April 25, 2005

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

Re: FACT Act Scores Study
RIN [3084-AA94]

Dear Sir,

The National Association of Mortgage Brokers ("NAMB") appreciates the opportunity to respond to the notice and request of the Federal Trade Commission (FTC) and the Federal Reserve Board (Board) to provide comment to assist staff in preparing a study on the effects that credit scores and credit-based insurance scores have on the availability and affordability of various financial products and services, published February 25, 2005 ("Notice and Request for Comment").

NAMB is the only national trade association exclusively devoted to representing the mortgage brokerage industry. As the voice of mortgage brokers, NAMB speaks on behalf of more than 25,000 members in all 50 states and the District of Columbia. NAMB offers educational courses and certification programs to mortgage professionals to maintain their expertise. By adhering to a strict code of ethics and best lending practices, NAMB members guide consumers effortlessly through the mortgage loan origination process.

As way of background, mortgage brokers act as intermediaries between consumers and lenders when the borrower finances the purchase of a home or refinances an existing mortgage. A typical broker maintains business relationships with various lenders to provide consumers with numerous financing options. These partnerships allows the 44,000 mortgage brokerage companies employing over 360,000 employees in the United States to offer consumers the most competitive mortgage products available.

By offering consumers a variety of products, mortgage brokers can find loans for borrowers that match the financial needs of each customer. Mortgage brokers assist buyers with excellent credit histories in addition to those with less than perfect credit histories. The mortgage brokerage industry also helps borrowers with low-to-moderate incomes in finding access to the credit they need to secure the benefits of

homeownership. By advising homebuyers throughout the home financing process and delivering cost effective mortgages to consumers, mortgage brokers originate two out of every three residential loans in any given year. As the single largest group of loan originators, mortgage brokers undoubtedly have played a significant role in increasing the rate of homeownership in the United States to an all-time high of 69.2 percent.

The FTC and Board Commissioned Credit Score Study

Section 215 of the Fair and Accurate Credit Transactions Act ("FACT Act"), which amended the Fair Credit Reporting Act ("FCRA") in 2003, requires the FTC and the Board, in consultation with the Office of Fair Housing and Equal Opportunity ("OFHEO"), to conduct a study on the effects of credit scores and credit-based insurance scores on the availability and affordability of a variety of financial products and services. Specifically, Section 215 requires that the FTC and Board study:

- "the statistical relationship, using 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
- 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, 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 ECOA, 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."

We have organized our response in the same manner as the questions presented in the Notice and Request for Comment. Where we feel our comments would be duplicative of a response provided to another question we have indicated that fact.

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?

The Fair Isaac Corporation ("Fair Isaac") introduced credit scores approximately 50 years ago. Since that time, credit scores have proven to be an invaluable tool for creditors who

can now make sound lending decisions quickly, inexpensively and objectively. Credit scores have taken the subjectivity out of the mortgage loan underwriting process as far as the determination of whether a consumer is credit-worthy based on a review of payment history and credit use.

Fair Isaac reviewed millions of consumer credit files, and applied mathematical tests to them, to determine what factors in a consumer's credit file were predictive of risk. Fair Isaac further refined their testing to determine which factors or collective groups of factors were predictive of risk when analyzing a credit file for a mortgage inquiry. There are many factors present in a consumer's credit file, such as payment amount, age, child support items, date of birth, or address to name a few, but none of these factors have any bearing on the assessment of risk as they do not provide any capability to predict whether a consumer is likely to repay his or her debts. Therefore these types of factors are not used in the calculation of a credit score.

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?

There are several different types of credit score in use today. Fair Isaac developed the Classic FICO base scores, which are used by most lenders today in underwriting their loan applications. In addition to the Classic FICO scores there are four other Industry specific scores – Auto, Bankcard, Installment and Personal Finance. Fair Isaac also developed a more comprehensive scoring model called Next Generation approximately 5 years ago, which as of today has still not been embraced by the government sponsored enterprises (GSEs) - Fannie Mae and Freddie Mac - and secondary market for the use in underwriting mortgage loans. In the last year, Fair Isaac has also developed an Expansion Credit Scoring model which will enable the consumer with what has been traditionally known as alternative credit to have that information compiled into a data base and then scored for risk of repayment. GSEs and the secondary market are analyzing this type of model as it obviously would open up the benefits of credit scoring and automated underwriting to a whole group of underserved immigrants wishing to become home owners here in their new homeland.

