VANTAGESCORE.

Barrett Burns, President & CEO

December 24, 2009

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, N.W.
Washington, DC 20551
Attention: Docket No. R-1367

Re: Proposed Rule Request for Comment; Open-End Home Secured Credit

Dear Ms. Johnson:

VantageScore Solutions LLC would like to thank the Federal Reserve Board (the "Board") for the opportunity to comment on the proposed regulation for open-end home-secured lines of credit (the "Proposal"). As part of the Board's Proposal to improve the disclosures provided to consumers who are looking to obtain, or who currently have, home equity lines of credit ("HELOC"), the Board is proposing to revise the circumstances under which a creditor may suspend or reduce a HELOC. Current law permits creditors to prohibit additional extensions of credit under a HELOC or reduce the credit limit available if the creditor believes that the consumer will be unable to fulfill the repayment obligation under the plan because of a "material change" in the consumer's financial circumstances (this test is referred to as the "Statutory Requirements").[1] With this Proposal, the Board is requesting comment on whether it is appropriate to permit creditors to rely on only credit score declines as evidence of the consumer's inability to fulfill the repayment obligation because of a material change.

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 source of confusion for lenders and consumers alike; and ultimately enhances

[1] 12 C.F.R. § 226.5b(f)(3)(vi)(B).

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

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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 have rendered them largely unscorable under other commercial credit scoring models, which sometimes can result in 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. Board Proposal

As noted above, the Board is seeking comment on whether it is appropriate to permit creditors to rely on credit score declines to reduce or limit credit consistent with their Statutory Requirements to demonstrate that a consumer is unable to fulfill his or her repayment obligation because of a material change in the customer's financial condition. At this time, the Board is concerned that credit scores alone may be insufficient to meet these Statutory Requirements; and, as such, does not endorse or prohibit such reliance in the Proposal. Rather, the Board is seeking insight into issues related to use of credit scores as a predictor of a consumer's ability to repay and how that should factor into use of a credit score to meet the Statutory Requirements.

III. Recommendations

VantageScore welcomes the opportunity to comment on the Board's Proposal and to dispel some popular myths about credit scores.

A. *Drop in Credit Scores*

In 2007, the Board published a "Report to the Congress on Credit Scoring and its Effects on the Availability and Affordability of Credit"[3] (the "Report"). Contrary to popular belief, the Board observed in this Report, which utilized VantageScore's credit score data,[4] that credit scores can (and do) drop for reasons unrelated to the consumer's actual failure to pay obligations. One primary reason for this is that a consumer's utilization rate can increase for reasons outside of the consumer's control. One example of this is the recent trend for credit card companies to decrease the amount of credit available to existing customers, which will increase a consumer's utilization rate and may cause a corresponding decrease in the credit score, but is not necessarily

[3] Board of Governors of the Federal Reserve System, "Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit" (August 2007). 74 Fed. Reg. 43,494 (August 26, 2009).

[4] "Besides the FRB score created for this study, the data supplied by TransUnion for each individual in the database included two commercially generated credit scores – the TransRisk Account Management Score (from TransUnion) and the VantageScore (from VantageScore Solutions LLC)." Report, p. S-3.

representative of the borrower's ability to repay. Another example of the inverse relationship between utilization and credit scores happens when consumers close accounts due to consolidation. Arguably, in this latter instance, consumers have actually improved their ability to repay debts.

Given the above, we agree with the Board's concern that a drop in a credit score alone may not be sufficient to demonstrate that the creditor has met its Statutory Requirements.

B. *Credit Scores Are Not Uniform*

The Board recognizes in its Proposal that it would be inappropriate to apply a single metric by which all credit scores could be measured. For the reasons stated below, we strongly agree.

For example, it would be inappropriate for the Board to regulate that a "40-point" credit score drop is sufficient to support a finding that the creditor had met the Statutory Requirements for two reasons. First, different scoring models use different score ranges; and we understand that the Board believes it should refrain from choosing any particular score range as the basis for regulation. This is consistent with the Board's position as stated in its recent HOEPA rulemaking:

> 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.[5]

Second, a score decline in the upper ranges of a credit scoring model (*i.e.*, from 990 – 860) does not represent the same amount of increased risk as a score decline in the lower ranges of a credit scoring model (*i.e.*, 550 – 510). The reason for this being that a creditor should anticipate that a person with a VantageScore of 860 is still able to repay his or her obligation notwithstanding the drop in score.

Given the above, we agree with the Board that adopting a regulatory regime that is based on a particular score brand's range of scores is inappropriate.

C. *Creditors Need Flexibility*

The Board notes that the credit scoring industry is evolving:

[5] 73 Fed. Reg. 44,532-44,533 (July 30, 2008) (At issue was the use of credit scores as a benchmark for defining subprime mortgage loans).

> [T]he Board's prohibition could become outdated or unnecessarily constraining on creditors in using innovative credit scoring tools developed in the future. Credit scoring methods may change over time in a manner that makes them more decisively indicative of default probability than today.[6]

We agree with this conclusion and urge the Board to draft regulations that provide creditors with sufficient flexibility to utilize credit scoring models that they find to be the most predictive for their requirements. This means refraining from establishing via regulation a metric utilizing the credit scoring range of any particular brand by which creditors can meet their Statutory Requirements. We agree that innovative credit scoring models, like VantageScore, provide opportunities for creditors to improve the stability of their HELOC portfolios.

III. Conclusion

VantageScore again thanks the Board for the opportunity to comment on the Proposal. We appreciate the Board's diligence in examining the role that credit scores play in the marketplace and the Board's consistent reluctance to give the appearance that it is "choosing" one credit score over another by refraining from referencing any particular brand's score ranges in its rulemakings. We urge the Board to continue to provide creditors with the regulatory flexibility they need to choose a credit score that best meets their ability to manage risk in their HELOC portfolios.

Respectfully,

Barrett Burns

[6] 74 Fed. Reg. 43,494 (August 26, 2009).