VantageScore

Barrett Burns President & CEO [redacted]

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Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

File Number S7-08-10

Dear Madam Chair and Members of the Commission,

VantageScore Solutions LLC ("VantageScore") thanks the Securities and Exchange Commission ("SEC") for re-opening the comment period for the submission of comments regarding the Asset-Backed Securities Release. The comment period was re-opened in order to permit comments "on an approach for the dissemination of potentially sensitive asset-level data" with respect to the asset-level disclosure requirements in the SEC's proposed Regulation AB2.

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. 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. Today the VantageScore model is considered an industry standard by banking regulators[1] and is used by 7 of the top 10 financial institutions; 8 of the top 10 credit card issuers; 6 of the top 10 auto lenders; and, the top 5 mortgage lenders.

The secondary market for consumer loans is critical to the ability of the consumer credit market to operate efficiently. To that end, investors need to have verified loan-level data in order to analyze and accurately price asset-backed securities. The mortgage backed securities market in particular is in

[1] Instructions for the Capital Assessments and Stress Testing information collection (Reporting Form FR Y-14M), page 16, line 13, page 35, line 48, page 99, line 13, page 152, line 38, page 153, lines 39 and 40 and page 175, line 109.

VantageScore Solutions, LLC 1055 Washington Blvd., 3rd Floor Stamford, CT 06901 VantageScore.com T: 203.363.2160 F: 203.569.0010

need of improved investor confidence and liquidity, which can be supported by increased disclosure of loan-level data.

By the same token consumer information must be protected and privacy must not be forsaken. Indeed, a breach of protected and sensitive information can wreak financial havoc on a consumer and it often takes years to recover from such a fraudulent act. Credit issuers are particularly sensitive to the protection of consumer data as it poses reputational, litigation and customer relations risk.

We do not believe these two important issues are mutually exclusive and we have confidence that market participants in conjunction with the SEC will design processes and procedures that carefully consider the needs of investors, issuers and consumers. Moreover, VantageScore Solutions supports the goals of the SFIG/MISMO "Collaboration Project" to align data fields used in loan level disclosure reporting (and ongoing reporting) for GSE and Private Label securities in order to allow an originator to efficiently collect and deliver origination data irrespective of whether a loan is held, sold as a whole loan or securitized in the GSE or private label markets.

A particularly important data point investors use to analyze any asset-backed security backed by consumers loans is a refreshed credit score.

As proposed, Reg AB2, "Schedule L" 2(c)(1) through 2(c)(6) elevates a single credit model brand name, FICO, which may imply to issuers and investors a brand endorsement or at least that the FICO model is often preferred. In reality many institutional investors ranging from the world's largest asset managers to strategically focused hedge funds are now using VantageScore in their risk and pricing models to drive decision making. Specifically, VantageScore is being used by institutional investors that are utilizing the new availability to track "loan level data" to gauge risk on an on-going basis.[2]

The Commission can clarify that it is not its intention to offer a particular brand endorsement or that any one model is preferred in one of two ways.

First, instead of using the current language:

> *Obligor credit score. Provide the standardized credit score of the obligor. If the credit score type is FICO, skip to Item 2(c)(3).*

We suggest the language be changed to:

> *Obligor credit score. Provide the standardized credit score of the obligor. If the credit score type is FICO* ***or VantageScore,*** *skip to Item 2(c)(3).*

[2] "New solutions leverage VantageScore to help bring fresh analysis and risk management to the residential mortgage backed security market": http://www.vantagescore.com/news-story/51

Implementing such a change would be consistent with the action taken by the Federal Reserve Board late last year in promulgating the forms for the Capital Assessments and Stress Testing information collection (an element of the Federal Reserve Board's Comprehensive Capital Analysis and Review program) mandated by section 165 of the Dodd-Frank Act[3].

Alternatively, the Commission may simply wish to change the language to read:

> *Obligor credit score. Provide the standardized credit score of the obligor. If the credit score type has a range of 300 - 850, skip to Item 2(c)(3).*

If either option is implemented, similar revisions would need to be replicated throughout the proposed rule in the sections dealing with auto loans, auto leases, student loans, floorplan loans, etc.

