VANTAGESCORE.

Barrett Burns, President & CEO

August 2, 2010

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Asset-Backed Securities/File Number S7-08-10

Dear Ms. Murphy:

VantageScore Solutions LLC would like to thank the United States Securities and Exchange Commission (the "SEC" or the "Agency") for the opportunity to comment in response to proposed rules to increase investor protections in asset-backed securities ("ABS"). We applaud the SEC for undertaking this important effort to provide greater transparency in the marketplace. And, more specifically, we applaud the Agency's decision to require the disclosure of credit scores on a loan-level basis to investors.

I. VantageScore Business Model

VantageScore is an innovative consumer credit risk score developed in 2005 by the nation's three largest credit reporting companies ("CRCs")[1] to meet market demand for a more predictive credit scoring model. Unlike other credit scores, the VantageScore model applies the same algorithm to each of the three CRC's data. As a result, credit score variances for an individual consumer, which can be a source of confusion for lenders and consumers, is significantly minimized. VantageScore's approach to scoring ultimately enhances lenders' abilities to make more insightful credit-granting decisions. The model also provides highly predictive credit scoring of "new entrants" and "insufficient credit users." These consumers are individuals whose insufficiently documented credit histories have rendered them largely unscorable under other commercially-available credit scoring models, which sometimes can result in their receiving subprime loans or falling prey to predatory lenders. This sizeable economic subgroup often faces tremendous difficulty obtaining credit at reasonable terms or prices despite the fact that a great many of them are creditworthy.

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

VantageScore Solutions, LLC. Two Stamford Plaza, 281 Tresser Blvd., Suite 1002, Stamford, CT 06901 T: 203.363.2161 F: 203.569.0010 barrettburns@vantagescore.com www.vantagescore.com

It is estimated that between 35 and 50 million adults, which is equivalent to 18 to 25 percent of the adult population, may be considered unscorable. This results in a significant number who may be prevented from accessing credit or who may receive credit that is incorrectly priced because lenders are unable to leverage their standard decisioning strategies.

VantageScore is better able to score more people within this economic subgroup by utilizing data that is sometimes excluded in other models for those who may have been "out of the credit market" for up to two years and those whose oldest trade is less than six months old. Our ability to better distinguish between consumers with a clear track record of unfavorable credit behaviors from those simply starting to develop credit histories is a significant advantage. Our model recognizes that a sparse credit history and/or its lack of alignment with data specifications of common scoring models is not necessarily a reflection of poor debt management behavior. As such, we are able to provide scores for the following:

- Young adults just starting their careers;
- Recently divorced or widowed individuals with little or no credit in their own name;
- Newly arrived immigrants;
- Previous bankrupts; and
- People who shun the traditional banking system by choice.

II. SEC Seeks Comment on Disclosure of Credit Scores

During the financial crisis, ABS holders suffered significant losses prompting the freezing of the securitization market. With this rulemaking, the SEC is attempting to bring greater transparency to the ABS market by proposing to require that issuers provide disclosures on each loan in the asset pool. The disclosures would be required at the time of securitization and on an ongoing basis.

Among the data to be provided on a loan-level basis is the disclosure of the obligor and co-obligor's credit score type and credit score value. Issuers would provide this data for residential mortgage loans, automobile loans, automobile leases, and student loans.[2] Floor plan financing obligations would require disclosure of the credit score type and value, but only for the obligor.[3]

---

[2] Attachment "A" to this letter provides a sample of the proposed disclosure for credit scores.

[3] Note that VantageScore does not provide a credit score for floor plan financing.

Credit card ABS also will be subject to a new disclosure requirement, but not at the loan level. Rather, the SEC is proposing to require the disclosure of statistical data for accounts with similar characteristics that include geography, age of account and credit score.[4]

III. VantageScore Supports Disclosure of Credit Scores But Not Brand Endorsement

As noted above, VantageScore supports the Agency's efforts to provide greater transparency to the marketplace, and agrees that credit scores can play a role in bringing that much-needed transparency to investors. Nevertheless, we strongly caution the SEC against adopting regulations that appear to endorse one brand of credit score over another.

