VANTAGESCORE

March 16, 2007

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

Attention: Docket No. R-1238
regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219

Attention: Docket No. 06-15
regs.comments@occ.treas.gov

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Attention: Comments/Legal ESS
comments@FDIC.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

Attention: No. 2006-49
regs.comments@ots.treas.gov

Re: Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Domestic Capital Modifications (71 Fed. Reg. 77,446 Dec. 26, 2006)

Ladies and Gentlemen:

VantageScore Solutions LLC would like to thank the Agencies for the opportunity to comment on this important Notice of Proposed Rulemaking ("NPR"). We applaud the Agencies' deliberate and thoughtful approach to regulating banks' risk measurement and management practices, and hope that our comments will help the Agencies draft regulations that sufficiently balance risk sensitivity against regulatory burden. As such, we respectfully recommend the following:

- *Include Creditworthiness in the Risk Measurement Matrix* – Loan-to-value ("LTV") ratio alone is not a sufficient measure of default risk and should be coupled with a creditworthiness component to meet the Agencies' goal of establishing a truly risk sensitive matrix.

VantageScore Solutions, LLC
107 Elm Street, Suite 907 Stamford, CT 06902 t:203.363.2160
www.vantagescore.com

- *Permit Use of a Credit Score as a Proxy for Creditworthiness* – VantageScore is at least as good an approximation of the risk of default as the use of default odds and validation tables and does not implicate the Agencies' concern regarding undue regulatory burden.

Below we provide the Agencies with a brief summary of VantageScore's unique business model along with a more detailed discussion of how credit scores can be a good proxy for creditworthiness in a risk management matrix.

I. *VantageScore Business Model*

VantageScore is an innovative consumer credit risk score that, we believe, offers greater consistency and is more predictive for both consumers and lenders.

In July 2005, the nation's three largest credit reporting companies ("CRCs")[1] commenced work to develop, for the first time, a consistent score across all three CRCs. To effectuate this goal, a national sample of approximately 15 million anonymous consumer credit files was harvested from the CRCs. Less than one year later, in March 2006, those efforts culminated in the announcement of VantageScore, a highly predictive, objective and easy-to-understand score that approximates the risk of 90 day (plus) delinquencies. VantageScore ranks customers on a numeric range from 501 to 990 and on an alphabetic range from "A" to "F."

Prior to the creation of VantageScore in March 2006, generic credit scores varied considerably across the three national CRCs because, in addition to variances in credit data input,[2] the CRCs analyzed this data using disparate scoring methodologies. VantageScore reduces this variance considerably since the formula generating VantageScore remains constant, irrespective of the CRC generating the number. In addition to providing some much-needed consistency to the marketplace, VantageScore also is able to provide a credit score for "emerging" customers, which includes persons with a prior bankruptcy and otherwise good credit, persons establishing their credit for the first time, and infrequent credit users.

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

[2] This "credit data variance" refers to differences in actual tradeline content as provided by the CRCs themselves. Because VantageScore is an algorithm, it can only process the credit data that is fed into it. Thus, VantageScore itself cannot "fix" the problem of variances in credit data provided by each of the CRCs; however, VantageScore mitigates this issue to the extent it can by using a single algorithm to calculate the credit score and consistent definitions for the credit data that the CRCs do provide.

II. *Responses to Comments Requested*

A. Reasons to Abandon the LTV-Only Approach

We understand that, based on comments received from the Advanced Notice of Proposed Rulemaking,[3] the Agencies are considering abandoning their approach to risk weight first-lien residential mortgage loans via a risk matrix[4] that includes both an LTV and a "creditworthiness" value (*i.e.* a credit score) in favor of an "LTV-only" based approach.

We identify two primary reasons to abandon the LTV-only approach. First, we fear that an LTV-only approach is a step backwards in the Agencies' pursuit of a risk-sensitive matrix. As the Agencies are no doubt aware, LTV sufficiently dimensions the magnitude of the potential loss on the loan, but is a poor approximation of the risk of default. Credit scores, on the other hand, are expressly designed to predict this risk. Second, we believe that an LTV-only approach may unintentionally promote an asset-based lending focus by placing undue emphasis on the collateral. We believe this result is at odds with the Agencies' warnings against asset-based lending in other regulations and supervisory materials.[5]

Assuming that the Agencies reconsider their LTV-only approach and decide to include a creditworthiness component in the risk matrix, we explore below the reasons why use of a credit score does not implicate the concerns raised by the Agencies in the NPR as well as why use of the proposed "default odds" approach may.

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[3] 70 Fed. Reg. 61,068 (October 20, 2005).

[4] According to the LTV-only approach, a risk matrix would assign a risk weight to an LTV value. For example, an LTV of 60 percent or less would be assigned a risk weight of 20 percent and an LTV in excess of 95 percent would be assigned a risk weight of 150 percent. In the alternative, the risk matrix could have a credit worthiness component, such as a credit score in addition to the LTV component. Under this alternative scenario, a risk weight would be assigned after consideration of the LTV as well as the creditworthiness component. For example, a risk weight of 20- 35 percent would be assigned to a "credit history" in "group 1" with an LTV of 60 percent or less. 71 Fed. Reg. 77,456 (December 26, 2006).

[5] *See, e.g.,* Interagency Guidance on Subprime Lending defining "predatory" loans as loans where the lender makes unaffordable loans based on the assets of the borrower rather than the borrower's ability to repay. 72 Fed. Reg. 10,533 (March 2, 2007).

