

2018

AN OVERVIEW OF OPTION 3:
LENDER CHOICE



Option 3 does not impose any new burdens or create any incremental costs for lenders. It creates a free option: lenders may choose to use VantageScore only if and when they determine that it makes sense for their businesses to better serve their customers. We believe VantageScore is the most predictive and consumer-friendly model of its kind and that, in a free market, many lenders would ultimately choose to use it to better manage risk and serve their customers – but we believe that’s a decision that lenders themselves are in the best position to make. While some might prefer to have this decision dictated from the top down, we are convinced that the better course is to let the market decide!

Six important points to consider:

- 1** Credit scores are the gateway, not the underwriting engine. A borrower’s credit score determines pricing and product eligibility, but both DU and LP (the enterprise’s two automated underwriting systems) look far beyond the score to approve or decline purchases. This gateway score affects every applicant for a mortgage.
- 2** No one company should have a monopoly in determining consumers’ creditworthiness. As a gateway, credit scores are a critical determinant of access and fairness.
- 3** Claims that VantageScore “weakens standards” are simply false. Our models are empirically derived, validated, tested, and validated again. We post those validation reports on our public website. The only standard is predictive performance, and our models are demonstrated to pass that bar every time a lender decides to use us. We understand that both Fannie and Freddie, under supervision from FHFA, have already conducted extensive testing on VantageScore 3.0.
- 4** Competition creates pressure to innovate with the times. A lot has changed in the almost two decades since “Classic FICO” models were built: consumer behaviors, credit file data, processing power, analytical techniques, etc. Competition between model developers (outside the mortgage market) has pushed both companies to address that change and build better models.
- 5** Using VantageScore will not add to consumer confusion. There’s been no confusion in the credit card or auto lending space, where VantageScore and FICO have competed head-to-head for the last decade. Credit Karma, Chase, Capital One, and many others already use VantageScore to help their customers manage their financial health. We believe in access and transparency. Before VantageScore, consumers had to pay to see their credit scores. Over 1 billion of our scores were used by these consumer sites last year.
- 6** If we’re opening up the patient, let’s fix the problem. Inevitably, FICO and VantageScore will continue to build new models. In the future, they may also be joined by new entrants. Option 3 creates a process for these future models to compete. By creating a process to evaluate and introduce new models, it could also make future changes less onerous for the industry. Let’s not go another fifteen or twenty years before the next upgrade.

We urge responses to FHFA’s “Request for Information” prior to the March 30 deadline, and ask that in your response you clearly endorse Option 3, since Option 3 is the ONLY option FHFA has offered that allows for competition among credit score developers (VantageScore and FICO) and is the ONLY option that allows lenders to have a true choice as to what is best for their businesses and customers.