Lastly, there is another credit score in use today that is not developed by Fair Isaac, nor has it been tested and validated for its accuracy in predicting whether or not the consumer will repay his or her debt. This is a Bureau derived score created by TransUnion and Experian staff to mirror the Classic FICO scores as closely as they could guess that is being sold to consumers on the Bureaus' respective websites. The problem with these generalized "fake" scores is that the consumer sees nothing obvious on the website to indicate to them that there can be a significant difference in the score they are receiving from the Bureau website and the Classic FICO score that they would get from a specific Industry user's credit report and score. We have seen most of these generalized scores come in 35 to sometimes more than 100 points higher than the actual Classic FICO score delivered with the lender's credit report. This turn of events can be very disappointing and frustrating for the consumer and often times leads those to believe the lender did

something to the consumer's score just to charge him or her a higher rate, when in fact it's just the difference in scoring models and how it scores the same data. More disclosure needs to be present on the websites where these generalized scores are issued, so the consumer knows what the information is that he or she is receiving.

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?

Over the years, credit scoring has progressed from use by individual lenders within their business to now being used nationwide by lenders everywhere as an effective tool in analyzing a consumer's credit profile and predicting the likelihood that the consumer will repay the applied for loan. As a tool for measuring credit beyond unrelated consumer factors (such as race, gender or ethnicity), many creditors now defer to the credit score as an impartial indicator of an individual's credit worthiness.[1]

It should be clear that a credit score is only one piece of the underwriting process. Credit scores obtained through the use of an automated underwriting system ("AUS") are usually reviewed in conjunction with a number of other factors, or may not be used at all. For example, Fannie Mae does not use the credit score number in its AUS (*i.e.,* does not use a FICO credit score), but rather reviews the same credit data and through its own underwriting engine makes its own calculation regarding the risk the consumer's credit profile along with many other factors such as job stability, the amount of downpayment, the amount of reserves left in the bank after the transaction is closed, the type of property, the type of loan product and the overall amount of the loan as compared to the value of the property just to name a few to determine the risk of repayment or default by the consumer making the application. Fannie Mae uses the credit score when it is ready to sell the loan onto the secondary market as an indicator of risk that investors can review, but the FICO score is not used in the underwriting of the loan. The benefit to consumers that Fannie Mae's lack of use of the FICO score number in its automated underwriting system is that credit applications with low credit scores, but strong compensating factors, such as large amounts of reserves can still be approved for prime loans. Fannie Mae's system however does have a maximum ceiling on how high the percentage of income used to qualify for a loan can go.

This approach is unlike Freddie Mac's automated system's underwriting process. In Freddie Mac's automated system the Classic FICO score generated when the credit report is requested is used by Freddie Mac's underwriting engine to assess the credit worthiness portion of the file and it is then combined with all the same various factors regarding job stability, amount of downpayment, amount of reserves left in the bank after the close of the transaction, the type of loan product, the type of property, the value of the property among others that Fannie Mae utilizes to underwrite the file through its automated

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[1] Because creditors rely so heavily on the credit score as an impartial indicator of creditworthiness, it is critical that consumers understand how the credit reporting system operates and what factors impact their credit score and ability to secure affordable credit.

system. Within Freddie Mac's system where a loan file has a high FICO score and substantially low income the system can still approve the loan with other strong compensating factors. Once again the use of credit scores to better predict the likelihood the consumer will repay his or her debt has enabled Freddie Mac's automated underwriting system to issue initial and final approvals for loans that under manual underwriting might have been declined by the prime market.

Manual underwriters consider credit scores, if available, just like the automated underwriting systems when reviewing a credit file for approval; however the underwriting guidelines tend to be more stringent with a manually underwritten file than with the automated systems. The automated systems have proven to increase the number of consumers approved for home mortgage loans and have in tandem with credit scores been the single largest reason for the increase in homeownership across the country.

Credit scores clearly have expanded the size of funnel through which loans can be quickly identified, processed and approved. Fortunately, the streamlined process generated by the use of credit scores has reduced the segment of individuals that fall into the "shades of gray" area regarding qualification for a loan. For these borrowers, there are now more loan sources available than ever before and the terrain of obtaining a loan is less difficult to traverse.

