

VANTAGESCORE_{SM}

August 16, 2007

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Attention: Docket No. OP-1288
regs.comments@federalreserve.gov

Re: Public Hearing; Request for Comment

Ladies and Gentlemen:

VantageScore Solutions LLC would like to thank the Board of Governors of the Federal Reserve System (the "Board") for the opportunity to comment on the June 14, 2007 public hearing regarding the Board's rulemaking authority under Section 129(1)(2) of the Home Ownership and Equity Protection Act ("HOEPA").¹ VantageScore appreciates this opportunity to assist the Board in crafting regulations to strengthen home ownership and equity protection and urges the Board to use its rulemaking authority judiciously, avoiding crafting any "bright line" tests that may chill the ability of subprime borrowers to obtain credit.

I. VantageScore Business Model

In July 2005, the nation's three largest credit reporting companies ("CRCs")² commenced work to develop a credit score in response to growing market demand for an alternative model. The model would address credit score variances, a source of confusion for lenders and consumers alike, and ultimately enhance lenders' abilities to make more insightful credit-granting decisions. The model also provides accurate and predictive credit scoring of so-called "thin file" consumers.

To effectuate their goal, the CRCs harvested a national sample of approximately 15 million anonymous consumer credit files from the CRCs. Less than one year later, in March 2006, their efforts culminated in the release of VantageScore, a highly predictive, objective and easy-to-understand score that approximates the risk of 90 day (plus)

¹ The Board, by regulation or order, shall prohibit acts or practices in connection with – (A) mortgage loans that the Board finds to be unfair, deceptive, or designed to evade the provisions of this Section (regulating high cost mortgage loans); and (B) refinancing of mortgage loans that the Board finds to be associated with abusive lending practices or that are otherwise not in the interest of the borrower. 15 U.S.C. § 1639(1)(2).

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

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delinquencies. VantageScore ranks consumers, including many people who were previously unscorable due to thin files, on a numeric range from 501 to 990.

II. Public Hearing

On June 14, 2007, the Board held a public hearing gathering information regarding use of its rulemaking authority to curb abusive lending practices in the home mortgage market. Randall S. Kroszner, Governor, Board of Governors of the Federal Reserve System, kicked the hearing off by reviewing the Board's rulemaking authority under HOEPA and asking how the Board can apply that authority to the following four issues:

- **Prepayment Fees** – Should the Board restrict lenders' ability to include prepayment fees on hybrid³ and option ARMs,⁴ not less than six months prior to the reset period to give borrowers a chance to refinance out without penalty before incurring significantly higher interest rates?
- **Mandatory Escrow Accounts** - Should the Board mandate escrows of insurance and taxes for subprime and/or prime loans?
- **Stated Income, Low and No Document Loans** - Should the Board prohibit stated income, low- or no-documentation loan products?
- **Ability to Repay** – What factors, if any, should the Board require lenders to examine to determine the borrowers' ability to repay?

At the conclusion of the hearing, both the industry representatives and consumer advocates agreed that if the Board decides to regulate these topics *only for the subprime market*, that the Board needs to create clear bright-line tests so that lenders (and the markets) can be assured of compliance. Although VantageScore agrees that a bright-line test is necessary for a regulation; we urge the Board to instead consider issuing guidance. We discuss our reasons, below.

³ "Hybrid" ARMs typically are 2/28 or 3/27 adjustable rate mortgage loans that have a fixed interest rate for the initial two or three years, after which time the adjustable rate is calculated based on the index plus a margin.

⁴ Option ARMs typically had a brief (as little as one month) fixed initial rate substantially below the later adjustable rate. Option ARMs are described as such because they provided borrowers with the ability to choose one of four possible repayment amounts during the initial years of the loan. These loans, however, were widely criticized by consumer advocates because the negative amortization feature potentially could "reset" the payment amount to two to three times the minimum required payment amount earlier in the loan term than expected.

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III. Guidance is Preferable to Regulations

In recent months, representatives from VantageScore have been meeting with Congress, regulatory agencies and trade associations discussing the role of credit scores in the home mortgage market. From our discussions, we have learned that the challenges that borrowers face in today's mortgage market cannot be easily attributed to a bright line category of loan products or borrowers. Take, for example, credit scores. The value of any particular score⁵ may indicate different degrees of risk and creditworthiness under different credit score models. Thus, we are concerned that if the Board were to choose a specific value at which to draw a bright line between "prime" and "subprime" borrowers, it may chill the opportunity of a credit-worthy borrower to obtain much-needed credit.

Since responsible lenders have demonstrated that they *can* put borrowers (including "thin file" borrowers) in good loans provided they look at the totality of the borrower's circumstances, VantageScore strongly recommends that the Board adopt a regulatory approach that encourages lenders to view borrowers as the sum of their credit history and potential and not just by one arbitrary credit worthiness benchmark.

IV. Conclusion

We recognize that the market is in a crisis. Foreclosures are climbing and lenders are scrambling for liquidity. Given this environment, we do not believe that the time is right to further target the subprime market for additional regulatory burdens. Therefore, we urge the Board to issue guidance instead of bright line regulations.

Respectfully,



Barrett Burns

President and Chief Executive Officer

⁵ We recommend that the Board, if it refers to credit scores in any issuance, that it do so without specific references to trade names or scoring values to avoid any appearance of promoting the use of one credit scoring algorithm over another.