Comment #: 20

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VISA

August 16, 2004

By Hand Delivery

Federal Trade Commission
Office of the Secretary
Room H-159 (Annex N)
600 Pennsylvania Avenue, NW
Washington, DC 20580

Re: FACT Act Scores Study, Matter No. P044804

Ladies and Gentlemen:

This comment letter is submitted on behalf of Visa U.S.A. Inc. in response to the notice and request for comment ("Notice") by the Federal Trade Commission ("FTC"), published in the Federal Register on June 18, 2004. The Notice requests public comment to aid the FTC in its preparation of a study to determine the effects of credit scores and credit-based insurance scores on the price and availability of various financial products, including credit card accounts, and whether the utilization of these tools results in any form of discriminatory impact ("Study"). Specifically, section 215 of the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act") requires the FTC and the Federal Reserve Board ("FRB"), in consultation with the Office of Fair Housing and Equal Opportunity of the Department of Housing and Urban Development, to conduct the Study. Visa appreciates the opportunity to comment on this important matter.

The Visa Payment System, of which Visa U.S.A.[1] is a part, is the largest consumer payment system, and the leading consumer e-commerce payment system, in the world, with more volume than all other major payment cards combined. Visa plays a pivotal role in advancing new payment products and technologies, including technology initiatives for protecting personal information and preventing identity theft and other fraud, for the benefit of its member financial institutions and their hundreds of millions of cardholders.

Credit scoring facilitates credit decisions, reduces the costs to consumers and lenders for credit transactions and increases the overall availability of credit to consumers. As FRB Chairman Greenspan has noted, "[c]redit-scoring technologies have served as the foundation for the development of our national markets for consumer and mortgage credit, allowing lenders to build highly diversified loan portfolios that substantially mitigate credit risk. [Credit scoring has] played a major role in promoting the efficiency and expanding the scope of our credit-delivery systems and allowing lenders to broaden the populations they are willing and able to serve profitably."[2] Chairman Greenspan also noted that "it is very important . . . to maintain a

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[1] Visa U.S.A. is a membership organization comprised of U.S. financial institutions licensed to use the Visa service marks in connection with payment systems.
[2] FRB Chairman Greenspan, Remarks at the Annual Convention of the American Bankers Association, at 4 (Oct. 7, 2002).

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system which enables those models and those technologies to advance because if they don't, we are probably going to find that interest costs are likely to rise and the availability of credit, to the average consumer is likely to fall."[3]

Credit Scoring Assists Lenders in the Credit Granting Process

Credit scoring assists lenders in quickly and efficiently evaluating the risk of individual consumers who apply for credit. Lenders use credit scoring today to make reliable, objective and quick decisions. Prior to the introduction of credit scoring in the 1960s, lenders manually reviewed, and subjectively evaluated, applications and accounts—a costly and inconsistent process. As a result, the availability of credit to consumers was limited. Today, most lenders use credit scoring models, rather than a judgmental decision-making process, because credit scoring has proven to be so reliable. When lenders switch from judgmental decision making to credit scoring, it is common to see a 20-30 percent increase in the number of applicants accepted, without a proportional increase in the lender's losses.[4]

Credit approval, not just on credit cards, but also on installment loans, auto loans, mortgages and home equity lines of credit, can be accomplished more rapidly and accurately through the use of credit scoring, because there is less manual review, less paperwork and fewer requests for additional information. This streamlining of the credit granting process has allowed lenders to both preserve and strengthen the understanding and control over risk exposure.[5] Because credit scoring requires less time in the loan approval process, lenders also experience the benefits of reduced costs in processing applications.

Not only is credit scoring used in assessing credit risk, but lenders also use credit scoring for "assessing the risk-adjusted profitability of account relationships, for establishing the initial and ongoing credit limits available to borrowers, and for assisting in a range of activities in loan servicing, including fraud detection, delinquency intervention, and loss mitigation."[6]

Credit Scoring Provides Benefits for Consumers

Because credit scoring allows lenders to better assess their risks and tailor credit for individual needs of consumers, credit scoring increases consumer access to credit. The credit risk of a consumer may be evaluated, regardless of whether a lender has an established business relationship with that consumer or the consumer is applying for a loan for the first time. In addition, credit scoring allows consumers to pay less for credit and, therefore, to enjoy higher standards of living. The use of credit scoring lowers the cost of credit by reducing loan losses, reducing the time required to evaluate applications, reducing the cost of managing credit portfolios, reducing marketing costs, increasing market transparency through prescreening and

