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Written Comments of

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VantageScore would like to thank the Federal Reserve Board ("Board") for the ability to submit comments at this hearing. Our comments will cover two topics. First, we will describe the VantageScore credit score model. Second, we will provide the Board with our recommendations related to improving the data collected under the Home Mortgage Disclosure Act ("HMDA") consistent with the purpose of the law and the goals of the Board at this hearing.

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 more insightful credit-granting decisions. The model also provides highly predictive credit scoring of "new entrants" and those with "insufficient credit histories." These consumers are individuals whose insufficiently documented credit histories have rendered them largely unscorable under other commercially available credit scoring models, which sometimes can result in their receiving subprime loans or falling prey to predatory lenders. This could be a sizeable economic subgroup who often face tremendous difficulty obtaining credit at reasonable terms or prices despite the fact that a great many of them may be creditworthy.

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 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 and therefore these consumers may be perceived as not creditworthy. However, the concept of "adequate credit history" has largely been defined by the specifications of traditional credit score models rather than by actual consumer behavioral patterns. Our model recognizes that a sparse credit history and/or its lack of alignment with data specifications of common scoring models is not necessarily a reflection of poor debt management behavior. Our ability to better distinguish between consumers with a clear track record of unfavorable credit behaviors from those with non-traditional credit histories is a significant advantage. By using traditional data in new ways, VantageScore is able to provide predictive scores for millions of these presently underserved consumers.

For example, VantageScore utilizes data in the credit files of people who may have been "out of the credit market" for up to two years and whose oldest trade is less than six months old. As such, we are able to provide scores for many people who can be described as follows:

- Young adults just starting their careers;

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

- 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.

VantageScore analyzed the ability of our model to provide scores for these consumers, starting the analysis by first dividing them into three categories: (i) new entrants, people that do not have at least one account with more than six months of activity who are new to the credit markets, typically young adults, newly divorced, widowed or recent immigrants who have not had access to credit in the United States in the past; (ii) infrequent credit users, who have not been active on any of their accounts over the past six months or who prefer to use non-traditional credit tools for their financial needs; and (iii) thin file consumers, who have less than three trade lines. Note that a consumer can fall into more than one category at a time. For example, a new entrant may also be a thin file consumer.

Our analysis of these categories resulted in the following:

- **New Entrant Results.** VantageScore is able to provide a credit score for 82% of this population, with 27 percent identified as super-prime or prime.

- **Infrequent User Results.** VantageScore is able to generate a score for 92% of this population, with 16 percent identified as super-prime or prime.

- **Thin File.** With respect to thin-file consumers, using a cumulative delinquent rate analysis, VantageScore analyzed the population of commonly scored consumers with both VantageScore and a benchmark CRC generic credit risk score. VantageScore combined this analysis with a comparison of the Komogorov-Smirnov test statistics (K-S statistics) between the two scores, evaluating their ability to separate between delinquent and non-delinquent consumers. VantageScore provides superior performance as compared to the benchmark CRC generic credit risk score. When compared against the benchmark CRC generic risk score, the K-S statistic is higher for VantageScore by almost 3 points. Further delinquent rate analysis applied to a commonly scored Thin File population by VantageScore and the benchmark CRC generic risk score shows that VantageScore captures more delinquent consumers at the lowest score ranges than the benchmark CRC generic risk score. Compared with the benchmark CRC credit risk score, VantageScore captures 19.5-percent more delinquent consumers in the bottom 10-percent of the population and an incremental 8.5% more delinquent consumers in the bottom 20-percent of the population.

In the real estate context, VantageScore found the following through our analysis:

- **New Entrants.** For consumers that have at least one trade, 49 percent of the new entrant universe is scoreable using VantageScore, of which 61 percent is identified as creditworthy.

- **Infrequent Credit Users.** For consumers that have at least one trade, 79 percent of the infrequent credit user universe is scoreable using VantageScore, of which 29 percent is identified as creditworthy.

- **Thin-File.** For the thin-file population, VantageScore delivers significant improvement in rank ordering capability as demonstrated by an additional seven points in the K-S statistic. This translates to 27 percent more delinquent consumers identified in the bottom decile of the scored population.

