

FEDERAL TRADE COMMISSION

RIN [3084-AA94]

Public Comment on Data, Studies, or Other Evidence Related to the Effects of Credit Scores and Credit-Based Insurance Scores on the Availability and Affordability of Financial Products

AGENCY: Federal Trade Commission

ACTION: Notice and request for public comment.

SUMMARY: The Fair and Accurate Credit Transactions Act of 2003 (“FACT Act” or “Act”) requires the Federal Trade Commission (“FTC” or “Commission”) and the Federal Reserve Board (“Board”) to conduct a study on the effects of credit scores and credit-based insurance scores on the availability and affordability of financial products. These products include credit cards, mortgages, auto loans, and property and casualty insurance. As part of its efforts to fulfill its obligations under the Act, the FTC seeks public comment on any evidence the FTC and the Board should consider in conducting the study.

DATES: Comments must be received by April 25, 2005.

ADDRESSES: Public comments are invited, and may be filed with the Commission in either paper or electronic form. Comments filed in paper form should refer to “FACT Act Scores Study” both in the text and on the envelope, to facilitate their organization, and should be mailed or delivered to: Federal Trade Commission/Office of the Secretary, Room H-159 (Annex Z), 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580. The FTC requests that any comment filed in paper form be sent by courier or overnight

service, if possible, because U.S. postal mail in the Washington area and at the Commission is subject to delay due to heightened security precautions.

Comments may be filed in electronic form by clicking on the following: <https://secure.commentworks.com/FTCCreditScoreStudy/> and following the instructions on the web-based form. If a comment contains confidential information, it must be filed in paper (rather than electronic) form, and the first page of the document must be clearly labeled “Confidential.”¹

To ensure that the Commission considers an electronic comment, you must file it on the web-based form at <https://secure.commentworks.com/FTCCreditScoreStudy/>. You also may visit <http://www.regulations.gov> to read this Notice, and may file an electronic comment through that website. The Commission will consider all comments that regulations.gov forwards to it.

The FTC Act and other laws the Commission administers permit the collection of public comments to consider and use in this proceeding as appropriate. All timely and responsive public comments, whether filed in paper or electronic form, will be considered by the Commission, and will be available to the public on the FTC Web site, to the extent practicable, at www.ftc.gov. As a matter of discretion, the FTC makes every effort to remove home contact information for individuals from the public comments it receives before placing those comments on the FTC Web site. More

¹ Commission Rule 4.2(d), 16 CFR 4.2(d). The comment must also be accompanied by an explicit request for confidential treatment, including the factual and legal basis for the request, and must identify the specific portions of the comment to be withheld from the public record. The request will be granted or denied by the Commission’s General Counsel, consistent with applicable law and the public interest. See Commission Rule 4.9(c), 16 CFR 4.9(c).

information, including routine uses permitted by the Privacy Act, may be found in the FTC's privacy policy, at <http://www.ftc.gov/ftc/privacy.htm>.

FOR FURTHER INFORMATION CONTACT: Jesse Leary, Deputy Assistant Director, (202) 326-3480, Division of Consumer Protection, Bureau of Economics, Federal Trade Commission, 600 Pennsylvania Avenue, N.W., Washington, DC 20580.

SUPPLEMENTARY INFORMATION:

I. Background

The FACT Act was signed into law on December 4, 2003. Fair and Accurate Credit Transactions Act of 2003, Pub. L. No. 108-159 (2003). In general, the Act amends the Fair Credit Reporting Act ("FCRA") to enhance the accuracy of consumer reports and to allow consumers to exercise greater control regarding the type and amount of marketing solicitations they receive. The Act contains a number of provisions intended to combat consumer fraud and related crimes, including identity theft, and to assist its victims. Finally, the Act requires that a number of studies be conducted on credit reporting and related issues.

