INDUSTRY SPOTLIGHT:

VantageScore 4.0 in the Mortgage Market

Addressing Concerns

Concern:
The Credit Reporting Companies (CRCs) jointly control all credit file data and the only competitor to FICO is jointly owned by those same CRCs.

- CRCs do not have unchecked pricing power. The status quo gives FICO unparalleled and highly controversial negotiating leverage with almost every participant in the mortgage industry. FICO currently has unchallenged pricing power.
- Just months after the FHFA committed to using FICO at least until the common securitization platform is fully launched (2019), FICO increased the price of its scores in the mortgage market.
- Sustainability is key to being a competitor in the consumer credit scoring industry. For 12 years VantageScore and FICO have competed openly outside of the mortgage industry without competitive concerns.
- Strong and sustainable ownership, that understands the marketplace, allows VantageScore to buck the status quo and enables the company to withstand long sales and economic cycles.
- While FICO still has a robust US Scores business, a 2018 report by Oliver Wyman found that VantageScore was used approximately 10.5 billion times during a 12-month period by more than 2,800 users.
- The Sherman, Clayton, and FTC Acts clearly proscribe any kind of price fixing.

Concern:
Competition could lead to a "race to the bottom"

- Under Sec. 310 of S. 2155 any scoring model used in the origination of loans sold to Fannie and/or Freddie must first meet a "validation and approval" process.
- Increased predictive performance is the "table stakes" for any new credit scoring model.
- Before any model is used, it will have to first pass rigorous testing and validation to ensure predictiveness and to address fair lending and model governance concerns (including those guided by FHFA and the GSEs).
- Scores are only used for initial mortgage product eligibility and pricing. Each consumer's full credit file, income, employment, DTI, down payment amount, and assets play an integral part of the mortgage underwriting process.
- "Ability to repay" rule prevents underwriting deterioration.
- By embracing outdated, exclusionary credit scoring models, the GSE's have "raced to the bottom" in terms of predictiveness in an otherwise limited scoreable population.