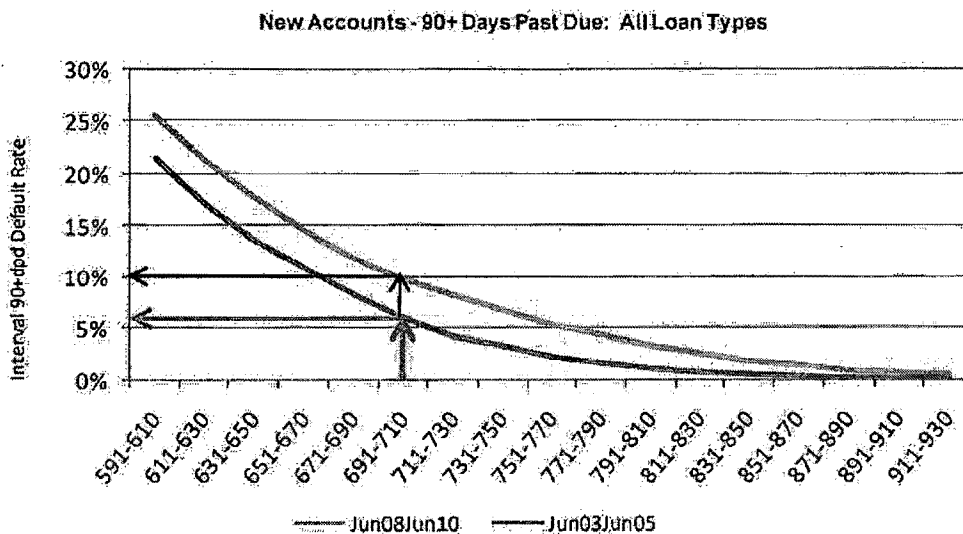
Since the risk associated with credit scores can change over time and in order to avoid what might be viewed as a federal government endorsement of a particular vendor's product in a competitive marketplace, VantageScore recommends that in any forthcoming proposed or final regulations you avoid use of any specific three-digit credit score number or any particular credit score brand and, if reference to what a credit score measures is deemed necessary, appropriate or helpful in defining the term "qualified residential mortgage" you instead reference the underlying value for which a credit score serves as a proxy, that is, the "maximum probability of default" associated with the credit score algorithm and value you have chosen. The detailed rationale for this important recommendation is set forth in detail below.

## A. Credit Score Values Are Not Static

Credit score values are not static numbers that always represent the same probability of default. In fact, the meaning behind a credit score depends on a number of factors unrelated to the borrower or his/her potential risk of default. These factors include: (i) the version of the algorithm used; and (ii) the date of the credit score.

With respect to the version of the algorithm used, consider that there are over 20 versions of FICO – including FICO Classic 95, FICO Classic AU 95, FICO Classic 98, FICO Classic AU 98, FICO NextGen 03 and FICO 08. Given this, we anticipate that no federal regulator can know with any degree of certainty what the true risk is for a loan with a FICO Classic credit score value of "660" versus a loan with a FICO 08 credit score value of "660." This is true because those loans utilize two different credit scoring algorithms, and the 660 value could represent two different levels of risk.

Also, with respect to the date of the credit score it is important to bear in mind that risk associated with a score changes over time. Consider the following example:



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The graph above measures risk levels for consumer loans across two distinct two-year time periods for the most common VantageScore credit tiers: 591-930.<sup>1</sup> The two timeframes were June 2003-June 2005 (blue/bottom line) and June 2008-June 2010 (gold/top line).

The graph above illustrates the default rates (90+ days past due rate) on new loans for each score band for each of the two-year time periods. The higher gold line demonstrates increased risk is present for every same score band in the June 2008 - June 2010 window over the June 2003 - June 2005 period.

The default probability for a VantageScore credit score of 691-710 in the June 2003-June 2005 timeframe was 6 percent (red arrows). The consumer behavioral response seen from the economic volatility in recent years caused the default probability for this score band to rise to 10 percent in the June 2008-June 2010 timeframe (black arrows). This represents a 66% increase in default rate between the June 2003-June 2005 timeframe and the June 2008-June 2010 timeframe.

This shift in risk levels for credit score values is inherent in all credit scores. Using a credit score value from any credit score developer does not result in a default or risk probability that remains constant, but will fluctuate with changing consumer behavior.

Accordingly, we urge you and your colleagues to omit from the definition of "qualified residential mortgage" any specific three-digit credit score number. Typically, credit scores are three-digit numerical values that are aligned with a particular "default propensity" rate. "Default propensity" is the risk of becoming 90 days or more delinquent on a debt. This concept is best understood by way of example. Consider a default propensity of .24 percent. What this means from a practical perspective is that for every one consumer whom the lender can expect to go 90 or more days in default, the lender can expect 416 consumers to not go 90 days or more in default. Mathematically, the default propensity formula is: one divided by .24 percent or ( $1/.0024 = 417$ ). By using this substitute standard of probability of default you will avoid the problem of the shifting of risk associated with credit score values over time.

## B. *Avoid Brand Endorsement*

In recent years a number of the federal banking regulators have wisely chosen to eliminate from newly-promulgated rules references to specific credit score brands. Below are examples demonstrating that the Federal Reserve Board (the "Board") and the Federal Housing Finance Agency ("FHFA") recognize that brand endorsements are not appropriate in the context of federal rulemakings:

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

<sup>1</sup>The full VantageScore range is from 501-990, where a higher number indicates lower risk.

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*score as the benchmark for a regulation could give unfair advantage to the company that provides that score.*<sup>2</sup>

- **FHFA/2009 Enterprise Transition Affordable Housing Goals/August 2009.** 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.*<sup>3</sup>

We applaud the Federal Reserve's and the Federal Housing Finance Agency's decisions to avoid endorsement of one credit score brand by avoiding codifying a particular brand name as part of a federal regulation and we urge you and your colleagues to likewise omit from the definition of "qualified residential mortgage" reference to any specific credit score brand name.

## C. Conclusion

For the reasons set forth above we strongly urge you and your colleagues to define the term "qualified residential mortgage" *without* referencing *any* particular credit score brand or *any* particular three-digit credit score value. Doing so avoids unnecessary brand endorsement by the federal government (which endorsement would provide an unfair advantage to one credit score brand) and would eliminate the use of a proxy value that does not reflect the total risk in a loan portfolio over time. As we pointed out above, if reference to what a credit score measures is deemed necessary, appropriate or helpful in defining the term "qualified residential mortgage" you could (and we believe should) instead reference the underlying value for which a credit score serves as a proxy, that is, the "maximum probability of default."

Thank you for considering this important issue. If you have any questions please don't hesitate to contact me at (203) 363-2161 or by e-mail at [barrettburns@vantagescore.com](mailto:barrettburns@vantagescore.com).

Respectfully,



<sup>2</sup> 73 Fed. Reg. 44,532 – 44,533 (July 30, 2008) (emphasis added).

<sup>3</sup> 74 Fed. Reg. 39,888 (Aug. 10, 2009) (emphasis added).