II. Board's Review of HMDA

HMDA was adopted as law in 1975 and serves three purposes: (i) to determine whether financial institutions are fulfilling their obligations to serve the housing needs of the communities and neighborhoods in which they are located; (ii) to assist public officials target public investment to attract private investment where needed; and (iii) to identify possible discriminatory lending practices and enforce anti-discrimination statutes. Regulation C is the implementing regulation to HMDA.

HMDA achieves these goals by requiring that depository institutions and certain for-profit non-depository institutions ("Covered Institutions") collect and report data about originations of home purchase, refinancing and improvement loans as well as applications that do not result in originations.

The objectives of the Board's hearings on HMDA are three-fold: (i) to help the Board evaluate whether the 2002 Regulation C revisions that require lenders to report mortgage pricing data provide useful and accurate information about the mortgage market; (ii) to provide information to help the Board assess the need for additional data and other improvements; and (iii) to help identify emerging issues in the mortgage market that may warrant additional research.

III. Recommendations

Keeping in mind that one of the purposes of HMDA is to identify possible issues of lending discrimination, and that one of the purposes of the hearing is to help the Board assess the need for additional data and other improvements, we recommend that the Board require Covered Institutions to provide significantly more detail regarding credit scores in the HMDA LAR. Specifically, we recommend that Covered Institutions provide the additional data elements:

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(i) Credit score value;[2]
(ii) The bureau that supplied the score;
(iii) The range of the score's values; and
(iv) The percentile rank of the consumer (*i.e.*, the percent of consumers who have a credit score lower than the credit score disclosed, above).

We believe this data will provide end users with necessary insights, and will require the disclosure of consistent data across Board regulations (as you are aware, this data is otherwise disclosed on the credit score disclosure that most mortgage lenders will provide as a substitute for the risk-based pricing notice).[3] And, keeping with this notion of consistency, we recommend that the Board provide the same instructions to Covered Institutions for identifying the proper credit score and related information to disclose as it did in its prior rulemaking.[4] We believe that this will reduce costs and burdens associated with compliance.

We also believe that providing this information meets the goals of HMDA and the Board's current examination of HMDA because the data provides the context necessary for stakeholders to determine whether consumers are obtaining appropriately-priced credit. As indicated above, VantageScore has the unique ability to score more people who are new entrants, infrequent credit users or thin file consumers. Also, as indicated above, consumers who found themselves in these categories also may have found themselves without access to credit or with access to credit that was not appropriate for their credit profile or that was too costly.

By requiring that Covered Institutions provide the credit score, the bureau that provided the score, the range of the score, and the rank of the consumer's score relative to his or hers peers, we believe that end users of HMDA data will be better able to uncover fair lending violations when used in conjunction with other HMDA data. This additional data will give end users the tools they need to determine the risk that the lender was pricing against when offering credit terms to that borrower. Specifically, the range of the score's values and the percentile rank of the consumer are key to determining whether consumers had access to appropriately-priced credit.

Additionally, we believe that the Board and other regulators will be able to obtain a better understanding of different credit score models, such as VantageScore if Covered Institutions provide this additional data. We are concerned that the government and the GSEs continue to rely only on a single system that, as discussed above, can result in excluding many creditworthy borrowers from the credit markets or steer those consumers in to higher-priced products. We strongly urge the Board to undertake efforts to acknowledge the utility of other credit scores; and we believe that the Board can meet this goal by requiring additional data regarding the credit score used.

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[2] To protect borrower privacy, we expect the values would be disclosed as a "key." For example a credit score of "1" would represent a range from 800 to 700, a "2" would represent a range from 699 to 600, etc.

[3] See Federal Reserve Model Form H-3 (attached). We understand that most mortgage lenders will be providing this credit score disclosure as a substitute for the risk-based pricing disclosure.

[4] A copy of that rulemaking is available here:
http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20091222b1.pdf

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IV. Conclusion

Thank you for the opportunity to contribute to this important discussion. VantageScore hopes the recommendations made herein are beneficial to the Board. We look forward to working with the Board as it conducts its examination into HMDA data.