Section 215 of the FACT Act requires the FTC and the Board, in consultation with the Office of Fair Housing and Equal Opportunity of the Department of Housing and Urban Development, to conduct a study on the effects of credit scores and credit-based insurance scores on the availability and affordability of financial products. These products include mortgages, auto loans, credit cards, and property and casualty insurance. Section 215 further requires the FTC and the Board to study: 1) "the statistical relationship, utilizing a multivariate analysis that controls for prohibited factors under the

Equal Credit Opportunity Act and other known risk factors, between credit scores and credit-based insurance scores and the quantifiable risks and actual losses;” and 2) “the extent to which, if any, the use of credit scoring models, credit scores, and credit-based insurance scores impact on the availability and affordability of credit to the extent information is currently available or is available through proxies, by geography, income, ethnicity, race, color, religion, national origin, age, sex, marital status, and creed, including the extent to which the consideration or lack of consideration of certain factors by credit scoring systems could result in negative or differential treatment of the protected classes, under the Equal Credit Opportunity Act, and the extent to which, if any, the use of underwriting systems relying on these models could achieve comparable results through the use of factors with less negative impact.”

The study is due on December 4, 2005.

II. Request for Comments

The Act requires the FTC to seek public input about “the prescribed methodology and research design of the study.” As part of its efforts to fulfill its obligations under the Act, the FTC, (in a *Federal Register* notice dated June 18, 2004, see 69 FR 34167) sought public comment on methodological aspects of the study. The FTC received comments in response to that notice, and the FTC and the Board are considering them as they conduct the study. In the present request, the FTC seeks comment on specific studies, data, or other evidence that might be useful for the study. Although we enumerate a set of questions below, we encourage commenters to provide information on any aspects of credit scores, credit-based insurance scores, and the effects of scores on

the relevant markets that would be useful to the study. In particular, the FTC seeks information that bears on the following questions:

A. Credit Scores and Credit:

1. Specifically, how are credit scoring models developed? Who develops credit scoring models? What data and methodologies are used to develop credit scoring models? What factors are used in credit scoring models? Why are those factors used? What other factors have been considered for use in credit scoring models, but are not used? Why are those other factors not used? Are there benefits or disadvantages, either to creditors or consumers, from the use of particular factors by credit scoring models?

2. How many different credit scoring models are in use today? What different types of general purpose or specialized credit scoring models are available? Who offers credit scores?

3. How are credit scores used? Who uses credit scores, and how widely are they used? How do they fit into the underwriting process for mortgages, auto loans, credit cards, and other credit products? For what purposes are credit scores used, other than the initial underwriting or pricing decision?

4. How has the use of credit scores changed over time? When were they first used for each type of financial product (credit cards, mortgages, auto loans, etc.)? How has their use expanded to encompass different groups of borrowers (e.g., lower income borrowers, urban/rural borrowers, borrowers with poor credit histories, borrowers with non-traditional credit histories)? If the use of credit scores has expanded to encompass

different groups of borrowers, how has this affected the price or availability of credit to those borrowers?

5. Has the use of credit scores affected the price and availability of mortgages, auto loans, credit cards, or other credit products? If so, are there estimates of the type and size of such changes? Have some groups of consumers experienced cost reductions while others have experienced cost increases? Have some groups of consumers experienced greater access to credit while others have experienced reduced access?

6. Has the use of credit scores affected the amount of credit made available to consumers? Has it affected initial loan-to-value ratios at which auto loans or mortgages (first- or second-lien) are originated to different groups of borrowers? Has it affected credit limits on credit cards and home equity lines of credit for different groups of borrowers?

7. How has the use of credit scores affected the costs of underwriting and/or the time needed to underwrite?

8. What impact has the use of credit scores had on the accuracy of underwriting decisions? What impact has the use of credit scores had on the share of applicants that are approved for mortgages, auto loans, credit cards, or other credit products? What impact has the use of credit scores had on the default rates of mortgages, auto loans, credit cards, or other credit products? Have the sizes of such changes or effects been estimated and reported?

9. Has the use of credit scores affected the cost and availability of credit to consumers with poor credit histories? If so, how? What effect has it had on the use of credit by consumers with poor credit histories?

10. How has the use of credit scores affected the cost and availability of credit to consumers with no credit history? What effect has it had on the use of credit by consumers with no credit history?

11. How has the use of credit scores affected refinancing behavior for mortgage, auto, or student loans? How has it affected the average life of revolving lines of credit (including credit cards)?

12. Has the use of credit scores and credit scoring models impacted the availability or cost of credit to consumers by geography, income, ethnicity, race, color, religion, national origin, age, sex, marital status, or creed? If so, how has it impacted each such category? What are the estimated sizes of any such changes for each of the above categories?