B. VantageScore Does Not Implicate Many of the Agencies' Concerns

The NPR suggests that the Agencies were swayed by comments indicating that use of a credit score in the risk matrix would be: (i) an undue regulatory burden; (ii) costly; and (iii) ineffective where irregularities in scoring exist across the CRCs.[6] We believe that these comments are not representative of all credit scoring methodologies, and in particular not of VantageScore; and respectfully recommend that the Agencies reconsider their decision. This is not to say, however, that we recommend that the Agencies adopt a regulation expressly mandating "VantageScore" as a barometer for creditworthiness. In fact, we do not support this approach for our score or any other proprietary score.[7] Rather, we recommend that the Agencies draft regulations that permit the use of internal or external credit scores that do not raise concerns related to cost, burden and inconsistent results.

Based on the materials provided in the NPR, we believe that the Agencies' proposed "default odds" approach[8] may implicate the very concerns that caused the Agencies to decide to pursue an LTV-only risk measure approach. Thus, assuming that the Agencies decide to include a credit worthiness component in the risk matrix, we recommend that it be comprised of a credit score rather than a default odds value. Our arguments in this regard follow.

- *Default Odds Approach May be Overly Burdensome* - Although we recommend that the Agencies implement a creditworthiness prong into the risk matrix, we do not agree that the new system of "default odds" is appropriate. We believe that this proposed methodology will needlessly *increase* the regulatory burden on banks by forcing them to manufacture a value for creditworthiness even though the credit score: (i) is a reasonable, if not better substitute; and (ii) is obtained in the usual course of underwriting and originating first-lien loans. Because we believe that this approach defeats the Agencies' stated goal of drafting regulations that are not unduly burdensome, we cannot recommend its adoption as part of the final rule.

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[6] 71 Fed. Reg. 77,454-77,455 (December 26, 2006).

[7] *See, e.g.,* Interagency Expanded Guidance for Subprime Lending Programs defining a subprime loan as one that, for example, is made to borrowers with a "FICO" score of 660 or less.

[8] According to the NPR, a bank would determine a borrower's default odds by mapping the borrower's credit score, as obtained from a credit reporting agency, to the credit reporting agency's validation chart. In order for a validation chart to qualify, it must be based on: (i) the same vendor and model as the credit score used by the bank; (ii) a nationally diverse group of credits; and (iii) relevant odds measured over no less than 18 months following the scoring date used in the validation chart. 71 Fed. Reg. 77,456 (December 26, 2006).

- *Default Odds Approach May be More Costly* - Because of its underlying consistency across the CRCs (subject to data differences), VantageScore is better able to calculate risk in a predictive manner, helping banks to reduce overall portfolio risk, operational costs (via more insightful automatic decisionmaking) and, ultimately, portfolio credit losses. Since our model is designed to save costs, and, as we noted above, banks would be forced to incur costs if they were required to create and confirm separate default odds, we believe that the proposed matrix using default odds would be more costly than use of a credit score.

- *VantageScore Provides Consistent Scoring Across the CRCs* – One hallmark of VantageScore is that it is the credit score that reduces variances across the three national CRCs by: (i) using one methodology for creating the score (rather than the three different methodologies utilized by each of the CRCs); and (ii) using one definition for data, such as "credit cards" fed into the formula (although variances in the credit data content remain). We believe that the nature of our score itself mitigates the Agencies' concern regarding credit score irregularities.

In addition to the concerns addressed above, the Agencies requested information regarding how, if they determined to use a credit score in the risk matrix, use of the score would be implicated under certain fact patterns. We address these issues, below.

C. Other Questions Posed by the Agencies

1. *How Often Should Banks Update Credit Scores?*

Because VantageScore is new to the market, we do not have sufficient data to show how often mortgage servicers or other lenders and servicers are refreshing their credit scores. Anecdotally, we believe that servicers refresh the scores on a quarterly basis, typically for portfolio risk management purposes. Thus, assuming that the final rule will contain a continuing obligation to obtain credit score data, we recommend that this requirement be no more often than quarterly.

2. *What is the Proper Credit Score for Individuals with Multiple Scores, and Insufficient Credit History?*

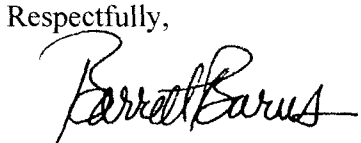
As we have discussed earlier, VantageScore Solutions' unique business model addresses the Agencies' concerns related to: (i) isolating the "correct" credit score for individuals with multiple scores; and (ii) insufficient credit history. First, except for

differences in data between the CRCs, VantageScore is a credit score that is virtually consistent across the three CRCs, thus mitigating the multiple score issue. Second, VantageScore obtains data from a two year window (rather than the six month industry standard), which enables it to rate persons with insufficient credit history. VantageScore is working diligently to ensure that these "thin file"[9] borrowers get a credit score, and consequently, can have the opportunity to access much needed credit.

III. Conclusion

We understand that the Agencies' primary and overarching goal in drafting this regulation is to create a system that is risk sensitive and that does not impose undue regulatory burden. We believe that the Agencies will miss this mark if they adopt a system that measures risk on first-lien residential mortgage loans solely via LTV or that prevents use of credit score in favor of use of a complex mapping of validations tables and credit scores. We strongly believe that the Agencies can include credit scores as part of the risk management matrix, along with LTV, without creating undue regulatory burden on banks.

Respectfully,



Barrett Burns
President and Chief Executive Officer

[9] "Thin file" borrowers are often referred to as the "under-served" and "under-banked" and include persons who are elderly or who are immigrants, who for cultural or other reasons do not access credit or other financial services as often as the rest of the population.