VantageScore

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Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

RE: Proposed Agency Information Collection Activities: FR Y–14A, FR Y–14Q and FR Y–14M

Dear Mr. Frierson:

VantageScore Solutions LLC ("VantageScore") thanks the Board of Governors of the Federal Reserve System ("the Board") for inviting the public to comment on the proposed information collections (FR Y–14A, FR Y–14Q and FR Y–14M) described in the notice published in the *Federal Register* on June 25, 2013. We particularly appreciate the Board's invitation to comment on "ways to enhance the quality, utility, and clarity of the information to be collected."[1]

Formed in 2006 to offer choice and competition in the consumer credit score marketplace by providing a highly predictive credit score based on the latest analytic methodologies, VantageScore Solutions is a joint venture of the three credit bureaus, Equifax, Experian and TransUnion. Each of the bureaus devoted their top scientists and analytic leaders to the development of our model. Armed with a deep understanding of consumer risk modeling, team members built a new consumer credit score model. Fifteen million anonymous consumer files served as the basis for development and testing of the new model. Innovative approaches in the model's development include advanced segmentation techniques that provide more scorecards than many traditional models, including separate segmentation scorecards for full file and thin file consumers, resulting in the enhanced quality, utility and clarity recognized by a growing number of participants in the credit scoring marketplace as being synonymous with the VantageScore brand.

As stated in the *Federal Register* notice: "The FR Y–14 series of reports are authorized by section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), which requires the Federal Reserve to ensure that certain BHCs and nonbank financial

[1] Federal 78 FR 122, June 25, 2013 at 38034.

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companies supervised by the Federal Reserve are subject to enhanced risk based and leverage standards in order to mitigate risks to the financial stability of the United States (12 U.S.C. 5365)."[2]

The semi-annual FR Y–14A collects large BHCs' quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios. The quarterly FR Y–14Q collects granular data on BHCs' various asset classes and PPNR for the reporting period. The monthly FR Y–14M comprises three loan- and portfolio level collections, and one detailed address matching collection to supplement two of the portfolio and loan-level collections.[3]

In describing the proposed revisions to the various information collections the *Federal Register* notice states that they include "adding data items, deleting data items, and redefining existing data items"[4]; "structurally adjusting the reporting templates"[5]; and, "modifying existing data items."[6] VantageScore applauds the Board for its open-minded approach to enhancing the quality, utility, and clarity of the information to be collected by the FR Y-14 series of reports. In that regard, we strongly recommend that the Board use this process of revising the FR Y–14 series of reports to do everything in its power to eliminate any real or perceived "brand bias" or "agency endorsement" of a particular "brand" of credit score.

Frequently brand bias is subtle and unintentional. For example, often people use the term "Kleenex" when they mean "facial tissue" or "Xerox" machine when they mean "photo-copier." Oftentimes "brand bias" is unintended, yet even if unintended when used by a government agency it can have far-reaching consequences and can not only serve as a bar to entry for those ready, willing and able to compete in the marketplace, but can also deprive consumers of access to services or access to services under the most favorable terms and conditions.

As we have previously discussed with government officials, VantageScore believes that the FR Y–14 series of reports reflects the type of unintended "brand bias" or "agency endorsement" discussed above. While not intending to endorse a particular proprietary brand of credit score to the exclusion of all others, to many financial service providers who are required to submit any of the reports in the FR Y–14 series it appears as though there is only one brand of credit score acceptable to the Federal Reserve or the Comptroller of the Currency.

The "brand bias" or "agency endorsement" is not de minimus. It occurs:

- 34 times in the FR Y-14M Retail Credit Card Instructions (see pages 16, 17 and 40);

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[2] Ibid.
[3] Ibid at 38035.
[4] Ibid.
[5] Ibid at 38037
[6] Ibid at 38038

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- 9 times in the FR Y-14M Retail Home Equity Instructions (see page 7); and,
- 9 times in the FR Y-14M Retail First Mortgage Instructions (see pages 7 and 9).

Admittedly, in the draft "Instructions for the Capital Assessments and Stress Testing information collection (Reporting Form FR Y-14M)" VantageScore is mentioned twice while the other brand is mentioned 54 times.

