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

Attention: Docket No. OP-1278

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

Attention: Docket No. OCC-2007-0005

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

Attention: Comments, FDIC

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

Attention: Docket No. 2007-09

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Attention: Experian's Comments Regarding Proposed Statement on Subprime Mortgage Lending

Re: Proposed Statement on Subprime Mortgage Lending (72 Fed. Reg. 45, 10533 March 8, 2007)

Ladies and Gentlemen:

Experian would like to thank the agencies for the opportunity to comment on this Proposed Statement on Subprime Mortgage Lending. At this tumultuous time in the subprime marketplace, we commend the Agencies' efforts to approach any regulation in a timely and thoughtful manner. At this time, we respectfully submit the following comments:

- *Update Subprime Lending Guidance to Encompass All Scoring Models*- As written in the 2001 Expanded Guidance for Subprime Lending, and referred to in the current Proposed

Statement, the definition of subprime has consistently referred to a single FICO scoring model that does not represent the full range of scoring options available, or necessarily the best scoring option for subprime consumers. A new statement on subprime mortgage lending should correct this long-standing problem, which appears to endorse one model over others.

- *Lenders Should be Using Scoring Models Tailored to Controlling Risk in the Subprime Market* – New technology has led to more precise scoring models in the subprime market. Credit scoring models designed specifically for subprime consumers can provide lenders with a reduced level of risk, and open up new capital for qualified subprime borrowers.
- *Use of Alternative Data Could Help Many Emerging Consumers* – Encouraging utility and telecommunications providers to share payment history information with the credit bureaus would help many emerging consumers to gain access to affordable credit.

Proposed Guidelines Should Be Expanded to Include All Scoring Models

Any proposed guidelines should be expanded to include all possible scoring models that could be used to score subprime borrowers. As currently defined in the Agencies 2001 Expanded Guidance for Subprime Lending, a key characteristic of a "subprime" borrower is a borrower with a FICO score of 660 or below.[1] Experian-Scorex (wholly owned by Experian), has commented on this specific reference to use of a FICO score as a subprime characteristic.[2]

We believe that the reference to a FICO score has had the unintended consequence of causing many lending institutions to believe that the Agencies' reference to the FICO score meant that only the use of a FICO score would meet regulatory requirements. This misperception, although unintentional, has led to the rise of unfair barriers to market competition and is detrimental to consumers and lending institutions alike.

While the Agencies made it clear that they did not endorse any particular scoring model[3] this lingering reference to the use of a FICO score has proven to be a detriment to other credit scoring models that could provide competition to FICO, and that could also prove to be superior in scoring subprime consumers.

In the current Proposed Statement on Subprime Mortgage Lending, the definition of "subprime"[4] continues to refer to the definition provided in the 2001 Expanded Guidance for Subprime

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[1] On page 3 of the 2001 Expanded Guidance for Subprime Lending, a subprime borrower was defined as one that will display a list of risk characteristics, including "a credit bureau risk score (FICO) of 660 or below."
[2] In a letter dated 01/24//05, Experian-Scorex President Walt Ramsey addressed this issue in correspondence to the FFIEC, the Federal Reserve Board, the FDIC and the OCC.
[3] In a letter dated 03/17/05 to Experian-Scorex President Walt Ramsey, the Agencies stated that they "do not endorse any particular scoring model" and "financial institutions should conduct appropriate due diligence when selecting analytical tools used to measure, monitor, and manage credit risk."
[4] 72 Fed. Reg. 45, 10534, Part II, Line 4.

Lending. We would ask that this definition be amended to reflect the original intention of the Agencies, in that one credit risk characteristic of a subprime borrower would include a "relatively high default probability as evidenced by, for example, a credit risk score which indicates a high default probability," omitting any reference to a particular credit scoring model or cut-off range.

Advances in scoring technology have continued to increase the effectiveness of credit bureau scoring in predicting risk. Unfortunately, the Agencies' unintentional inclusion of the "FICO 660" reference has led many lenders to believe that this is the only acceptable score that meets regulatory requirements, and has inhibited further competition in the credit scoring market.

Lenders Should be Using Scoring Models Tailored to Controlling Risk in the Subprime Market

In scoring subprime borrowers, the traditional "one-size-fits-all" credit scoring model is neither appropriate nor an accurate reflection of a borrower's creditworthiness. Advances in credit scoring technology have led to new scoring models that can accurately score more "thin-file" borrowers, oftentimes moving such borrowers from the subprime to prime categories.

