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Barrett Burns—President and CEO, VantageScore

Barrett Burns is president and chief executive officer (CEO) of VantageScore® Solutions LLC, Stamford, Connecticut, a company launched by the three major national credit-reporting companies—Equifax Inc., Atlanta; Experian Information Solutions, Costa Mesa, California; and TransUnion, Chicago—in 2006 to provide credit grantors a universal, highly predictive and consistent credit-scoring standard for the consumer credit markets.

The VantageScore service is independently marketed and sold separately through the three credit-reporting companies via licensing agreements with VantageScore Solutions.

Over the last three decades, Burns has held national and international risk, credit-management and executive business leadership positions at several of the nation's biggest financial services companies, including Ford Motor Credit Company, Dearborn, Michigan; Bank One, Chicago; and Citibank, New York.

Mortgage Banking recently interviewed Burns to discuss current trends and developments in the consumer credit markets in 2009.



super jumbos—go forward to the basics.

Then we have to make sure that the appropriate product is matched to the appropriate consumer. I also believe that licensing on a national basis is a very positive initiative for the people at the front end of the process—originators, mortgage brokers and so forth. I think that will put more

“Given the volatility in the economy right now, a model’s architecture has to reflect a very comprehensive understanding of today’s mortgage products and consumer behaviors.”

Q: *Within the last decade, as the model shifted more toward predominant or overwhelming reliance on credit scoring to make and approve loans, how do you account for the poor loan performance that’s resulted?*

A: I would say in large part that the criteria broke down. Having been a former lender and having been around the mortgage industry for a while, I don’t think it was the non-traditional mortgage products themselves that did the market in. I think it was the credit criteria and the target market that was selected for some of those products.

The second problem was understanding the secondary market. We overconsumed. Every time there’s a credit cycle, we tend to overconsume new products without totally understanding the risks.

So going forward, I think the secondary market will have to have a better understanding of these issues, plus improved disclosure for the consumer along with more prudent underwriting criteria, like underwriting at the fully indexed rate and full documentation and two appraisals on

discipline in the market.

There’s no one answer to this, but I think it’s a combination of factors.

Q: *Given how well entrenched Fair Isaac Corporation is in the credit-scoring space, how difficult is it to compete with Fair Isaac and the FICO® brand? How much progress has VantageScore made in penetrating the monopoly that Fair Isaac has enjoyed?*

A: I think one of the positive things we’re seeing in the marketplace is that lenders like choice and consumers like choice. I think there’s a great deal of confusion about credit scores on the consumer side, but it’s pretty obvious to us that lenders like choice because it always creates a better product—in our case, meaning the scoring industry and more predictive products. The market had really demanded models that were more predictive in scoring more people.

Q: *Given the widespread negative economic conditions, how can credit-scoring technology recalibrate scoring models to account for the times and separate the otherwise responsible consumer overwhelmed by circumstances from the perpetual bad-risk borrower?*

A: Given the volatility in the economy right now, a model’s architecture has to reflect a very comprehensive understanding of today’s mortgage products and consumer behaviors.



I don't think it was any accident that we were developed when we were—i.e., because the marketplace was noticing that consumer-debt levels were rising dramatically and a lot of non-traditional mortgage products were coming onto the marketplace that hadn't been taken into account with other models.

So the core of the models built before 2000 aren't as reflective of the circumstances. Our model was built in 2006 so we use data from 2003 to 2005, which was the period of extraordinary ramping up of the non-traditional [mortgage] products and consumer debt loads.

We were in a position to take the volatility of that into account when building the model. Of course, it's important to have what I call 'weapons-grade analytics' to [amplify] the power of the highly predictive model that was built in that time frame of new products coming on the marketplace and the debt loads ramping up dramatically.

But in a recessionary environment it does raise the issue that from the lenders' side, they've got to have a model that really is highly predictive both on the originations side and on the collections side to understand how the consumer is behaving through this.

On the consumers' side, with the contraction of credit it's more important than ever for a consumer to be recognized [for] how they are handling their credit. I think that goes to what the positive aspect of a credit score is.

Not many people talk about the positive aspect of it—that is, it gives consumers an incentive for those who want to have better loan terms by adopting better financial habits. So it's really critical to keep payments current through a recessionary period.

Again, I want to go back to the positive factor of a credit score that . . . recognizes people who want to get better terms because they behave better. It really goes to the heart of risk management—that is identifying people who are and are not managing their financial behavior properly.

Let's face it: Balance sheets are getting stressed and capital is getting stressed, so lenders really have to have an accurate portrayal of how a consumer is behaving.

