Remarks by Silvio Tavares, President and CEO of VantageScore delivered on March 1, 2022 to the FHFA.

First let me extend my thanks to Director Sandra Thompson and the FHFA staff for the opportunity to speak today.

My name is Silvio Tavares and I am President & CEO of VantageScore Solutions. We have submitted our latest credit scoring model, VantageScore 4.0, for consideration. VantageScore is an independent joint venture of the three national credit bureaus established over 15 years ago to drive competition, innovation and financial inclusion in credit scoring. Our models are in use by over 2,200 banks and financial institutions for all types of lending decisions including credit cards, auto loans and installment loans. The only exception where VantageScore is not currently widely used is in mortgage loans where VantageScore has not been allowed to compete. We expect this will be resolved soon with the FHFA's strong leadership of the implementation process of newly validated and approved credit models.

For this reason, we urge the FHFA to adopt **Option 3- Lender Choice**. It is the best and only option that enables true competition that will directly enable more credit worthy consumers to have access to mortgage loans.

There are three main reasons why Option 3 is the best choice:

1- More Financial Inclusion
2- Increased Competition That Delivers Innovation and Choice
3- Lower Systemic Risk Due to Use of Alternative Models

With respect to the first point **on financial inclusion**, as the Director noted in her opening comments, the FHFA's validation and approval process for credit score models largely grew out of the need for greater financial inclusion and access to credit for population segments ***that are in fact credit worthy*** but have historically been underserved by mainstream financial services. Modern and more inclusive and predictive credit scoring models can help address this critical issue. ***That is one main reason why Option 3- Lender Choice is the correct option.***

According to a 2020 Brookings Institute study, the gap in net worth between Black and white families has not meaningfully improved in three decades. Underlying this is the fact over 70% of white families are homeowners, while the homeownership rate for black families is 30 points lower.

As **this gap** continues to plague our nation - exacerbated by the COVID-19 pandemic - residential mortgages purchased by the GSEs continue to use overly restrictive, outdated credit scores developed by a single company. Any option that continues to **institutionalize** the practice of using **one** legacy conventional model is contrary to the goal of driving financial inclusion for credit worthy underserved populations.

Secondly with respect to increasing competition, monopolies by their very nature restrict innovation and creativity, which is why VantageScore **supports Option 3: Lender Choice.**

GSEs should allow lenders to deliver loans with **any** score that has been validated and approved for use. We support lenders being asked to choose a model to use for a period of time to ensure the risk represented by the credit score is consistent and well understood by stakeholders including capital markets participants.

Competition is the lifeblood of innovation and a healthy marketplace. For example, in other loan categories where VantageScore competes, it has led to a great number of innovations such as 37 million more consumers becoming scoreable, including over 3 million minority borrowers with scores above common mortgage eligibility thresholds. In part we did this by becoming the first tri-bureau model to use rental payment data.

When true competition among credit scoring companies does exist, it has led to more predictive models being developed. There is no reason to believe that the outcome would be any different in the mortgage market.

With respect to third point – Alternative models lower mortgage industry systemic risk

As has been noted by other speakers, migrating to newer, more inclusive models should not be treated lightly from a risk management perspective or operational standpoint. We believe that Option 3-Lenders Choice actually **decreases** risk.

This is because, from a risk standpoint, VantageScore brings to the mortgage market a highly predictive model that's been widely tested and adopted by some 2,200 highly regulated financial institutions offering a wide variety of credit products.

Numerous lenders have gone on the record to affirm that their usage of VantageScore has allowed them to approve more loans while decreasing credit risk.

We post our performance analyses publicly on our website on an annual basis. We've done this consistently throughout our company's history – through multiple credit and economic cycles including the **2006-2012** financial crisis.

VantageScore is strongly committed to working with stakeholders including our partners in capital markets to ensure a smooth transition.

To conclude, we believe lenders should be given the ability to choose which model(s) to implement.

Thank you.