Over the past two years, we have been working closely with the federal banking regulators to eliminate references to specific credit score brands in published regulations, with significantly positive results. Below we provide you with instances where the Federal Reserve Board (the "Board"), the Federal Housing Finance Agency ("FHFA") and the United States Department of Housing and Urban Development ("HUD") agree that brand endorsements are not appropriate in the context of federal rulemakings:

- **Federal Reserve Board/HOEPA Rulemaking/July 2008:**

  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.*[5]

- **FHFA/2009 Enterprise Transition Affordable Housing Goals/August 2009.**

  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

[4] Attachment "B" to this letter provides a sample of the proposed credit card grouping disclosure in Table 1.

[5] 73 Fed. Reg. 44,532 – 44,533 (July 30, 2008) (emphasis added)

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.*[6]

- **HUD/New Credit Score Requirements/July 2010**

  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.[7]

We believe that these pronouncements reflect the agencies' intention to avoid endorsement of one credit score brand by avoiding codifying a brand name as part of a federal regulation. Accordingly, we urge the SEC to follow the lead of the federal banking agencies and refrain from adopting a final regulation that appears to favor one brand of credit score over another. To accomplish this, we believe that the Agency will need to adopt a final regulation that, to the extent possible, permits issuers to provide data related to any model of credit score that they use. Our specific recommendations follow.

IV. Recommendations

A. *The SEC Should Not Mandate Use of FICO-Brand Credit Scores by Credit Card ABS Issuers*

The SEC specifically requested comment on whether credit card ABS issuers be required to disclose FICO-brand credit scores. More specifically, the Agency asked:

> We understand that most credit card ABS issuers currently provide disclosures about the FICO credit score distribution of the underlying pool. Rather than allowing the issuer to use a credit score that is not FICO, should we require that all issuers provide disclosure of FICO credit scores by distributional groups? Are there other types of credit scores with respect to which we should require disclosure by distributional group? If so, what would be the appropriate distributional groups?[8]

[6] 74 Fed. Reg. 39,888 (Aug. 10, 2009) (emphasis added).

[7] 75 Fed. Reg. 41,217 (July 15, 2010) (emphasis added).

[8] 75 Fed. Reg. 23,374 (May 3, 2010).

We strongly urge the SEC to refrain from requiring disclosure of the FICO-brand credit score. We take this position for several reasons. First, as discussed above, we urge the Agency to follow the lead of the federal banking agencies and refrain from endorsing any one particular credit score brand. Second, a FICO credit score, without further description, is a meaningless standard. The reason for this is that there more than 20 different versions of FICO – FICO Classic 95, FICO Classic AU 95, FICO Classic 98, FICO Classic AU 98, FICO NextGen 00, FICO NextGen 03, FICO 08, etc.[9] Thus, requiring a "FICO" credit score is ambiguous and could result in any number of different disclosures from different issuers. Third, a credit score is nothing more than a numerical proxy for a propensity of default. In fact, it is this propensity to default that is the key data element here – not the credit score.

Default propensity is, simply, the chance that a consumer will become 90 or more days late on a debt that he or she owes, expressed as a percentage. A credit score translates this default propensity into a three-digit numerical value. For example, a VantageScore of 671 represents a 6.8 percent likelihood that a consumer will become 90 or more days past due on a loan. Each issuer maintains an odds chart that translates default propensity into a credit score value.[10] To illustrate the substitution of a propensity for default for a credit score, please compare Tables 1 and 2 in Attachment "B."

Fourth, **many credit card issuers utilize credit scores that are not FICO scores**.[11] In fact, VantageScore is in use in eight of the top ten credit card issuers.[12] We believe it would be anti-competitive for the SEC to force these lenders to abandon use of a predictive score in favor of a brand required by a government agency.

Given all of the above reasons, we strongly urge the SEC to adopt a final regulation that does not require use of a FICO score.