Credit scores have made the mortgage market more transparent and accessible – increasing both the number of lenders and types of loan products available. Through the use of credit scores, the loan application and review process has become streamlined, saving consumers both money and time. Nevertheless, both the development and use of credit scores warrants continued review and revision to ensure that it is a tool designed to make the loan application process as fair as possible.

We encourage the FTC to inquire about the use of credit scores from additional organizations, such as Fannie Mae and Freddie Mac that are in a better position to discuss their purpose from a secondary market perspective, and those organizations that are in a better position to discuss their purpose in both the primary and secondary market.

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?

Credit scores were first used in the 1950s for department store lending and credit. Credit scores were then used in the early 1980s (perhaps around 1983) to make auto loans. Finally, in the mid to late 1980s and early 1990s, lenders began to use credit scores to evaluate mortgage loan applications in their back operations. By 1994, Fannie Mae and Freddie Mac began to use credit scores in pilot programs with a few lenders to facilitate

their new automated underwriting systems, as did the Wall Street Conduits in underwriting the Home Equity Lines of Credit (HELOCS) they offered. In fact, in 1995, the GSEs added the use of credit scores to their underwriting guides, and in September of 1995 the mortgage brokerage industry began to use credit scores.

The way that credit scores are used has changed over the years. Hindsight reveals that credit scores have greatly expanded the risk assessment zone so that there is greater tolerance for risk today than 40 years ago. This expanded risk tolerance zone has proven quite beneficial for many different types of borrowers who, without the advent and extensive use of credit scoring, could not obtain a loan. Credit scores enable lenders to make safe and sound credit decisions quickly in a lower-cost structure, which has expanded the amount of affordable credit made available to consumers, especially for low and moderate-income consumers. To this end, credit scores have had a direct impact on lowering the barriers to homeownership.

The use of credit scores has led to the development of numerous loan products, giving more consumers the ability to choose from the widest variety of credit products available. This increased availability of credit products is directly linked to the security that investors have about the accuracy of the credit score to predict future payment performance on a mortgage.

Nontraditional credit history borrowers were stuck in a manual underwrite mode, and therefore, were subject to tighter lending guidelines. But use of credit scores has changed since its initial inception in the mortgage brokerage industry in 1995. Today, many loan investors have reduced their score criteria to accept more risk when they are underwriting these loans. As a direct result of lenders taking on greater levels of risk, lenders have been able to expand the array of loan products that they can offer, which in turn has enabled many more borrowers to achieve homeownership. In short, those borrowers with poor credit histories have many more loan options today.

Fair Isaac is attempting to give the nontraditional credit history borrowers additional avenues to loan products requiring credit scores by its development of the FICO Expansion score. This would create a score from a database of payday loans, landlord ratings, utility companies and the like. Fannie Mae and Freddie Mac are reviewing these scores and the related data currently in an effort to begin utilizing these Expansion scores in underwriting consumers that in the past did not have access to the more relaxed guidelines of the automated systems. This development would certainly add thousands of potential borrowers to the home loan process and continue to meet the needs of the vast immigrant population for homeownership.

Credit scores have also had a significant positive impact on the price and availability of credit to these borrowers. Credit scores have promoted objectivity and conformity and have led many more players into the mortgage industry. Because there is more credit available and greater competition, borrowers have enjoyed lower rates and lower fees during the loan application process. In addition, credit scores lightened the shades of gray between A paper and financial paper. Today, B paper exists where previously it did

not. Credit scores has opened up the lending market – before, if you did not qualify for A paper you would be forced to go to C level at tremendous cost. Today, however, there are different gradients and levels that you can succeed to when trying to qualify a borrower for a loan.

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?

Credit scores give investors an advance preview so that they are better able to anticipate, and predict, how a pool of loans will perform. This increased level of security and predictiveness on the part of investors has led to more uniform access to credit. The ability to predict with greater accuracy how likely an individual will pay on a loan also has significantly increased the availability of GSE loans in the conforming market. Today, borrowers do not have to be forced into the private subprime market, where loan products often have prepayment penalties, higher interest rates, etc. that reflect increased credit risks. Today, many more borrowers are able to obtain a GSE loan without a prepayment penalty and with little downpayment – a loan that would traditionally have gone into a FHA loan years ago.

We do not believe that there is any group of borrowers that today has reduced access to credit as compared to 10 years ago. The use of credit scoring models in its current format has only led to increased access to credit.

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?

Credit scores have not only increased the amount of credit and loan-to-value ratio to 100+ percent, but they have lowered the amount of downpayment necessary to obtain a loan. Credit scores have improved all credit categories for the consumer.