13. To what extent does consideration or lack of consideration of certain factors by credit scoring systems result in negative or differential treatment of those categories of consumers who are protected under the Equal Credit Opportunity Act (“ECOA”) (e.g., race, color, religion, national origin, sex, age, and marital status)?

14. To what extent, if any, could the use of underwriting systems that rely on scoring models achieve comparable results through the use of factors with less negative impact on those categories of consumers who are protected under the ECOA?

15. What steps, if any, do score developers, lenders, or other users of credit scores take to ensure that the use of credit scores does not result in negative or differential treatment of protected categories of consumers under the ECOA? Have score developers, lenders, or other users of credit scores changed the way credit scores are developed or used in order to avoid negative or differential treatment of protected categories of consumers under the ECOA? Are any particular credit history factors not used because of actual or potential negative or differential treatment of protected categories of consumers under the ECOA? If so, what are they?

16. Has the use of credit scores caused a change in the rate of home ownership? What is the estimated size of such a change?

17. Has the use of credit scores caused a change in the method and amount of pre-screening consumers for credit offers? What effects has this had on the terms offered to consumers?

18. What specific role do credit scores play in granting “instant credit?” What impact have credit scores had on the availability and use of instant credit?

19. How has the use of credit scores affected companies' ability to enter new lines of business or expand activities in the various credit industries?

20. What role does credit scoring play in secondary market activities? In what ways has the availability of credit scores affected the development of the secondary market for credit products? Has the use of credit scoring increased or decreased creditors' access to capital? In what ways?

21. How are credit scores used to manage existing credit accounts, such as credit card accounts? How has the use of credit scores affected the way credit accounts are managed? How are credit scores used in the servicing of mortgages, and how has the use of credit scores affected the way mortgages are serviced?

22. How are records of inquiries used by credit scoring systems? Does concern about the possible effects on their credit scores affect consumers' credit-shopping behavior? If so, what impact does this have on the consumers or on competition in the various credit markets?

23. How does the use of credit scores affect consumers with inaccurate information on their credit reports? How does the use of credit scores affect consumers who have been the victims of identity theft?

24. Are there particular forms of inaccuracy or incompleteness in the credit reporting system, such as incomplete reporting by creditors, that affect either the usefulness of credit scores to lenders or the benefits or disadvantages of scoring to consumers? What are those types of inaccuracies or incompleteness? How do they affect the usefulness of credit scores to lenders or the benefits or disadvantages of scoring to consumers?

B. Credit-Based Insurance Scores and Property and Casualty Insurance:

1. Specifically, how are credit-based insurance scoring models developed? Who develops credit-based insurance scoring models? What data and methodologies are used to develop credit-based insurance scoring models? What factors are used in credit-based insurance scoring models? Why are those factors used? What other factors have

been considered for use in credit-based insurance scoring models, but are not used? Why are those other factors not used? Are there benefits or disadvantages, either to insurers or consumers, from the use of particular factors by credit-based insurance scoring models?

2. How many different credit-based insurance scoring models are in use today? Who offers credit-based insurance scores?

3. How are credit-based insurance scores used? Who uses credit-based insurance scores, and how widely are they used? How do they fit into the underwriting and rating process for automobile and homeowners insurance?

4. Has the use of credit-based insurance scores affected the price and availability of automobile and homeowners insurance? We are especially interested in evidence containing estimates of the size of such changes. Have some groups of consumers experienced cost reductions while others have experienced cost increases? If so, which consumers have experienced reductions and which have experienced increases, and what are the magnitudes of those changes? Have some consumers experienced dramatic increases in their insurance premiums, solely as the result of the introduction of credit-based insurance scoring? If so, what has been the impact of this rise in premiums on these consumers?

5. How has the use of credit-based insurance scores affected the costs of underwriting and rating and/or the time needed to underwrite and rate?

6. How has the use of credit-based insurance scores affected the accuracy of underwriting and rating decisions? Have the sizes of such changes been estimated and reported?