As the developer of the credit scoring model currently used by 7 of the top 10 financial institutions, 6 of the top 10 credit card issuers, 4 of the top 10 auto lenders and 4 of the top 5 mortgage lenders, we have discussed this concern with virtually all of the various Federal financial regulators in recent years. A number of Federal regulators (specifically, the Treasury Department, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the Securities & Exchange Commission and the Department of Housing and Urban Development) have recognized and acknowledged the need to avoid unintended "brand endorsements" in their rulemaking. They recognize that today there is a "choice of credit scores" in the marketplace. Below are quotes from recent rulemakings by those agencies documenting that point:

- From the FEDERAL HOUSING ADMINISTRATION, "Risk Management Initiatives: Reduction of Seller Concessions and New Loan-to-Value and Credit Score Requirements":

  While FHA's historical data and analysis is derived from the "FICO-based" decision credit score***, it is not FHA's intent to prohibit the use of other credit scoring models*** to assess an FHA borrower's credit profile. In this notice, FHA seeks comment on the best means for FHA to provide guidance to the industry on acceptable score ranges for other scoring models, to ensure that the scales used for all scoring systems are consistent and appropriate for an FHA borrower. [emphasis added]

  Source: Federal 75 FR 135, July 15, 2010 at 41,220-41,221

- From the FEDERAL HOUSING FINANCE AGENCY, "2009 Enterprise Transition Affordable Housing Goals":

  Credit Score Terminology. The proposed rule provided a market analysis to support the proposed adjustment of the housing goals levels for 2009, and discussed the effect of tighter underwriting standards of private mortgage insurers and the reduction in mortgage insurance availability for borrowers with low credit scores. ***A credit reporting corporation and a credit scoring corporation commented that FHFA's analysis should not specifically reference "FICO" credit scores, stating that the reference implies endorsement of the Fair Isaac Corporation product and creates an unfair advantage. FHFA did not intend to***

endorse a specific product. Accordingly the market analysis in the final rule refers generally to credit scores rather than to a specific product. [emphasis added]

Source: FEDERAL HOUSING FINANCE AGENCY, 12 CFR Part1282,
2009 Enterprise Transition Affordable Housing Goals,
Final Rule, Paragraph J, Other Issues, p. 45

- From the FEDERAL RESERVE BOARD'S HOEPA rule adopted in July 2008:

The Board also continues to believe— and few, if any, commenters disagreed— that the best way to identify the subprime market is by loan price rather than by borrower characteristics. Identifying a class of protected borrowers would present operational difficulties and other problems. For example, it is common to distinguish borrowers by credit score, with lower-scoring borrowers generally considered to be at higher risk of injury in the mortgage market. Defining the protected field as lower-scoring consumers would fail to protect higher-scoring consumers "steered" to loans meant for lower-scoring consumers. 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.*** [emphasis added]

Source: FEDERAL RESERVE SYSTEM, 12 CFR Part 226, Regulation Z;
Docket No. R-1305, Truth in Lending: Final Rule, VIII.
Definition of "Higher-Priced Mortgage Loan"—§ 226.35(a), C. General Approach

When Federal agencies incorporate specific brand names into their regulations or their reporting requirements, they can embolden the holder of the brand. We recently saw an example of this when the CEO of FICO spoke at a conference last February and was asked to "...help[] folks understand the competitive environment ... If you could maybe be more specific as to who you compete against ..." His reply:

So the Scores business, we sell the Scores through the big 3 credit bureaus to the banks. There are alternatives that credit bureaus themselves have developed a score called **VantageScore**. It has not gotten a lot of traction and all 3 bureaus still sell **FICO Scores** happily to the banks. So there's not that much competition around our Scores business. We have a -- **we're kind of designed in, in a lot of** places.... The **FICO Scores** are very much part of the fabric of the banking industry, and I don't think they're going anywhere anytime soon. So no, I would not call that a big risk. There's some things that are truly low risk. For example, Fannie and **Freddie have mandated that FICO Scores have to be part of a mortgage origination. So that puts you in a very low risk territory. But even where it's not**

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a matter of law, as a matter of practice, the Scores are really deeply embedded. So not a lot of risk there.[7]

Conclusion

The issue of "brand bias" or "agency endorsement" of a particular "brand" of credit score is a serious concern. VantageScore is not asking that VantageScore be given an agency endorsement in lieu of any competitor; we merely ask that government agencies not build a bias into their rules and reporting requirements that imply that one particular credit score brand enjoys a preferred status over all others. We have cited examples where other agencies have acknowledged the legitimacy of this concern in the past, and the Federal Reserve itself in promulgating the HOEPA rule acknowledged that "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." That was a prudent judgment then, and we urge you to exercise similar prudence in revising the FR Y–14 series.

Thank you for the opportunity to comment on this important matter; please don't hesitate to contact me at (203) 363-2161 or by e-mail at BarrettBurns@vantagescore.com if you have any questions or would like to discuss further.

Respectfully yours,

Barrett Burns

cc: OMB Desk Officer–Shagufta Ahmed
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[7] FICO CEO William J. Lansing at the Morgan Stanley Technology, Media & Telecom Conference held at The Palace Hotel in San Francisco, California, on February 27, 2013. Transcript prepared by Seeking Alpha (www.SeekingAlpha.com).