B. *Require Disclosure of the Credit Score or Default Propensity on Schedule L*

[9] We provide this information in response to the SEC's specific question: "Should we specify that issuers of ABS backed by credit cards and charge cards need to provide static pool disclosure of delinquencies, monthly payment rates and losses by both vintage origination year and by credit score? Would it be useful for investors? Why or why not?" 75 Fed. Reg. 23,386 (May 3, 2010).

[10] See Attachment "C" for an example odds chart.

[11] We provide this information in response to the SEC's specific questions: "What other types of credit scores are used by credit card issuers if any? Are any proprietary? What distributional groups would be useful for disclosure of other types of credit scores?" 75 Fed. Reg. 23,360 (May 3, 2010).

[12] VantageScore also is used by: (i) three of the top ten mortgage originators; (ii) four of the top five and eight of the top 25 financial institutions; and (iii) seven of the top 50 automobile lenders.

For all of the reasons as set forth above, we urge the SEC to consider substituting default propensity for the credit score disclosure in Schedule L. Table 2 on Attachment "A" provides a visual demonstration of how we believe the default propensity would be disclosed on schedule L. We believe this disclosure is beneficial for three reasons. First, as discussed above, the substitution of the default propensity actually provides more transparency to investors in terms of understanding risk because the investor will be looking at the predicted risk of default rather than a number that stands as a proxy for that risk. Second, it alleviates the concern that the Commission has regarding privacy issues, permitting issuers to avoid disclosing the credit score but in a manner that does not simply substitute a proxy (the grouping numbers 1, 2, 3, etc.) for a proxy (the credit score). Third, also as noted above, we question whether the Agency can properly monitor disclosure of the FICO score. Our concern is due to the numerous versions of FICO scores in the marketplace, the scoring values for which vary. If the SEC decides to disclose the FICO as a representative value – how is the Agency going to police whether the representative value is appropriate for the version of FICO score used?

If the SEC chooses to require the disclosure of the credit score rather than a representative number, VantageScore urges the Agency to eliminate all references to FICO (see Table 2 on Attachment "A"). As discussed in great detail above, we strongly believe that the Agency should make every effort to avoid any appearance of endorsing a brand.

The Agency requested comment on whether disclosure of credit scores on Schedule L can be eliminated if other data elements are present. We urge the Agency to require a credit score disclosure, irrespective of the other data elements disclosed.[13] The reason for this is because the credit score is critical when determining the amount of risk present in a loan portfolio. Consider the following:

Attached as Attachment "D" is a graph representing the impact to portfolio risk from consumer credit defaults over the past six years. Lenders using a one percent default strategy in 2003 would have set a minimum VantageScore of 750 for borrowers. In 2009, that same minimum score would represent a 2.5 percent default representing a 250% increase in the risk for the same score. As such, the lender would need to raise their minimum score requirement to 850 to maintain a one percent default strategy. Thus, we believe that disclosure of the risk represented by the score is critical and should be a mandatory data point for issuers. (Note that this change in risk would be seen in all predictive scoring models, not just VantageScore).

[13] The SEC asked: "Which data points or combination of data points would be the most important to an investor's analysis? For instance, if we do not adopt any requirement to disclose geographic location, would the coded range of FICO score, coded range of income, and sales price still be useful to investors? If we do not adopt a requirement to disclose geographic location, a coded range of FICO scores and coded range of income, would the sales price alone still be useful to investors? Please be specific in your response." 75 Fed. Reg. 23,358 (May 3, 2010).

C. *Should A Risk Retention Exemption be Permitted for a Minimum Credit Score*

The SEC specifically requested comment on whether a minimum credit score should serve as a basis for an exemption from a risk retention requirement:

> Would it be appropriate to require risk retention unless full documentation has been provided for the assets, the borrower meets a certain minimum credit score, or the terms of the loan do not involve balloon payments?[14]

VantageScore supports the use of credit scores as part of a robust underwriting system, but not as a substitute for underwriting. Accordingly, we recommend that the SEC refrain from using a credit score alone as a basis for an exemption from risk retention.