While exact statistics are difficult to obtain, the general industry consensus is that there are as many as 35 to 50 million Americans who do not have enough information in their credit histories to make them scoreable in most credit reporting models. These are oftentimes individuals that do not have lengthy credit histories for various reasons, including: they could be newly arrived immigrants, recently divorced individuals who did not have credit in their own name, young adults starting out new careers or even people who traditionally have chosen to manage their finances on a cash-only basis. Contrary to popular perception, these are not individuals with blemished credit histories, they are simply individuals with little credit history.

One question posed in the Proposed Statement has been whether or not the proposed qualification standards are likely to result in fewer borrowers qualifying for the type of subprime loans addressed in the Statement.[5] If lenders were encouraged to use scoring models more suited for specifically scoring "subprime" borrowers, many former "subprime" borrowers would likely qualify for prime rates.

If substandard lending practices at the loan origination level are truly the crux of the current foreclosure crisis, then encouraging lenders to use scoring models more suited for their borrowers would be the first step in preventing future foreclosures.

Use of Alternative Data Could Help Many "Emerging" Consumers

New credit scoring models have the ability to incorporate previously unavailable data such as utilities and telecommunications payment histories. These kinds of data-intensive scoring models could help move millions of Americans who have been routinely categorized as subprime

[5] 72 Fed. Reg. 45, 10536, Part III, Question 1.

borrowers into mainstream borrowers, making them eligible for less risky products and repayment terms.

A recent study by the Brookings Institution's Urban Markets Initiative found that those outside the credit mainstream (a category into which many subprime borrowers fall) have similar risk profiles as those in the mainstream when including nontraditional data in credit assessments.[6] The same study also found that minorities and the poor benefit the most from the inclusion of nontraditional data sources. In the same study, research showed that using VantageScore and including utility payment data produced a greater lift in scoring previously unscoreable consumers.[7]

About VantageScore

VantageScore is an innovative consumer credit risk score developed by the nation's three largest credit reporting companies, Experian, Equifax and TransUnion. VantageScore reduces credit score variances between the three bureaus by using a constant scoring methodology, producing one consistent score. In addition to providing much-needed consistency, VantageScore has proven to be particularly valuable in producing an accurate score for "emerging" consumers, which includes persons who are establishing credit for the first time, and infrequent credit users.

Consumers with these credit characteristics often fall into the "subprime" category, and subsequently receive higher interest rates and terms than prime consumers. However, in a recent study conducted by Experian[8], using VantageScore to score so-called "subprime" consumers resulted in a significant lift in moving formerly subprime consumers into prime lending categories.

VantageScore is proving to be a successful way of improving accuracy in scoring consumers. Due to its unique scoring methodology, VantageScore is able to effectively score consumers with little credit history or dormant credit activity. Additionally, VantageScore employs a unique segmentation approach that allows lenders the opportunity to refine their risk management strategies for the lower score ranges, while at the same time avoiding a risk policy that is too narrow in its approach and shuts out otherwise good credit risks.[9]

Conclusion

We would like to thank the Agencies for the opportunity to comment on the Proposed Statement on Subprime Mortgage Lending. We understand, and share, the Agencies' goal of ensuring that

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[6] *Give Credit Where Credit is Due: Increasing Access to Affordable Mainstream Credit When Using Alternative Data* by Michael A. Turner, Alyssa Stewart Lee, Ann Schnare, Robin Varghese, and Patrick D. Walker, December 2006 (http://www.brookings.edu/metro/umi/pubs/20061218_givecredit.htm).

[7] Id., page 25.

[8] See attached, "VantageScore Addresses Deficiencies in Traditional Scores in the Subprime Consumer Sector."

[9] In attached study, Experian found that while analyzing subprime mortgage consumers using VantageScore vs. a traditional credit score model, approximately 20 percent of those consumers originally classified as subprime were re-classified into lower risk categories using VantageScore.

American consumers have access to credit opportunities, while at the same time maintaining vigilance against unscrupulous lenders.

We strongly believe that credit scoring technology has advanced to a point where potential borrowers can be more accurately scored, and new credit opportunities can open up when borrowers are scored using the proper model. We ask that the Agencies encourage lenders, rating agencies and the securitization market to embrace these new credit scoring models designed for "subprime" borrowers, both to help control risk in the marketplace, and to open up new credit opportunities for the millions of Americans who deserve them.

Sincerely,

G Kearns

Gary Kearns,
President, Experian-Scorex