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

Credit scores have reduced overall loan costs substantially. Specifically, credit scores have lowered costs for all those underwriting because it has streamlined the process and reduced time. Underwriting a loan use to be a 2-3 week endeavor; today, in most instances, underwriting can be done in a matter of hours, or where manual underwriting is deemed necessary, in a matter of days. Credit scores have also increased compliance

with fair lending laws – better analysis of fair lending compliance is provided if controlling for credit worthiness.

In addition, subjectivity has been taken out of the underwriting review process because lenders are not looking at individuals per se, but rather reviewing "profiles" of loans. Only relevant information to the loan file is reviewed, not whether an individual belongs to a church, is married, has children, etc. For consumers, credit scores have improved fair lending practices and for lenders, it has both streamlined and standardized the underwriting process because it has taken out subjectivity.

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?

Evidence bears out that credit scores are accurate indicators of whether or not a loan will perform. As investors have gained comfort with the accuracy of the credit scores as predicators of default rates, the industry has seen downpayment requirements decrease to almost a non-existent state. Investors have realized that downpayments are not the best indicator of whether someone will default on a loan. Rather, it seems that credit scores are accurate in predicting a borrower's creditworthiness and as a result, the industry has seen lower default rates.

Again, we urge the FTC and Board to obtain clearer and well-defined data from pertinent organizations, such as Freddie Mac and Fannie Mae.

Questions 9 & 10

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?

Credit scores have had little impact on the ability of individuals with no credit history to obtain credit—the terrain is still quite difficult for these individuals to traverse because there are few, if any, lenders that will provide credit without any credit history. There is credit available for those with no credit history, but the options available are limited.

Fortunately today, there are few individuals who have no credit history. Rather, there are those who have nontraditional credit history demonstrated through rent payments, utility bills, etc., which creates a "nontraditional report" for brokers and lenders. These nontraditional credit histories, however, require manual underwriting. The manually

underwritten files, while more lenient, are not as lenient as AUS with the benefit of credit scores to aid in the predictive assessment of risk.

Fair Isaac currently has developed an Expansion Score model that would calculate a credit score using select nontraditional credit history items, such as payday loans. Once approved by the secondary market for use in underwriting many more consumers will have access to the benefits of automated underwriting.

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)?

The industry has seen a boon in refinancing of mortgages. Of course, interest rates over the past several years have been dropping. However, due to the use of credit scores and automated underwriting, many consumers have taken advantage of the streamlined methods available to of refinance their homes. With a high credit score and the fact that a consumer was not taking any of the equity out of his or her home, many consumers found that they did not have to provide a lot of paperwork and often they did not need an appraisal to complete the refinance to lower their existing interest rate or shorten the term of their existing loan.

A relatively new process in the mortgage industry is now occurring more often—many lenders are using "prescreened lists" to solicit consumers. It is known that the three national credit reporting agencies ("CRA") -- Experian, TransUnion and Equifax -- are selling prescreened lists of persons' names where a definer could be the persons' zip code, credit score and loan balance. For example, an entity could purchase a prescreened list from a national CRA and indicate that the CRA should pull any file [that has had active credit inquiries in the past 2 weeks] with the following characteristics: Washington D.C. zip code of 20006; a FICO of 700 or more; and a LTV of 80% or less. The entity can then use this list to target those consumers who have recently had mortgage inquiries into their credit file, thereby indicating that they are in the market for a loan or are considering refinancing a current loan.

This can be a positive thing for the consumer with added competition getting them a better interest rate, but too often the consumer is being contacted by a telemarketing division of a direct lender who may or may not ask all the right qualifying questions of the consumer to determine what loan product to offer that consumer for a refinance. In a marketplace where the interest rates are going down, a misstep on the part of the consumer can generally be fixed and no damage to his or her interest rate is caused. But in a marketplace where interest rates are on the rise, a miscue on the part of the consumer due to confusion about different loan products could cost them significant amounts of money.

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?

Credit scores have eliminated the subjectivity of the underwriting process. Of course, the underlying premise is that the automated underwriting systems are themselves not biased in any manner. Credit scores have a neutralizing impact on factors, such as geography, income, ethnicity, race, color, religion, national origin, age, sex, marital status and creed.

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)?