Q: *Given the current market environment, what's your expectation for the mortgage industry's appetite for non-traditional mortgage products and for non-traditional credit reports during the coming year?*

A: I think that's two different things. I think it will contract back for a while to the traditional fixed-rate [mortgage] and to a handful of products. I think when the dust settles, that people will realize that it wasn't the product that was the problem but how the product was applied and underwritten.

There are lots of initiatives. For example, the American Securitization Forum [New York] is working on a major initiative to get more consistent data into the marketplace.

All those initiatives are going to help give a new birth to the secondary market. The secondary market has to come back for the obvious reason that there isn't enough capital being held by the lenders to support portfolioing all of the loans that need to be made in the United States.

On the non-traditional credit reports, our view is that more data is always good. The more data, the better. Secondly, I'd say that the market is big enough for lots of

approaches to gathering data, but here's the challenge. The challenge is how to automate these disparate data points and do a cohesive and rapid decisioning process. I'm a big believer in automated processes, for the simple reason that it drives down the cost of credit and therefore consumers have access to more cost-effective credit.

So the model needs to factor in these alternative data points. But that assumes that the data is reported into the consumer's credit file. If it is, and if the architecture of the model takes that into account—and ours does, by the way—that means that lenders don't have to loosen their risk standards to accommodate the financial behaviors of the thin-file consumers.

It's the thin-file consumer, it's the infrequent credit user, it's the new entrant who needs to have those other data points reported so they can get access to mainstream credit. So the challenge is to recognize the consumer who does use credit in non-historical patterns.

That was another reason for creating VantageScore—to recognize people who do use credit in non-historical patterns. There are a lot of ethnic groups, for example, who don't like to borrow money and they get penalized for being pretty prudent consumers by other models.

The first part of the challenge is to recognize [that] the consumer uses credit in non-traditional patterns. The second challenge is to build the history in the consumer credit file that can help the consumer move up the ladder so they feel confident they have a safety net and can have some credit out there.

It also goes to financial literacy. Does the consumer know what they are getting into? It also goes into many ethnic circles about building consumer self-esteem because so many—particularly first-generation Latinos, for example—distrust the credit process.

So if you can recognize how they are behaving—'they' meaning the three groups I've talked about, the thin-file, infrequent credit user and new entrant—if you can recognize they are behaving prudently, it goes right to building the consumer's self-esteem. If they go buy a home, for many of those constituents that's the biggest part of their net worth.

Q: *You've talked about how the market is in need of a scoring model to reach the unbanked or underbanked households. While there is no solid, agreed-upon figure, is there a working number of potential consumers as yet unreachd, as well as a typical profile of the underbanked?*

A: Well, it's all over the place. The Center for Financial Services Innovation [Chicago] has an estimated 40 million households, which translates to about 106 million adults. The number is big—and whether it's 40 million or, [as] some people say, as high as 70 million—it's a big number.

Q: *What is VantageScore's strategy to make credit scores available to this underutilized segment?*

A: It's a three-pronged strategy. One is to have created the algorithm to recognize their credit patterns and credit behaviors, so that's done. The next strategy is to convince lenders that it works, and so that's in the process of testing.

The third prong is to get acceptance in the secondary markets. There will be lots of niche players on scoring, on

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data gathering and so forth. But in our view, the needle really won't move in a material way until the secondary market recognizes—in our case, us—because that gives the underbanked and the underserved access to the capital markets.

[This] is really critical for these groups, because they can access credit and it increases affordability of available credit and it minimizes dislocations in the credit markets if we access the secondary market, and it relieves the pressure on the lenders' balance sheets and their capital constraints.

So our strategy is to get recognized by lenders—that's what the credit-reporting companies do on their side of the fence. Then we are working the secondary market pretty hard.

Q: Last fall, Fitch Ratings [New York] became the first rating agency to accept mortgage loans based on VantageScore credit scores. Can you explain the significance of Fitch's recognition, and do you expect other rating agencies to follow suit in 2009?

A: The significance of it is that without the rating agencies' understanding of our model, lenders will be precluded from using us. So it's critical to get recognized by rating agencies. Fitch went first, and there's another one that we'll be announcing within the next couple of months.

What Fitch has done is embed us in ResiLogic [Fitch's rating model for analyzing credit risk]. There's a FICO model and there's a VantageScore-based model, and they can recognize both of us. It's a big breakthrough.

[Fitch] did nine months' worth of testing and we really encouraged very detailed, extensive testing because the math either works or it doesn't. They have a very sophisticated analytics group and they really scrubbed it hard, and they became big believers. **MB**

Charles Wisniewski is a senior correspondent for *Mortgage Banking*.

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Contact VantageScore:

VantageScore is sold and marketed only through individual licensing arrangements with the three major credit reporting companies (CRCs) - Equifax, Experian and TransUnion. Lenders and other commercial entities interested in learning more about VantageScore may contact one of the CRCs.