7. Has the use of credit-based insurance scores affected the amount of automobile or homeowners insurance purchased by consumers? Has it affected the limits or deductibles that consumers select when purchasing automobile or homeowners insurance? Has it affected the number of drivers who drive without insurance? Has it affected the number of homeowners that have no homeowners insurance? What are the estimated sizes of such changes?

8. How has the use of credit-based insurance scores affected the cost and availability of automobile or homeowners insurance to consumers with poor credit histories? What effect has it had on the purchasing of automobile or homeowners insurance by consumers with poor credit histories?

9. Has the use of credit-based insurance scores affected the cost and availability of automobile or homeowners insurance to consumers with no credit history? If so, how? What effect has it had on the purchasing of automobile or homeowners insurance by consumers with no credit histories?

10. How has the use of credit-based insurance scores impacted the availability or cost of insurance to consumers by geography, income, ethnicity, race, color, religion, national origin, age, sex, marital status, or creed? What are the estimated sizes of such changes for each of the above categories?

11. To what extent does consideration or lack of consideration of certain factors by credit-based insurance scoring systems result in negative or differential treatment of protected classes of consumers, that is, the same categories of consumers

against whom discrimination is prohibited under the ECOA (e.g. race, color, religion, national origin, sex, age, and marital status)?

12. To what extent, if any, could the use of underwriting systems relying on credit-based insurance scoring models achieve comparable results through the use of factors with less negative impact on consumers in the ECOA protected categories?

13. What steps, if any, do score developers or insurance companies take to ensure that the use of credit-based insurance scores does not result in negative or differential treatment of protected categories of consumers listed in the ECOA? Have score developers or insurance companies changed the way credit-based insurance scores are developed or used in order to avoid negative or differential treatment of protected categories of consumers listed in the ECOA? Are any particular credit history factors not used because of actual or potential negative or differential treatment of protected categories of consumers listed in the ECOA? If so, what are they?

14. Has the use of credit-based insurance scores caused a change in the method and amount of pre-screening consumers for insurance offers? What effects has this had on the terms offered to consumers?

15. How has the use of credit-based insurance scores affected companies' ability to enter new lines of the automobile or homeowners insurance business?

16. If the use of credit-based insurance scores has affected the costs individual consumers pay for insurance, has it (i) caused a change in the overall average cost of insurance for consumers?; (ii) changed the distribution of individual costs?; or (iii)

caused any other change in the costs to consumers? What are the magnitudes of any such changes?

17. Would an analysis of the share or number of consumers that purchase automobile or homeowners insurance from “involuntary,” “pooled risk,” “assigned risk,” or other types of insurance other than insurance offered on a voluntary basis by private insurers, be informative about the price and/or availability of automobile or homeowners insurance? Would an analysis of the share of drivers that drive without automobile insurance be informative about the price and/or availability of automobile insurance?

18. What impact, if any, does banning or limiting the use of particular underwriting or rating factors, such as gender, territory, or credit-based insurance score, have on the price or availability of automobile or homeowners insurance? Has the prohibition on the use of credit-based scores for insurance in particular states had any impact on the price or availability of automobile or homeowners insurance for consumers in those states? If so, what has that impact been? If the use of credit-based insurance scores was not allowed in additional states, what impact would this have on the price or availability of automobile or homeowners insurance? Are there, or would there be, any specific effects on those insurance consumers who are within protected categories listed in the ECOA?

19. How are records of inquiries used by credit-based insurance scoring systems? Does concern about the possible effects on their credit-based insurance scores affect consumers’ insurance-shopping behavior? If so, what impact does this have on competition in the insurance markets?

20. How does the use of credit-based insurance scores affect consumers with inaccurate information on their credit reports? How does the use of credit-based insurance scores affect consumers who have been the victims of identity theft?

21. Are there particular forms of inaccuracy or incompleteness in the credit reporting system, such as incomplete reporting by creditors, that affect either the usefulness of credit-based insurance scores to insurers or the benefits or disadvantages of scoring to consumers? What are those types of inaccuracies or incompleteness? How do they affect the usefulness of credit-based insurance scores to insurers or the benefits or disadvantages of scoring to consumers?

Authority: Sec. 112(b), Pub. L. 108-159, 117 Stat. 1956 (15 U.S.C. 1681c-1).

By direction of the Commission.

Donald S. Clark
Secretary