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[3] FRB Chairman Greenspan, Statement before the House Committee on Financial Services, Hearing on Monetary Policy and the State of the Economy, at 31 (July 15, 2003) (responding to question from Rep. Biggert).
[4] Fair Isaac Corporation, Statement before the Senate Committee on Banking, Housing, and Urban Affairs, Hearing on Consumer Awareness and Understanding of the Credit Granting Process, at 5 (July 29, 2003).
[5] *Id.* at 4-5.
[6] FRB Chairman Greenspan, Remarks at the Annual Convention of the American Bankers Association, at 4 (Oct. 7, 2002).

lowering the cost of funding by facilitating securitization of retail credit portfolios. As a result, consumers enjoy overall reduced costs of credit.

In addition, credit scoring enables consumers to obtain credit more easily and through a variety of channels. Specifically, credit scoring allows lenders to approve credit at branches and retail point-of-sale locations, over the telephone, through direct mail or on the Internet. Accordingly, consumers are afforded more opportunities to obtain credit, both quickly and accurately, which is particularly important at times of emergencies and special needs.

Credit Scoring Provides Benefits for Small Businesses

Credit scoring also increases access to, and decreases the cost of, credit for small business customers. The creditworthiness of the owner of a small business often is strongly correlated with the credit risk of the business itself. As a result, lending decisions for credit cards and loans for many small businesses can be made quickly with a low risk of default based on the credit scores of the business owners.

Credit Scoring Does Not Result in Negative or Differential Treatment of Protected Classes

Credit scoring assures that all consumers will be evaluated empirically and objectively, according to the same criteria as other credit applicants. In other words, credit scoring does not take into account prohibited factors such as race and gender.[7] Credit scoring instead takes into account factors more directly related to creditworthiness, including payment history and whether the applicant has defaulted on prior loans, amounts presently owed by the applicant, length of the applicant's credit history and types of credit used—types of information that lenders can obtain from consumer loan applications and from consumer reporting agencies. Therefore, credit scoring does not, and cannot, lead to discriminatory practices that would result in reduced credit approval for minority applicants. In fact, Treasury Secretary Snow has noted a study demonstrating that lenders' use of credit scores improved the approval rates for minority borrowers by 29 percent.[8]

Improvements in Consumer Education About Credit Scores

Effective December 1, 2004, the Fair Credit Reporting Act ("FCRA"), as modified by the FACT Act, will require consumer reporting agencies to provide consumers, upon request, more extensive credit score information.[9] The information provided will include: the consumer's most recent credit score; the range of possible credit scores; the date the score was created; the name of the person that provided the credit score or the credit file on which it was based; and the four or five key factors that adversely affected the score, including inquiries.[10] In addition, where a key factor that adversely affected the credit score was the number of inquiries in the consumer report file, consumer reporting agencies must include in any disclosure of a credit

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[7] The Equal Credit Opportunity Act and its implementing regulation prohibit lenders from discriminating on the basis of race, color, religion, national origin, gender, marital status or age.
[8] Treasury Secretary Snow, Remarks Advocating the Renewal of the Fair Credit Reporting Act, at 3 (June 30, 2003).
[9] 15 U.S.C. § 1681g(f).
[10] 15 U.S.C. § 1681g(f)(1).

score a clear and conspicuous statement that the number of inquiries was a key factor and a copy of the consumer's credit score, along with the other key factors, if any, that adversely affected the score.[11] The FCRA, as modified by the FACT Act, also will require that such credit scores be derived from models that are widely distributed to users or models that assist consumers in understanding credit scoring.[12] Therefore, consumers are provided with the opportunity to learn much more about their credit scores, which, in turn, should prompt consumers to take steps to improve their credit scores, where necessary.

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Visa appreciates the opportunity to comment on this important matter. If you have any questions concerning these comments, or if we may otherwise be of assistance in connection with this matter, please do not hesitate to contact me, at (415) 932-2178.

Sincerely,

Russell W. Schrader

Russell W. Schrader
Senior Vice President and
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[11] 15 U.S.C. § 1681c(d)(2).
[12] 15 U.S.C. § 1681g(f)(7)(A).