National Association of Federal Credit Unions
3138 10th Street North • Arlington, VA 22201-2149
(703) 522-4770 • (800) 336-4644 • Fax (703) 524-1082
NAFCU www.nafcu.org • nafcu@nafcu.org

April 25, 2005

Donald S. Clark, Secretary
Federal Trade Commission
Office of the Secretary
Room H-159 (Annex Z)
600 Pennsylvania Avenue, NW.
Washington, DC 20580

RE: FACT Act Scores Study

Dear Mr. Clark:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions (FCUs), I am responding to the Federal Trade Commission's (FTC) request for public comment on evidence needed to study the effects of credit scores and credit-based insurance scores on the availability and affordability of financial products.

The Fair and Accurate Transactions Act of 2003 (FACT Act) requires the FTC and the Federal Reserve Board (Board) to conduct the study. In particular, the FTC and Board are required to study the statistical relationship between credit scores and the quantifiable risks and actual losses. Also, the study must examine the extent to which the use of credit scores impacts the availability and affordability of credit, including the extent to which the use of underwriting systems relying on scoring could achieve comparable results through other factors. NAFCU surveyed its members regarding their use of credit scores and our comments below reflect the practices of the thirty-two members who responded to the survey.

Overwhelmingly, NAFCU members support the use of credit scores as being useful in extending credit to their members. While FCUs may use credit scores in slightly different manners, all respondents agree that credit scores have enabled FCUs to make more credit uniformly available to more individuals.

Many of the FCUs that responded to NAFCU's survey use a credit score only to price a loan and do not use the score to make an offer of credit. For FCUs that do use a credit score in the underwriting process to make an offer of credit, the credit score is just one factor that is part of the decision-making process. For instance, one FCU that responded to our survey uses an in-house scoring system that is statistically derived and empirically based on over 100 characteristics. The characteristics are then mathematically reduced to those 12 which are deemed to be the best determinants of whether a person will or will not repay their debt. Some of the characteristics are derived from the credit score. Another FCU responding to NAFCU's survey uses the FICO score directly from the credit report, but also uses other factors including debt to income ratios, length of employment and loan to value ratios to make a determination of whether to offer credit. Also, FCUs in general may use "in house" scoring methods, scores from credit reporting agencies or a combination thereof.

FCUs also indicated that their use of credit scores have changed over time. Now, many FCUs use scores to weigh the risk of granting credit to members they would not have previously considered as potential borrowers. Some of our survey respondents indicated that they now offer credit to "C", "D", and "E" borrowers, whereas before, they had fewer tiers. As a result, FCUs are making credit available to more members. Also, because FCUs have increased the number of members that they lend to, they can provide better rates to "A" borrowers.

Overall, FCUs find that using credit scores enable them to make underwriting decisions faster. Also, FCUs that use scoring to make underwriting decisions have fewer loan officers as a result and save money in salaries; this savings is passed along to the membership either in reduced rates or in increased dividends. FCUs do note that the increase in the cost of credit reports and revalidating the scoring model increases the cost of the loan process, but these costs are currently offset by the volume of loans.

While as noted above, FCUs use credit scores differently in their underwriting process, FCUs commenting to NAFCU have found that credit scores have had a positive effect on the accuracy of underwriting decisions. Most FCUs responding to NAFCU's survey find that credit scores have resulted in lower risk and fairer pricing to members. Those FCUs have also noted that a credit score takes some of the subjectivity out of the loan decision process, which leads to more consistent results.

NAFCU also believes that using a credit score as part of the loan underwriting process benefits women and minorities who previously may have been discriminated against because of their status. NAFCU's members state that when credit scoring is used, all borrowers, including women and minorities, are "on a level playing field" and are treated equally.

Finally, NAFCU believes that the practices of its members in using credit scores in conjunction with other factors in granting offers of credit enable FCUs to fulfill the purpose for which credit unions are designed: to make affordable credit available to *all* of their members.

NAFCU would like to thank you for this opportunity to share this evidence on the effect of credit scores on the availability of credit. Should you have any questions or require additional information please call me or Carrie Hunt, NAFCU's Associate Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 234.

Sincerely,

Fred R. Becker, Jr.
President/CEO

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