VantageScore

August 5, 2022

Submitted Electronically to:

Board of Governors of the Federal Reserve System
Docket No. R-1769 and RIN 7100-AG29 (via regs.comments@federalreserve.gov)

Federal Deposit Insurance Corporation
RIN 3064-AF81(via comments@fdic.gov)

Office of the Comptroller of the Currency
Docket ID OCC-2022-0002 (via https://regulations.gov)

Re: Community Reinvestment Act

VantageScore Solutions, LLC ("VantageScore") appreciates the opportunity to comment on the Joint Notice of Proposed Rulemaking ("Proposal") released by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (together, referred to as "the agencies") regarding amendments to their regulations implementing the Community Reinvestment Act of 1977 ("CRA").

VantageScore credit scoring models have been very well received in the consumer lending marketplace and are widely viewed as highly predictive and inclusive. VantageScore Model 4.0 allows lenders to accurately assess an estimated 37 million more consumers than conventional scoring models without lenders having to loosen their credit quality standards to reach more consumers. More than 14.5 billion credit scores calculated with VantageScore's models were used in the twelve-month period from March 1, 2021 through February 28, 2022, including 2,625 financial institutions who used approximately 6.65 billion VantageScore credit scores.[1] Among the over 3,000 unique users of VantageScore credit scores are 9 of the top 10 banks, and 30 of the top 50 banks.[2]

In many respects, VantageScore's views are closely aligned with those of the agencies in the Proposal, particularly regarding the beneficial impact that key elements of CRA reform could have with the increased use of alternative credit scoring anticipated by the Proposal. As detailed in this letter, there are two focus areas where we feel VantageScore's perspective as a credit scoring model and data analytics company may provide helpful commentary to the agencies:

[1] Cosimo Schiavone and Michael Hepinstall, Oliver Wyman, 2022 VantageScore Market Study Report (2022); https://vantagescore.com/2022-market-adoption-study/#gf_10.
[2] Ibid.

(i) on Question 104 seeking feedback on whether additional categories of responsive credit products and programs should be included for qualitative consideration, VantageScore's response is in the affirmative and we ask the agencies to include the use of alternative credit scoring models as an additional category of responsive credit programs in the text of the pending final rule; and

(i) on Question 106 seeking feedback on whether special purpose credit programs should be included as an example of a loan product or program that facilitates consumer lending for low- to moderate-income individuals, VantageScore's response also is in the affirmative and we offer an example of how a carefully designed special purpose credit program using alternative credit scoring models, such as VantageScore Model 4.0, can help financial institutions achieve their CRA goals and build a more inclusive financial system.

About VantageScore

One of the primary reasons why VantageScore was established in 2006 was to develop a consumer credit scoring model that would be more predictive, score more consumers and be more inclusive than models then available. In pursuing that goal, for each generation of VantageScore model we built in the capacity to consider rent, utility and mobile phone payments when present in the credit files at each of the national credit reporting companies. Since building our first model 16 years ago, we have found such data to be useful in predicting consumer behaviors.

VantageScore has pursued the goal of scoring as many credit files as can responsibly and predictably be scored by leveraging new credit score modeling techniques and moving beyond legacy industry approaches to scoring. Our latest model, VantageScore 4.0, generates a score for approximately 96% of all credit eligible consumers in the United States.

For 16 years, millions of consumers who are unscoreable using conventional credit scoring models are now scoreable using VantageScore models.[3] Extensive and continued testing demonstrates that the scores assigned to these consumers using VantageScore credit scoring models are predictive. Tests utilizing VantageScore credit scoring models demonstrate that there is nearly an identical alignment of default rates between consumers with limited credit histories and consumers who have conventional credit behaviors falling into similar credit score ranges.

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[3] Conventional scoring models limit the size of the scoreable population by using minimum scoring criteria requiring consumers to have (i) at least one account to be open and reported to a credit reporting company for a period of six month or more and (ii) at least one account that has been reported to a credit reporting company within the past six months.

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VantageScore Model 4.0 allows lenders to accurately assess an estimated 37 million more consumers than conventional scoring models without lenders having to loosen their credit quality standards to reach more consumers. Among these 37 million additional scoreables, there are approximately 13 million consumers who have a VantageScore 4.0 credit score of 620 or above. Of those 13 million newly scoreable consumers, approximately 3.0 million are African Americans or Hispanic who are otherwise unable to obtain a conventional credit score. Given the heavy testing that the 2,625 financial institutions and their regulators perform on credit scoring models, those financial institutions would not have moved to using credit scores calculated with VantageScore if those scores were less predictive or inclusive than their incumbent models.

Responses to the Agencies' Feedback Requests on the Retail Services and Products Test

VantageScore applauds the agencies' consideration under the CRA's current Retail Lending Test of a financial institution's use of innovative or flexible lending practices in a manner that benefits low- and moderate-income consumers and thereby potentially enhances such institution's CRA performance (including lending practices that utilize alternative credit histories, such as rent and utility payments, though such lending practices are not required to achieve a specific CRA rating).[4]

Under the Proposal, the agencies would evaluate large banks (*i.e.*, those with assets of at least $2 billion) using the following four tests: Retail Lending Test, Retail Services and Products Test, Community Development Financing Test, and Community Development Services Test.

We offer the following insights and views on several questions in the Proposal concerning the evaluation of the responsiveness of credit products and programs to the needs of low- and moderate-income individuals as a second part of the Retail Services and Products Test. As proposed, this will be a change from the current CRA regulations which consider innovative and flexible retail lending practices under the Retail Lending Test.

Response to Question 104. Are there additional categories of responsive credit products and programs that should be included in the regulation for qualitative consideration?

