Before the Financial Institutions and Consumer Credit Subcommittee of the Financial Services Committee
United States House of Representatives

TransUnion Testimony

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On the Topic:

"Keeping Score on Credit Scores:
An Overview of Credit Scores, Credit Reports,
and Their Impact on Consumers"

Good afternoon Chairman Gutierrez and Ranking Member Hensarling. Thank you for your invitation to provide testimony to your subcommittee this afternoon. My name is Chet Wiermanski, and I am the Global Chief Scientist for Analytic and Decision Systems at TransUnion, LLC. It is my pleasure to appear before you today to discuss the important issues related to credit scoring.

The Evolution, Benefits, and Underlying Processes of Credit Scores

First and foremost, it is important to explain what a credit score is. A credit score is a numeric value reflecting the empirical opinion of the score developer as to the likelihood of a future credit behavior by a consumer as compared to other consumers (*e.g.*, creditworthiness). The score or value is objectively derived from several historical behavioral patterns or factors assembled from a variety of trustworthy data sources, most notably from the consumer's credit report. Prior to credit scoring, lenders relied on subjective assessments, in particular the individual loan officer's manual evaluation of a credit application and credit report to determine whether the consumer was a good credit risk. Credit scoring standardizes the lender's decision making process within and across its organization and reduces the potential for impermissible judgmental actions by its employees. Credit scoring allows for an objective and uniform approach to credit applications and account management decisions.

It is important to note that there is not "one" credit score for a consumer. Any given credit score is dependent upon the data and methodology used to develop and subsequently produce the opinion, the numeric value, in a lending environment. There are hundreds of credit scoring models in use today and most lenders do not rely on or use only one score.[1] Credit scores are developed independently by lenders, consumer reporting agencies, and credit score providers. Many lenders use different credit scoring models for different purposes or products within their own organizations. For example, a lender may use one model for credit card applications but a different model for mortgage underwriting, an auto loan, or for prioritization of collection activities. What cannot be disputed about

[1] In 2009, TransUnion alone provided hundreds of millions of its proprietary TransRisk credit scores to its customers.

credit scoring models is that if they are properly empirically derived and statistically validated they are predictive of credit risk.

In Attachment A, I provide further background on the evolution, benefits and processes of credit scores.

How well are these credit risk models performing during this recession?

Based upon more than 100 customer specific validations and TransUnion's internal validation of its proprietary generic credit risk and bankruptcy models (using millions of credit scores) calculated from 2007 credit report information and subsequent credit performance derived from 2009 credit report information, TransUnion's proprietary models performed as expected. That is, they are performing as well as similar validations on credit scores calculated on 2004, 2005, and 2006 credit information. In addition to differentiating between acceptable and unacceptable credit performers during the 2007 and 2009 timeframe, each model's ability to rank order credit risk remained consistent to the validation results from validation data set based upon prerecession credit conditions.

In Attachments B and C, I provide copies of very recent TransUnion press releases reporting a *decline* for the last two quarters of 2009 in the TransUnion Insurance Risk Index, and a leveling in the 4^{th} Quarter of 2009 of the TransUnion Credit Risk Index. We believe this is good news in both instances, and also provides a clear illustration of credit scores and insurance scores being affected differently by the same economic environment.

A recent concern regarding credit-based scoring systems, in particular insurance risk models, is that proactive actions taken by lenders to reduce potential losses by lowering revolving credit limits may artificially lower a consumer's insurance score, which penalizes consumers in the form of higher premiums and less favorable terms to the consumer. Based upon TransUnion's analysis it appears that from an insurance risk score perspective, the action of lowering revolving credit limits has not played a significant role in the small fluctuations observed in the national average for TransUnion Insurance Risk Scores (TUIRS). This is attributed to the manner in which debt and credit utilization credit characteristics are designed and weighted within this model as compared to a credit risk model. Based upon empirical evidence uncovered when developing TUIRS, only a relatively few credit utilization characteristics, of the dozens tested, were highly correlated to insurance loss ratio and subsequently included within the models. Revolving credit utilization, by itself, is not one of those characteristics.