Again, credit scores have neutralized these factors and have substantially improved the underwriting process because it acts as a nonbiased and nonspecific identifier of a person's creditworthiness. The only information taken into account for a credit score are items deemed relevant to whether a person will perform on the loan.

Please also see response to Question 12.

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?

AUS using scoring models are less inclined to have a negative impact on those consumers who are protected under 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?

Developers of the credit scoring models do not use factors that would create differential treatment of protected categories of consumers under ECOA. The credit scoring models do not view one category of consumers more favorably or different than another – it simply sees "good payers" and "bad payers." If a customer is making timely payments and is self-disciplined with respect to use of credit, his or her credit score will be higher regardless of income, geography, or any other factor not relevant to creditworthiness.

It is known that Fair Isaac visits each of three major CRAs – Equifax, Experian, and TransUnion—to revalidate the credit scoring models used and that it constantly performs adjustments to ensure that the credit scoring models used by these CRAs are fair to all consumers. For example, the old credit scoring models used pre 1996 viewed an account notation of "management of credit counseling" in the same manners as a Chapter 13 bankruptcy. The model read this notation as negative even though it reflected a consumer who was proactive in managing and eliminating debt. Today, that same account notation has no impact on the credit score. Over the years, the developers have continued to fine tune the credit scoring models to reflect the economic and socially accepted practices of using credit so that the models remain current and accurate predictors of risk.

We urge the FTC and Board to inquire about the development process and the steps taken to ensure unbiased models are created from Fair Isaac.

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?

Yes, the use of credit scores has increased the rate of homeownership. The advent of automated underwriting due to the utilization of credit scores and its more relaxed underwriting criteria has enabled many more consumers to become homeowners. We would suggest that the FTC seek out those statistics from the Department of Housing and Urban Development, and possibly Fannie Mae and Freddie Mac.

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?

Yes, the use of credit scores has caused a change in the method and amount of pre-screening consumers for credit offers. Companies using pre-screened lists can be far more focused on the type of consumer they are choosing to market to due to credit scores today. It has narrowed the focus of their marketing dollars.

Please also see response to Question 11.

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?

Instant credit is not available in the mortgage finance industry.

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?

The use of credit scores has allowed companies to expand their consumer base through an expanded product line and not be restricted regionally or by neighborhood.

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?

Without doubt, the use of automated underwriting systems and credit scores has had a significant impact on the secondary market and its level of liquidity. We urge the FTC and Board to obtain detailed responses to these questions from relevant organizations, such as Fannie Mae, Freddie Mac, and private conduits.

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?

Credit card companies usually will review a customer's credit profile periodically to identify any item that would reflect an increase in risk and thereby, trigger an increase in interest rate to reflect such increased risk.

Servicing companies, especially those servicing subprime loans, also periodically review customers' credit profiles to obtain lead time on those loans that may become problematic and that may require more careful watching because they are at higher risk for default.

We urge the FTC and the Board to obtain detailed responses from private banking entities on these matters.

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?

Credit Scoring looks at inquiries in a consumer's credit file, but the inquiries have a very limited impact of less than 10% in the calculation of the weight of the score. In addition, many inquiries such as employer inquiries, promotional inquiries or consumer requested inquiries have no impact on the consumer's credit score at all.

Many consumers are under the impression that every time a lender runs a credit report, the inquiry causes the consumer's credit score to drop. This is an inaccurate assumption. Fair Isaac has, at the request of the mortgage brokerage industry and after further testing and validation, made some very beneficial changes to the original scoring models. The models now "De-duplicate" like inquiries made to a consumer's credit file within a 45 day period of time down to the impact of a single inquiry on the consumer's credit score. For instance, you could have 10 credit card inquiries to a consumers credit file in a 45 day period of time and they would have the impact of a single inquiry on the consumer's

credit score. You could have 200 mortgage inquiries to the consumer's credit file within a 45 day period of time and they to would be "De-duped" down to the impact of a single inquiry. In addition Fair Isaac added a 30-day mortgage or auto inquiry Buffer to the scoring models. The buffer essentially prevents any mortgage or auto inquiries made to the consumer's credit file within the 30 days prior to the lender's current mortgage inquiry from having any impact on the consumer's credit score at all, even though the other inquiries show for information purposes on the consumer's credit report. The De-duping and the 30 day buffer allow consumers to shop in a focused period of time as much as they like in the search of the most competitive pricing available on the loan products they may choose for their transaction.

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?

