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August 1, 2011

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Docket Number R-1411

RE: Credit Risk Retention

To Whom It May Concern:

This comment letter is submitted to the Board of Governors of the Federal Reserve System ("Board") on behalf of TransUnion LLC ("TransUnion") in response to the Notice of Proposed Rulemaking published in the *Federal Register* on April 29, 2011 by the Board and other federal banking agencies[1] (generally, the "Agencies") regarding a proposed rule ("Proposal") to implement the credit risk retention requirements in Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").[2] TransUnion is a so-called "nationwide" consumer reporting agency, as described in Section 603(p) of the Fair Credit Reporting Act. We have operations in the United States, Africa, Canada, Latin America, East Asia and India and provide services in 23 countries. TransUnion has access to consumer credit information supplied by data furnishers on substantially all of the credit active consumers in the United States. TransUnion appreciates the opportunity to comment on the Proposal.

Background

Section 941 of the Dodd-Frank Act generally requires the Agencies to jointly adopt regulations requiring "securitizers" to retain not less than a 5% unhedged portion of the credit risk for any asset that the securitizer, through the issuance of an "asset-backed security," transfers, sells or conveys to a third party, subject to various exemptions and exceptions, including an exemption for certain asset-backed securities that are collateralized exclusively by

[1] The other federal banking agencies include the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation , Securities and Exchange Commission, Federal Housing Finance Agency, and Department of Housing and Urban Development.

[2] *See* Credit Risk Retention, 76 Fed. Reg. 24,090 (April 29, 2011).

residential mortgages that qualify as "qualified residential mortgages" ("QRMs"). The requirements for a QRM are set forth in proposed § __.15(c) and (d), including the requirement under § __.15(d)(5) that the creditor verify and document specified information about the borrower's credit history.

TransUnion is submitting these comments on the limited issue of credit history requirements for QRMs, which related to questions 115, 116, 117(a) and 118 in the Proposal. For convenience purposes, we have restated below each of the relevant questions followed by TransUnion's comments. Our comments below are based on our substantial experience over more than 40 years in providing creditors with consumer reports to assist in evaluating applications for virtually all types of consumer credit, including residential mortgage loans.

115. Are the proposed credit history standards useful and appropriate indicators of the likelihood that a borrower might default on a new residential mortgage loan?

We strongly agree with the Agencies' views, as expressed in the Supplementary Information, that a consumer's credit history is extremely valuable for its predictive nature and is among lenders' most important tools in determining a particular consumer's propensity to default on a financial obligation. The particular factors identified in § __.15(d)(5)(i) also are, in our experience, key factors used to assess payment default risk and covered by our consumer reports: failure to make timely payment on other credit obligations, bankruptcy and the exercise of creditor rights with respect to collateral. Indeed, it is precisely for these reasons that creditors rely heavily on consumer reports provided by TransUnion in evaluating applications for residential mortgages and other consumer credit.

We also support the Agencies' decision not to impose a requirement in the QRM definition that the borrower have a minimum numerical score on a credit scoring model approved by the Agencies. As indicated in the Proposal, if such a credit score requirement was adopted, the Agencies would need to evaluate various credit scoring models offered from time to time by private sector businesses. This will necessarily impose administrative burdens on the Agencies and is likely to provide competitive advantages to particular credit score providers and hinder entry of new market participants or the deployment of new scoring models or technologies. For example, it would be extremely problematic if approval of models offered by new providers, or approval of new models by existing providers, is needed for a credit score to meet a requirement of the QRM definition.

There is an additional potential problem with the inclusion of a minimum numerical value in an Agency-approved credit scoring model as an element in the QRM definition: credit scores need to be regularly adjusted over time to account for the fact that the default propensity that the credit score is designed to predict changes over time for a given score level. For example, a particular credit score may indicate a default propensity of 10% for several years and, for a subsequent period of time, indicate an 8% or 12% default propensity. Thus, the Agencies would not only be required to initially evaluate appropriate credit score levels across multiple service providers, but also would need to regularly monitor and re-evaluate those credit score levels over time.

Lastly, we think using the "derogatory factors" approach may benefit consumers. A natural consequence of loans satisfying the QRM definition is that they will be lower cost to consumers. As a result, creditors and consumers will likely come up with a form of shorthand to define a loan type with favorable pricing that meets the QRM definition, much like mortgage loan pricing today is described in terms of "conforming" loans. In sum, the "derogatory factors" approach may serve as a transparent way for consumers to easily understand the purposes and benefits behind QRMs.

116. Are there additional or different standards that should be used in considering how a borrower's credit history may affect the likelihood that the borrower would default on a new mortgage?