What Consumers Need to Know about Credit Scoring Models and Credit Scores

We believe that the following major points are important for consumers to understand about credit scoring models and credit scores:

a. First, consumers should be aware of the major building blocks of most credit scoring models:
    i. History of prompt payments. An individual's history of prompt payments contains several dimensions—first, what is the frequency and severity of any previous account delinquencies, or instances of non-payment or other default? How many delinquent accounts are on the consumer's credit report? How recent, or long ago, were these delinquencies? How many years has the individual maintained prompt payment behavior?
    ii. Amount of existing debt and capacity to absorb additional debt. How much debt has the consumer taken on? How recent was this debt undertaken? How fully

has the individual maximized his or her available credit? What is the ratio of current outstanding debt to credit limits on open-end accounts?

iii. Recent credit-seeking behavior. What are the indications that a consumer is actively seeking to obtain additional credit? The number of recent loans and the presence of recent consumer initiated inquiries are often a very strong indicator of this behavior. Most, if not all, credit bureau based scoring models bundle similar multiple inquiries and treat them as one inquiry as they are associated with a single credit transaction such as shopping for home or auto.

iv. Balanced use of credit (credit cards, mortgages, installment loans). Does the individual have a healthy mix of credit, such as unsecured credit cards, installment loans for autos or other major purchases, and home mortgages? Is the individual using them responsibly by not overextending his or her credit obligations?

b. Consumers should be aware that there are many different types of credit scoring models, and factors considered by lenders—both public and proprietary—that affect a lender's decision-making process. Creditors often apply additional, proprietary decision steps or rules to supplement the credit scores received from their proprietary models and generic credit bureau models (such as income and collateral). This process typically involves the evaluation of multiple credit scores, features of the loan (credit limit, interest rate, collateral), the lender's existing relationship, if any, with the consumer and the creditor's previous credit experience with the applicant. All of this information is evaluated together to form the basis of a lender's credit-granting decision. While a general awareness of credit scores and credit scoring is useful knowledge for individual consumers, we believe that it is a mistake to communicate or imply to individual consumers (through legislation, regulation or the media) that a specific score using a specific model will necessarily result in a particular outcome, irrespective of other circumstances. For example, a consumer's income, current employment status, collateral (in a secured lending context), or other factors may significantly affect a lender's decision notwithstanding the credit score.

c. In the long term, the most effective strategy for an individual is to focus on the accuracy and completeness of the underlying information in their credit report. It is the individual's credit activity, rather than any particular credit score, that is key to producing the result—that is, the exact terms and conditions which lenders and insurers are able to offer to that particular person. (Consumers can review their credit reports annually at no cost through www.annualcreditreport.com, a website maintained by TransUnion and the other nationwide credit reporting companies. In 2009, TransUnion alone provided 7,900,371 free file disclosures through this public service.)

d. Credit histories, and credit scores essentially reflect the past behavior of an individual, although spousal and other authorized user behavior on shared accounts can impact the credit reports of both persons. At TransUnion, credit files are maintained and updated at the individual consumer level. Accounts shared among two or more individuals will thus appear on their individual credit histories, and depending upon the credit scoring system this information may or may not impact an individual's credit scores. Therefore, the type of contractual relationship and payment behavior of an individual who shares an account with others can impact the scores of each of those other individuals. The effect can endure after the account sharing has ended (e.g., in the case of a divorce) since the liability for the debt incurred during the time in which the account was shared may continue to inure to each of those account participants.

Common Misconceptions About Credit Scoring Models and Credit Scores

Consumers should be aware of these misconceptions:

- Myth: My score will drop if I check my credit.
  Fact: No. Inquires associated with checking your own report and credit score are considered "soft inquiries" and have no impact on your credit score.
- Myth: There's only one score that most lenders use to determine my credit-worthiness.
  Fact: No. There are hundreds of different credit scoring models used by lenders in the marketplace today. To see where you stand with respect to the general population, generic credit bureau scores can be purchased online from a variety of sources. But remember, the data in the report is more important than the score so select a service that also provides credit report summaries that are easy to understand.
- Myth: Closing old credit card accounts will clean up your credit report and improve your credit score.
  Fact: Not in all instances. Some people advocate closing old and inactive accounts as a way to manage their credit. In most cases, closing older accounts will make a credit history appear shorter, which may negatively impact the overall credit score.
- Myth: Once you pay off a delinquent loan or credit card balance, the item is removed from your credit report.
  Fact: No. Negative information such as late payments, collection accounts and bankruptcies reflects your history and it will remain on your credit report for up to seven years. Certain types of bankruptcies appear for up to 10 years. Paying off a delinquent account or credit card balance is more recent history, it does not change the past. For example, this action will update the account to indicate that the account is "paid" which will, over time, improve your credit score.