V. Conclusion

VantageScore greatly appreciates the opportunity to comment in response to the SEC's proposed rules to increase investor protections in asset-backed securities. We applaud the SEC for undertaking this important effort to provide greater transparency in the marketplace. And, more specifically, we applaud the Agency's decision to require the disclosure of credit scores on a loan-level basis to investors. As noted above, however, we caution the Agency against taking any steps that would give one brand a significant competitive advantage due to a government endorsement which would serve to lock out any other model from this market.

We believe VantageScore is uniquely situated to assist the Commission with this rule making and we welcome any opportunity to work with the commission to achieve its goals.

Respectfully,

Barrett Burns

[14] 75 Fed. Reg. 23,343 (May 3, 2010).

ATTACHMENT "A"
Schedule L

Table 1

Proposed Item No.	Proposed Title and Definition	Proposed Response	Proposed Category of Information
Loan Type: Residential Mortgages, Automobile Loans, Automobile Leases, Student Loans			
Item __(c)(1)	Obligor credit score type. Specify the type of the standardized credit score used to evaluate the obligor.	Text	General information about the obligor
Item __ (c)(2)	Obligor credit score. Provide the standardized credit score of the obligor. If the credit score type is FICO, skip to Item 2(c)(3)	Text or Number	General information about the obligor
Item __ (c)(3)	Obligor FICO score. If the obligor credit score type is FICO, provide the standardized FICO Credit score of the obligor	1 = up to 499 2 = 500 – 549 3 = 550 – 599 4 = 600 – 649 5 = 650 – 699 6 = 700 – 749 7 = 750 – 799 8 = 800+	General information about the obligor
Item __ (c)(4)	Co-Obligor credit score type. Specify the type of the standardized credit score used to evaluate the obligor.	Text	General information about the co-obligor
Item __ (c)(5)	Co-Obligor credit score. Provide the standardized credit score of the obligor. If the credit score type is FICO, skip to Item 2(c)(3)	Text or Number	General information about the co-obligor
Item __ (c)(6)	Co-Obligor FICO score. If the obligor credit score type is FICO, provide the standardized FICO Credit score of the obligor	1 = up to 499 2 = 500 – 549 3 = 550 – 599 4 = 600 – 649 5 = 650 – 699 6 = 700 – 749 7 = 750 – 799 8 = 800+	General information about the co-obligor

Table 2

Proposed Item No.	Proposed Title and Definition	Proposed Response	Proposed Category of Information
Loan Type: Residential Mortgages, Automobile Loans, Automobile Leases, Student Loans			
Item __(c)(1)	Obligor credit score type. Specify the type of the standardized credit score used to evaluate the obligor.	Text	General information about the obligor
Item __ (c)(2)	Obligor default propensity. Provide the propensity to be 90 days in default.	Text or Number	General information about the obligor
Item __ (c)(4)	Co-Obligor credit score type. Specify the type of the standardized credit score used to evaluate the obligor.	Text	General information about the co-obligor
Item __ (c)(5)	Co-Obligor default propensity. Provide the propensity to be 90 days in default.	Text or Number	General information about the co-obligor

ATTACHMENT "B"

Table 1

Grouped Account Data Line Number	Credit Score	Days Payment is Past Due	Account Age	Top 10 States	Adjustable Rate Index
1	Less than 500	Current	Less than 12 months	AK	Fixed
2	500-549	< 30 days	12-24 months	AL	Prime
3	550-599	30-59 days	24-36 months	AR	Other
4	600-649	60-89 days	36-48 months	AZ	Fixed
5	650-699	90-119 days	48-60 months	CA	Prime
6	700-749	120-149 days	Over 60 months	CO	Other
7	750-799	150-179 days	Less than 12 months	CT	Fixed
8	800 and over	180+ days	12-24 months	DE	Prime
9	Less than 500	< 30 days	24-36 months	DC	Other
10	500-549	30-59 days	36-48 months	FL	Fixed
11	550-599	60-89 days	48-60 months	Other	Prime
12	600-649	90-119 days	Over 60 months	AK	Other
13	650-699	120-149 days	Less than 12 months	AL	Fixed
14	700-749	150-179 days	12-24 months	AR	Prime
15	750-799	180+ days	24-36 months	AZ	Other
16	800 and over	Current	36-48 months	CA	Fixed