As noted in our comments to question 115, TransUnion believes that the factors identified in the Proposal are highly predictive of a consumer's propensity to default and supports the inclusion of that requirement in the QRM standard. We also believe, however, that the Agencies should adopt an additional quantitative modeling requirement as part of the creditworthiness requirements in the QRM definition, rather than simply the credit history factors described in the Proposal. Importantly, such quantitative modeling (like any credit score modeling requirement) should be defined generally and in reference to default propensity (rather than as simply a numerical value) to avoid the limitations and challenges associated with using Agency-approved credit scores.

More specifically, as noted by the Agencies, credit scores are designed as a proxy for predicting the borrower's propensity to default on all credit obligations.. Under a quantitative modeling alternative approach supported by TransUnion, the Agencies might specify, for example, general or specific levels of mortgage default propensity that the model must predict, and industry would be permitted to design and maintain models that meet those requirements. This would obviate the need for the Agencies to review and approve particular credit models or vendors and more appropriately focus the requirements in the regulation to the end result to be achieved. We note that a similar approach was employed recently by the Board in its CARD Act regulations regarding the requirement that a card issuer evaluate the consumer's ability to repay credit card accounts, where card issuers may use any "empirically derived, demonstrably and statistically sound model that reasonably estimates a consumer's income or assets." Regulation Z, Comment 51(a)(1)-4. Similarly, the Equal Credit Opportunity Act rules on considering age in evaluating credit applications depend on models that meet a general test of credit scoring systems that are "empirically derived, demonstrably and statistically sound." See 12 C.F.R. § 202.6(b)(2).

We believe that an additional quantitative model requirement would provide additional reliability to the assessment of risk with respect to QRMs. The derogatory factors may provide an indication of the likelihood of default based on long-term experience that serves as a good baseline. However, quantitative models provide statistical validity to determining the propensity of default, and are regularly validated on an on-going basis to take into account of changes in consumer payment practices and risks.

117(a). Should the Agencies include minimum credit score thresholds as an additional or alternative QRM standard? 117(b). If so, how might the rules incorporate privately

developed credit scoring models in a manner that (i) ensures that borrowers, originators, and investors have adequate notice, and an opportunity to comment on, changes to scoring methodologies that may affect a borrower's eligibility for a QRM, (ii) maintains a level competitive playing field for providers and developers of credit scores, and (iii) ensures that any credit scoring methodology used for QRM purposes is and remains predictive of a borrower's default risk?

TransUnion does not believe the Agencies should mandate the inclusion of a minimum numerical credit score of an Agency approved model in the QRM standard. As discussed in our response to question 115, we believe that the final rule should allow lenders to rely upon the factors specified in proposed §__.15(d)(5) for meeting the QRM standard. However, as discussed in our comment to question 116, we believe that the Agencies should provide creditors with an additional requirement to use a general quantitative model that is designed to predict certain levels of default propensity and meets generally accepted standards of statistical validity. Current credit scoring models might meet this requirement if they satisfied the levels of default propensity specified by the Agencies. TransUnion also believes that any standards set for propensity for default should be sufficiently flexible to be implemented without undue regulatory process and burden, and to be implemented over extended periods of time, possibly being tied to some external levels that are sufficiently reliable but also will take into account market and other relevant factors.

118. The Agencies request comment on the appropriateness of the safe harbor that would allow an originator to satisfy the documentation and verification requirements regarding a borrower's credit history by obtaining credit reports from at least two consumer reporting agencies that compile and maintain files on consumers on a nationwide basis.

Use of multiple credit reports, provided by more than one of the nationwide consumer reporting agencies, is a well-established practice in mortgage underwriting, and TransUnion is supportive of a safe harbor provision, at a minimum. It is reasonable and prudent to promote external verification of the absence of specified derogatory information from multiple sources because consumers may mis-report such information on their application and validation of the relevant information from multiple sources increases the reliability of the determinations. Indeed, we believe that, in light of perceived industry concerns associated with consumer's providing their stated income and other historic problems with the reliability of certain residential mortgage application information, it is advisable to make credit report or other independently reliable verification a requirement and not merely a safe harbor. For example, the final rule might provide that the particular factors identified in § __.15(d)(5)(i) must be verified by a reliable source that is independent from the consumer, such as through a consumer report obtained from a "nationwide" consumer reporting agency or information known to the lender through the experience of the lender or an affiliate with the consumer. In this regard, we do not believe this aspect of the Proposal adds materially to the transaction costs associated with obtaining a mortgage loan. Moreover, systems to obtain multiple credit reports are already in place, and so this provision would not present an impediment to the originator's ability to comply.

Conclusion

TransUnion applauds the focus on factual credit report content, as provided in this Proposal. We appreciate the opportunity to comment in this matter. Please do not hesitate to contact me at 312 466 7730 if TransUnion can be of any further assistance in connection with this matter.

Sincerely,

John W. Blenke
Executive Vice President,
Corporate General Counsel and Corporate Secretary