Score Disclosures to Consumers

TransUnion was the first nationwide consumer reporting company to announce, in May, 2000, our plans to make generic credit risk scores available to consumers, upon request. In 2001, we implemented that plan, providing consumers with our proprietary *TransRisk*™ score—a scoring model used by hundreds of lenders. A growing marketplace soon evolved, to the point that today information on credit scores is widely available to consumers. Our own affiliate markets consumer credit educational services under the *TrueCredit*™ brand. It provides unrestricted daily access to an individual's TransUnion credit report information and his or her *VantageScore*™, in addition to file monitoring and other services, for a monthly fee of $11.95. (Access to credit reports and scores from all three of the major nationwide consumer reporting companies [TransUnion, Equifax and Experian] is offered for $14.95 per month.) In addition, consumers exercising their rights to a free annual disclosure of their TransUnion credit report at the centralized site (www.annualcreditreport.com) maintained in conjunction with the other nationwide consumer reporting companies, may also obtain their VantageScore™ for a fee of $7.95.

This balance between the right to obtain a free annual credit report from each of the three national consumer reporting companies and the right of the consumer reporting companies to charge a reasonable fee for the sale of credit scores, subject to Federal Trade Commission oversight, was carefully crafted by the Congress in the 2003 amendments to the Fair Credit Reporting Act ("FCRA"). Today, millions of consumers each year exercise their rights to obtain a free annual credit report, and some of these consumers also opt for credit score disclosure. In addition, there are many other score disclosure services, such as those maintained by credit scoring providers, that also sell consumers generic credit scores based upon the underlying information contained in a credit report.

We strongly believe that it is appropriate for companies, including TransUnion, to have the right to charge a reasonable fee for the service of calculating a credit score and providing it to a consumer. As I discussed above, a credit score is simply a numeric expression of an opinion, based upon a consumer's current credit profile, as to the likelihood that a consumer will satisfactorily repay their credit obligations in the future. A company should be permitted to charge for such an opinion—just as an appraiser may charge a fee when providing an opinion on the value of one's home, car, or jewelry. It is also important to note that a credit score is distinctly different from the consumer's underlying credit report. Congress has made a public policy determination that consumers should have access to their credit reports from certain credit bureaus at no cost at least once annually. This allows consumers to review the information in their credit report and to ensure that the information is accurate. There is no similar policy justification with respect to the disclosure of a credit score.

To the extent that Members of the Committee believe that consumers should receive a credit score periodically, it is worth noting that the Final Rule recently promulgated jointly by the Federal Reserve and the Federal Trade Commission implementing the FCRA's Risk-Based Pricing Notification provision will offer another opportunity to consumers applying for new credit to obtain a credit score disclosure at no cost to them. The Final Rule allows creditors which offer risk-based pricing a choice between providing a risk-based pricing notice to certain applicants or a score disclosure to all approved applicants. Because of the complexity of the rule for identifying which consumers must receive a risk-based pricing notice, we believe that many credit grantors will opt for the score disclosure alternative. In this outcome, millions of consumers may receive free score disclosures each year from their lender(s).

We believe it is important for consumers to understand how they may be evaluated for credit, and that is why information relating to the components of a credit score is widely available. We believe that the challenge for all of us is to support efforts to increase the financial literacy of individuals about the operation of the credit reporting system in the United States which supports so much of our country's economic prosperity. To that end, TransUnion is proud to support several initiatives in the United States aimed at boosting financial literacy:

- Through our website, www.transunion.com and that of our affiliate, www.truecredit.com we provide educational information, including an interactive video presentation on credit reports, credit report accuracy, and credit scores. We provide a DVD version of this video material to consumer and community organizations upon request. Our press release on this development is Attachment D.
- As a national sponsor of the non-profit organization, Operation Hope[2]. Operation Hope is a leading global nonprofit social investment banking and financial literacy organization. Through various initiatives and programs, TransUnion is helping to educate inner-city families and youth on banking, credit and financial principles. We

[2] http://operationhope.org/

also provide scores and reports to Operation Hope to aid in their financial counseling at Hope Centers around the country.

- As a sponsor of the Jump$tart Coalition for Personal Financial Literacy[3]. The Jump$tart Coalition supports educational programs in personal finance. Jump$tart's website states that: "The Coalition's direct objective is to encourage curriculum enrichment to ensure that basic personal financial management skills are attained during the K-12 educational experience."

We believe that, by seeking to improve financial literacy, and by increasing the full-file reporting of "non-traditional" furnishers of credit/payment information from providers such as energy utilities, telecommunications companies, apartment rental management firms, among other essential service providers, that a more complete credit profile can be evaluated by lenders, allowing more consumers to be brought into the mainstream credit economy and become more financially literate.