Inaccurately reported negative information can have a very detrimental impact on a consumer's credit score should the information fall within the top two reason codes disclosed with their credit report. Since the top two reason codes typically make up 65% of the weight of the total score the consumer's credit scores could be significantly lower than they should be and would seriously impact the consumer's ability to obtain affordable credit.

With respect to identity theft, the scoring model can only identify information in the credit file. If there is nothing to indicate identity theft; i.e. a fraud alert present in the file, the scoring model will score the file based on the information present at the time the credit report is requested.

Again, should the information created by the identity theft fall into the areas covered by the top two reason codes disclosed with the credit report, the negative impact to the scores could be significant which would have a very detrimental impact on the consumer's ability to obtain affordable credit.

Fortunately for consumers today, the FACT Act amendments to the Fair Credit Reporting Act have made it illegal for any company to report an account that has been created, modified or used due to an identity theft situation. Once the consumer files an identity theft report with the police and notifies the CRA, both the CRA and the creditor must block any transmission or updating of that credit file. In addition, any collection company that discovers that it has an account placed with it which is a result of identity theft must delete that account and modify the original creditor of the information.

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?

Inaccuracies tend to impact the credit scores more negatively than incomplete entries do. Fair Isaac has placed defaults in the scoring systems to ignore incomplete variables in the consumer's credit file when calculating the score.

Inaccuracies are far more serious. Examples would be: 1) When a company inaccurately reports the high credit limit or the highest credit limit as something lower than the actual maximum limit – this can artificially make the scoring model think the balances are at their maximum levels driving the consumer's credit score way down; 2) Errors in reporting an account as 30 days late when in fact it was not - if this late reporting was shown to be recent, again the credit score could drop significantly; 3) Collection accounts being sold from one company to another, showing new open dates for each instead of the original open date when the account was placed for collection – making the derog appear more recent than it actually is and driving the score down.

Obviously inaccurate scores, high or low, are useless to a lender and certainly could lead to a bad underwriting judgment. More often than not, all of those types of inaccuracies can make credit scores very negative for the consumer until corrected.

In early 1999, the CRAs introduced the rapid rescoring process whereby brokers and lenders could obtain written confirmation from the company reporting an inaccuracy about how the information should be modified to be reported accurately. Under the rapid rescore process, once the accurate information is provided to the reseller, typically within 48 hours for Experian & TransUnion and approximately 5 days for Equifax, the information is verified for accuracy by the reseller & then again by the CRA. Once confirmed accurate, the CRA modifies its stored data to read accurately. Verification that the information is correct is sent back to the reseller and the reseller confirms with the broker or lender that the file is ready to rescore. The broker/lender pulls a new credit report and the file is then rescored.

Rapid rescoring has proved invaluable for consumers who find themselves in a purchase contract with a relatively short closing time and the need to have corrections made to their credit file. Currently there appear to be efforts to eliminate rapid rescoring as the debate between the CRAs and the Resellers over who should pay fro the rescoring escalates. Eliminating this expedited service to brokers and lenders would be very detrimental to many consumers who find themselves the unfortunate victims of inaccurate credit reporting and low credit scores.

Of course, any report that is inaccurate or incomplete has an impact on how beneficial the credit scores can be. If the credit scoring models do not have a complete picture of that

consumer's credit profile at the time the credit report is requested, the credit scoring model can not properly access the credit risk the consumer's credit profile represents.

Credit-Based Insurance Scores and Property and Casualty Insurance

Low to moderate-income consumers trying to obtain insurance on a new home are, at times, negatively impacted by credit-based insurance models. It is difficult to quantify the impact that such models have on their ability to obtain insurance, but often it is an issues for consumers who are obtaining FHA or VA-approved loans. For example, there are instances where a borrower, who has been approved for a FHA or VA loan, is unable to purchase the home because he or she can not secure a home insurance policy on the property. The reason for insurance denial often has nothing to do with the borrower, but rather the fact that there have been previous claims filed with respect to the property. Inability to obtain the insurance due to previously filed claims keeps many of these borrowers from realizing the dream of homeownership.

Again, the various organizations that operate in the insurance industry are in the best position to provide staff with guidance on this important topic.

NAMB greatly appreciates your consideration of our comments. If you have any questions, please contact Roy DeLoach at 703-245-8035 or Nikita Pastor at 703-610-0205.

Sincerely,

/s/ Bob Armbruster

Bob Armbruster