Table 2

Grouped Account Data Line Number	Default Propensity	Days Payment is Past Due	Account Age	Top 10 States	Adjustable Rate Index
1	> 50%	Current	Less than 12 months	AK	Fixed
2	50%	< 30 days	12-24 months	AL	Prime
3	35%	30-59 days	24-36 months	AR	Other
4	15%	60-89 days	36-48 months	AZ	Fixed
5	8%	90-119 days	48-60 months	CA	Prime
6	3%	120-149 days	Over 60 months	CO	Other
7	1.5%	150-179 days	Less than 12 months	CT	Fixed
8	.75%	180+ days	12-24 months	DE	Prime
9	> 50%	< 30 days	24-36 months	DC	Other
10	50%	30-59 days	36-48 months	FL	Fixed
11	35%	60-89 days	48-60 months	Other	Prime
12	15%	90-119 days	Over 60 months	AK	Other
13	8%	120-149 days	Less than 12 months	AL	Fixed

Grouped Account Data Line Number	Default Propensity	Days Payment is Past Due	Account Age	Top 10 States	Adjustable Rate Index
14	3%	150-179 days	12-24 months	AR	Prime
15	1.5%	180+ days	24-36 months	AZ	Other
16	.75%	Current	36-48 months	CA	Fixed

ATTACHMENT "C"

What those 3-digit numbers represent

90+ Days Past Due Rate

Interval	Score Range	Interval	Cumulative
1	**971-990**	0.06%	0.06%
2	**951-970**	0.04%	0.06%
3	**931-950**	0.09%	0.07%
4	**911-930**	0.11%	0.08%
5	**891-910**	0.16%	0.10%
6	**871-890**	0.23%	0.12%
7	**851-870**	0.29%	0.15%
8	**831-850**	0.44%	0.19%
9	**811-830**	0.69%	0.24%
10	**791-810**	0.83%	0.30%
11	**771-790**	1.27%	0.37%
12	**751-770**	1.77%	0.47%
13	**731-750**	2.48%	0.63%
14	**711-730**	3.44%	0.81%
15	**691-710**	5.09%	1.04%
16	**671-690**	**6.80%**	**1.31%**
17	**651-670**	9.68%	1.64%
18	**631-650**	12.92%	2.04%
19	**611-630**	16.53%	2.51%
20	**591-610**	21.03%	3.00%
21	**571-590**	27.25%	3.53%
22	**551-570**	34.23%	4.02%
23	**531-550**	39.75%	4.41%
24	**501-530**	52.80%	5.06%

How to read:

An individual consumer with a score of **671** with a **real estate loan** has a predicted 90+ day past due rate of **6.80%.**

The cumulative population of all consumers with scores of **671** or greater with **real estate loans** has a predicted 90+ day past due rate of **1.31%**

VANTAGESCORE

Impact to Portfolio Risk from consumer credit defaults over the last six years suggests lenders should carefully review strategies

New Accounts - 90+ Days Past Due Rates: All Industries

8%
7%
6%
5%
4%
3%
2%
1%
0%

Cumulative 90+days past due Default Rate

VantageScore Credit Tiers

Jun03Jun05 Jun04Jun06 Jun05Jun07 Jun06Jun08 Jun07Jun09

- Lenders using a 1% default strategy in 2003 would have set a cutoff of 750 for a VantageScore credit score (solid red arrow).
- In 2009, the same score cutoff would have resulted in a 2.5% default scenario (dashed red arrow).
- To maintain 1%, lenders would need to move the cutoff to VantageScore 850 (blue arrow). The full VantageScore scale is 501-990.