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April 25, 2005

By Electronic Delivery

Federal Trade Commission
Office of the Secretary
Room H-159 (Annex Z)
600 Pennsylvania Ave., N.W.
Washington, D.C. 20580

Re: FACT Act Scores Study

Ladies and Gentlemen:

This comment letter is submitted on behalf of Visa U.S.A. Inc. in response to the notice ("Notice") and request for public comment by the Federal Trade Commission ("FTC"), published in the Federal Register on February 28, 2005. Pursuant to the Fair and Accurate Credit Transactions Act of 2003, the Notice requests public comment to assist the FTC and the Board of Governors of the Federal Reserve System ("FRB") in conducting a study on the effects of credit scores and credit-based insurance scores on the availability and affordability of financial products. Visa appreciates the opportunity to comment on this important matter.

The Visa Payment System, of which Visa U.S.A.[1] is a part, is the largest consumer payment system, and the leading consumer e-commerce payment system, in the world, with more volume than all other major payment cards combined. For calendar year 2004, Visa U.S.A. card purchases exceeded a trillion dollars, with over 450 million Visa cards in circulation. Visa plays a pivotal role in advancing new payment products and technologies, including technology initiatives for protecting personal information and preventing identity theft and other fraud, for the benefit of Visa's member financial institutions and their hundreds of millions of cardholders.

COMMENTS ON CREDIT SCORING

A credit score provides a "snapshot" of the credit risk posed by a particular consumer. That is, a credit score predicts the likelihood, at the time the score is generated, that the consumer will become delinquent on one or more of his or her credit accounts within a certain period of time.

Credit scoring models are developed empirically and statistically to determine how predictive credit information is of future credit performance. These models are validated and

[1] Visa U.S.A. is a membership organization comprised of U.S. financial institutions licensed to use the Visa service marks in connection with payment systems.

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periodically revalidated using accepted statistical principles. Historical consumer report information, derived from empirical comparisons of sample groups of credit applicants, is statistically analyzed and compared to determine how predictive that data is of future credit performance. Credit scoring models, however, do not analyze or include factors prohibited by the Equal Credit Opportunity Act, including race, sex, marital status, national origin and religion.

Credit card issuers rely on credit scores, in conjunction with other information, such as consumer report and application information, to make prescreening, eligibility and other credit-related determinations. Visa believes that the widespread use of credit scoring by credit card issuers has transformed the market for consumer credit cards, allowing more consumers to obtain credit cards, at better rates and in less time, without increasing issuers' risk exposures. However, without credit scoring, the process of marketing and delivering credit card services to consumers, as we know it today, would deteriorate to the detriment of consumers. The availability of credit cards to consumers would decrease, and the costs of these cards would increase. In addition, the objectivity and consistency of issuers' eligibility determinations would decrease, and the time needed to make these determinations would increase. These effects would be felt most dramatically by those consumers operating at the margins, such as low-to-moderate income households.

Availability of Credit Cards

If credit card issuers did not use credit scores in making prescreening and eligibility determinations, Visa believes that many consumers would not be able to obtain credit cards. Without credit scoring, credit card issuers could not as effectively assess and differentiate the credit risks posed by consumers, and appropriately price credit cards to reflect those risks. As a result, many credit card issuers would reduce the amount of credit that they would extend in order to maintain existing default rates. For example, many consumers with negative factors in their credit histories would be declined because issuers would not be able to statistically weigh the positive factors in their credit histories against the negative factors and price the cards accordingly. In addition, credit card issuers simply would not be able to process as many applications for credit cards due to the additional time and resources required to manually review those applications.

Moreover, in order to maintain existing default rates, many credit card issuers would significantly decrease the amount of "firm offers" for credit cards that they would provide. Without credit scoring, credit card issuers would face greater risks that their firm offers would not be appropriately priced to reflect the credit risks posed by consumers. With less prescreening, the market for consumer credit cards would be less transparent and competitive. Credit cards would be more difficult for many consumers to obtain. In addition, many consumers would lose a valuable tool that they use to monitor their credit health and to alert them that inaccuracies may be included in their consumer reports, including inaccuracies related to identity theft. The decreased availability of credit cards would be felt most significantly by consumers at the margins because credit card issuers would have greater difficulties assessing their credit risks.[2]

Cost of Credit Cards

Visa believes that the cost of credit cards to all consumers would increase if credit card issuers did not use credit scores in making prescreening and eligibility determinations. Without credit scoring, the administrative costs of marketing to consumers, evaluating applications and managing existing accounts would increase. For example, to make eligibility determinations without credit scores, credit card issuers would have to obtain more information from applicants and other sources, and conduct detailed manual reviews of this information. This type of manual review would be costly, time consuming and less efficient. Similarly, the administrative costs associated with the manual review of existing credit card accounts would increase. In addition, requests for prescreened lists would be more difficult and costly for credit card issuers to make because issuers would have to spend more time and resources to determine the creditworthiness factors to include in those requests. These increased administrative costs would be passed on to consumers.

Moreover, without credit scoring, the risks associated with extending credit would increase. As noted above, credit card issuers could not as effectively assess and differentiate the credit risks posed by consumers and price credit cards to reflect those risks. As a result, the risks and costs associated with delinquent accounts could increase, unless issuers reduced the amount of credit that they extend. Credit card issuers likely would increase the rates on, or decrease the benefits associated with, their cards in order to compensate for the increased risks and costs. Moreover, many consumers would pay more for their credit cards because issuers would not be able to statistically weigh positive factors in their credit histories against negative factors, and price the cards accordingly.

Subjective and Inconsistent Eligibility Determinations

Visa believes that credit card issuers' eligibility determinations would be more subjective and less consistent if credit scoring was not used. In order to make eligibility determinations without credit scores, credit card issuers would obtain information from applicants and other sources, such as banks and employers. Issuers would manually review and analyze this information, and make judgmental eligibility determinations based on this information. These judgmental determinations would be more subjective because they would not be based on accepted statistical principles. In addition, unlike credit scores, issuers may not analyze identical information in the same manner consistently from applicant to applicant. If issuers' eligibility

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[2] FRB Chairman Greenspan recently noted that "[w]here once more-marginal applicants would simply have been denied credit, [the use of credit scoring has allowed lenders] to quite efficiently judge the risk posed by individual applicants and to price that risk appropriately." Remarks by Chairman Alan Greenspan at the Federal Reserve System's Fourth Annual Community Affairs Research Conference, Washington, D.C. (Apr. 8, 2005), *available at* http://www.federalreserve.gov/boarddocs/speeches/2005/20050408/default.htm.

determinations became more subjective and less consistent, many consumers could be harmed. Those consumers affected by these decisions may not be able to obtain credit cards or would have to pay more for those cards. In addition, more subjective and less consistent eligibility determinations in some instances could lead to potentially discriminatory results.

Availability of Instant Credit

Finally, Visa believes that credit card issuers may not be able to provide "instant credit" without credit scoring. That is, the ability to purchase goods at retailers by obtaining credit cards at the point-of-sale would be reduced significantly. As noted above, without credit scores, eligibility determinations would be more time consuming. The time that would be needed to gather information and manually review and analyze this information would not allow issuers to provide "instant credit" to many consumers. In addition, the risk of providing credit at the point-of-sale would increase because issuers would be less able to assess credit risk.

Visa appreciates the opportunity to comment on this important matter. If you have any questions concerning these comments, or if we may otherwise be of assistance in connection with this matter, please do not hesitate to contact me, at (415) 932-2178.

Sincerely,

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