As one category of responsive credit products or programs under the Retail Services and Products Test, the Proposal includes credit products and programs that facilitate mortgage and consumer lending targeted to low- or moderate-income borrowers. The agencies in the Proposal acknowledge low- or moderate-income consumers with limited conventional credit histories face challenges in obtaining access to credit. The Proposal lists consumer lending programs that utilize

[4] *See* Q&A § __.22(b)(5)-1; https://www.fdic.gov/resources/supervision-and-examinations/consumer-compliance-examination-manual/documents/11/xi-12-1.pdf.

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alternative credit histories in a manner that would benefit low- or moderate-income consumers, consistent with safe and sound underwriting practices, as an example of a responsive credit product or program that could be considered under the Retail Services and Products Test. Consistent with current guidance[5], the Proposal confirms that the use of alternative credit history with rent and utility payments may be used by a financial institution to supplement an assessment of the credit profile of low- and moderate-income borrowers.[6]

In response to Congressional requesters, the Government Accountability Office ("GAO") published a report in November 2021 that addresses several issues relevant to this rulemaking and appears to support the use of alternative data to facilitate mortgage and consumer lending targeted to low- or moderate-income borrowers.[7] Particularly noteworthy in the GAO's report is the following CRA discussion suggesting that the private sector has already successfully "piloted" the use of alternative data in mortgage lending:

> *"Use of alternative data in mortgage lending can also help lenders meet goals of the Community Reinvestment Act. Officials from the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency stated that using alternative data to establish a low- or moderate-income borrower's credit history for the purpose of extending mortgage credit may be considered an innovative practice in lending, which is a factor these agencies consider when issuing Community Reinvestment Act performance ratings. The National Community Reinvestment Coalition developed agreements with lenders to use rental and other Nontraditional payments in underwriting mortgages as a way to meet their Community Reinvestment Act goals."*[8]

In our view, the GAO commentary cited above would best accomplish the declared CRA goal of reaching low- and moderate-income consumers across all consumer lending products if the concept of alternative, more inclusive credit scoring models was specifically included in the text of the pending final rule pertaining to credit product and programs recognized at §__.23(c)(1). VantageScore believes the goals of CRA reform will be significantly advanced if the final rule provided a non-exclusive but illustrative list of credit products and programs that would facilitate

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[5] Q&A § __.22(b)(5)-1.

[6] Community Reinvestment Act, 87 Fed. Reg. 33884, at 33966 (June 3, 2022); https://www.govinfo.gov/content/pkg/FR-2022-06-03/pdf/2022-10111.pdf .

[7] GAO. (2021). Mortgage Lending: Use of Alternative Data Is Limited but Has Potential Benefits. (GAO Publication No. 22-104380). Washington, D.C.: U.S. Government Printing Office. https://www.gao.gov/assets/gao-22-104380.pdf.

[8] Ibid., 21. For an example of a financial institution's CRA plan that includes the use of alternative underwriting and credit scores, *see* Huntington Bank's 2020 Community Plan submitted as public exhibit 11 to Huntington Bank's Application to the OCC for Prior Approval to Merger with TCF National Bank dated January 11, 2021. https://www.regulations.gov/document/OCC-2021-0001-0001.

consumer lending to low- or moderate-income borrowers, including alternative credit scoring models such as VantageScore Model 4.0 that are recognized as being both more predictive and inclusive than conventional scoring models.

As mentioned above, VantageScore Model 4.0 scores an estimated 37 million consumer who cannot obtain a credit score when legacy, conventional scoring models are used (providing credit scores for the substantial majority of the "credit invisibles" referred to by CFPB in its *Credit Invisibles* report[9]). The use of alternative credit scoring models such as VantageScore Model 4.0 gives more consumers the opportunity to access sustainable, mainstream credit through responsive credit products and programs like those contemplated in the Proposal.

Response to Question 106. Should special purpose credit programs meeting the credit needs of a bank's assessment areas be included in the regulation as an example of loan product or program that facilitates home mortgage and consumer lending for low- and moderate-income individuals?

VantageScore's response is strongly in the affirmative. Special purpose credit programs ("SPCPs") will most certainly benefit individuals who are objectively creditworthy yet needlessly and unfairly have been denied access to credit for far too long because of government and/or private sector policies and/or practices that limit the measurements of creditworthiness that lenders are able to use.

When designed in a manner consistent with the Equal Credit Opportunity Act and Regulation B requirements and applicable safe and sound lending principles, SPCPs can play a significant role in building a more inclusive financial system. For example, SPCPs designed to use alternative credit scoring models can allow underserved consumers to bypass structural inequities, such as being credit invisible under conventional scoring models, and access credit on favorable terms.

Concluding Thoughts

VantageScore believes that financial institutions should be encouraged to utilize data and tools readily available to them to identify those geographic regions in their respective assessment areas where individuals historically have been denied access to credit for which they legitimately qualify. An example of one such tool is Inclusion360™, which is an open access, interactive analytics platform that enables any party to discover previously underserved consumers by

[9] *See* CFPB Office of Research, Data Point: *Credit Invisibles* (May 2015) at https://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

geographic region.[10] We intend for Inclusion360™ to be used by lenders and policy makers to pinpoint where financial inclusion opportunities exist using VantageScore credit scores.

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Thank you for the opportunity to comment and provide information about the qualitative considerations for evaluating retail lending products and programs under the Proposal. Please feel free to contact me (silvio@vantagescore.com) or our General Counsel and Head of Government Relations, Bill Sakkab (bill@vantagescore.com), if you have any questions.

Sincerely,

[redacted]

Silvio Tavares
President & CEO

[10] *See* https://vantagescore.com/press_releases/new-inclusion360-platform-launched-by-vantagescore-to-pinpoint-opportunities-for-financial-inclusion/. Inclusion360 is available at https://www.vantagescore.com/lenders/inclusion360/.