A change such as one of the alternatives provided above is imperative in order to avoid a subtle and presumably unintended "brand bias." Frequently brand bias is, in fact, subtle and unintentional. For example, often people use the term "Kleenex" when they mean "facial tissue" or "Xerox" machine when they mean "photo-copier." Yet even if "brand bias" is 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 while denying investors the most accurate state-of-the-art information readily available in the marketplace.

Because the VantageScore credit scoring model is so widely used throughout the consumer credit industry and is recognized as an industry standard, we have discussed this concern with virtually all of the various Federal financial regulators in recent years. A number of Federal regulators have recognized and acknowledged the need to avoid unintended "brand endorsements" in their rulemakings. 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":

[3] Beginning January 1, 2014, credit scores produced by the VantageScore model are accepted in data fields for the Federal Reserve's Capital Assessments and Stress Testing Report (FR Y-14M report). Previously, FICO had been the only scoring-model brand the Fed accepted. The report is required by law under both the *Dodd-Frank Act* and the *Bank Holding Company Act* for all bank holding companies that are deemed to be Systemically Important Financial Institutions ("SIFIs). The revised FR Y-14M report is included in the set of instructions given to the SIFI institutions and is an element of the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR) program designed "to ensure that institutions have robust, forward-looking capital planning processes that account for their unique risks and sufficient capital to continue operations throughout times of economic and financial stress." (see http://www.federalreserve.gov/bankinforeg/stress-tests-capital-planning.htm).

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:

  ...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

Should the SEC seek to utilize a metric other than a credit score, we encourage the Commission to consider using "probability of default", as the Federal Deposit Insurance Corporation did in its final rule on Assessments, Large Bank Pricing.[4] Credit scores are three-digit numerical values aligned with a particular level of risk, also known as the "probability of default." As an example, in the case of the VantageScore 3.0 model, between June 2007 and June 2009, a consumer with a score from 611-630 had a probability of default of 5.19%. "Probability of default" is commonly defined as the risk of a consumer becoming 90 days or more delinquent on a debt, expressed as a percentage.

Credit score developers provide performance charts to lenders so that they understand the relationship between the three-digit score value from that provider and the probability of default. Here is an example from VantageScore from the 2007-2009 timeframe covering a slice of the score range[5]:

SCORE RANGE	DEFAULT PROBABILITY
591-610	7.15%
611-630	5.19%
631-650	3.65%
651-670	2.53%

As the evolution of credit scoring continues and competition grows, especially as lenders create their own proprietary models, recognition of PD remains a relatively new phenomenon. Yet wider recognition of PD makes sense considering the many ways that a subprime loan can be defined, particularly in the mortgage market.

Regulators are recognizing the practicality of using PD as a way to redefine how risk is calculated. Indeed, in February 2011, the FDIC published a new method for assessing high-risk loans at large banks with more than $10 billion in assets. The FDIC's purpose for the new method is to redefine how risk is calculated for a large lender's FDIC Deposit Insurance Assessment. As a result of extensive feedback from the industry, the FDIC issued a series of revisions to the original rule when the final rule (cited above) was promulgated on October 31, 2012.

The intent of the proposed rule was to revise the definitions of leveraged and subprime loans in order to:

- Improve accuracy and consistency in identifying and differentiating higher-risk concentrations among institutions;

- Reduce the reporting burden by incorporating recommendations by the industry and better aligning the definitions with measures used by the industry; and

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[4] See FDIC's final rule on Assessments, Large Bank Pricing, 77 Fed. Reg. 66000 (Oct. 31, 2012)

[5] The full scale range of the VantageScore 3.0 model is 300-850.

- More accurately price deposit premiums for institutions during favorable periods based on expected performance during stress periods.

This method assesses loan risk using probabilities of default that are reflective of recent economic trends and additionally allows lenders to use any statistically valid credit score model, commercially or internally developed. While "probability of default" is a more accurate measure than a credit score we recognize that it would be impractical to implement at this stage of the rulemaking process.

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