Credit-based Insurance Scores

TransUnion Insurance Risk Scores are based on objective, factual, accurate credit report information, including consumer accounts such as credit cards, retail store cards, mortgages, and auto loans, as well as public record information, including bankruptcies, liens and judgments. Additionally, TUIRS takes into consideration consumer initiated inquiries associated with their request for new credit accounts. Multiple consumer generated credit inquiries associated with the shopping for a mortgage or auto loan are de-duplicated to minimize the impact on their score. All of this factual credit information is received from tens of thousands of financial institutions, retailers, and court houses on a monthly basis. I should also note what is not included in the credit report and or in the calculation of a consumer's TUIRS: medical history and records, consumer buying habits, checking and savings information, income, or any prohibited basis characteristics identified by the Federal Reserve, which includes information regarding marital status, race, age, religion, family status, color, receipt of public assistance, disability, gender or national origin.

TUIRS were developed to be completely transparent at all levels of the policy cycle. Thus, insurance agents and consumers have a clear understanding of the credit characteristics impacting their insurance score and how insurance scores may potentially be improved. With each TUIRS adverse action reason code message, we provide an explanation detailing why the insurance score is less than ideal. All characteristics and algorithms used to create TUIRS are available upon request, providing a clearer understanding of all the credit elements that impact a consumer's insurance score.

It is important to note that while the term credit score is often used interchangeably by many for credit and insurance decisioning, credit-based insurance scores and credit risk scores are not synonymous. Credit-based risk scores are designed to predict the likelihood that an individual will satisfactorily repay their credit obligations, while insurance scores are designed to predict a claims loss ratio. TUIRS was developed to meet the needs of our insurance customers who seek a transparent, objective, and accurate predictor of consumer insurance risk.

[3] http://www.jumpstartcoalition.org/

The TransUnion Perspective on the Alternative Data Issue

The Committee asked about our efforts towards improving accuracy and completeness of credit reports, especially in regards to consumers with "thin files" and no previous credit histories. For more than 20 years, TransUnion has encouraged the full file reporting of "non-traditional" information furnishers from energy utilities and telecommunications providers. The positive benefits accruing to consumers, especially those with thin files, was examined and documented in the 2006 paper by the Political and Economic Research Council (PERC) and the Brookings Institute in their study, "Give Credit Where Credit is Due,"[4] which TransUnion proudly supported. In July 2008, PERC announced an update on this work with a new study entitled, *"You Score You Win: the Consequences of Giving Credit Where Credit is Due".*[5]

In general, we believe the following points are worth emphasizing:

- There is a net benefit to consumers, particularly those with "thin files" to promoting more "full-file" reporting by new sectors of service providers, in particular energy utilities and telecommunications services providers.
- There is sufficient flexibility in the reporting framework to allow for exceptions created by special payment agreements to mitigate, or eliminate, adverse impacts on consumers in special, distressed, conditions.
- Best practices by service providers to notify their customers before inception of full-file reporting are critical—both to the provider and to consumers.
- The federal Fair Credit Reporting Act provides a robust, world-class, set of consumer rights covering access, rights to dispute, rights to correction, etc. to protect consumers.

We collaborated with PERC in a follow-up study to learn more about the impediments—whether systemic, political, legal or otherwise—which are faced by the

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[4] Turner, Michael A. Alyssa Stewart Lee, Ann Schnare, Robin Varghese and Patrick Walker. "Give Credit Where Credit is Due." Chapel Hill, NC and Washington, DC. The Political and Economic Research Council & The Brookings Institution Urban Markets Initiative. 2006.

[5] (**Washington, DC**) The Political and Economic Research Council (PERC) introduces its new applied study center, The Markets and Information Nexus (MAIN) with the release of *You Score You Win: the Consequences of Giving Credit Where Credit is Due*. This study shows that fully reporting energy utility and telephone service customer payment data to consumer reporting agencies would help up to 70 million Americans gain access to affordable mainstream sources of credit.
In the midst of the credit crunch and sub-prime meltdown new tools are needed to access credit in a responsible way. This approach to reporting can help lessen some of the impacts of the current credit crisis. Some of the key findings are:

- evidence does not support the claim that reporting utility and telecom payment data will worsen the credit scores of more disadvantaged consumers
- evidence shows that consumers whose telecom and utility payments are reported do not become overextended, as measured by a rise in late payments. This report is a follow-up to an earlier joint report from PERC and the Brookings Institution Urban Markets Initiative that showed fully reporting—reporting timely payments and late payments—to credit bureaus dramatically increases credit access for people with little or no credit history—a group overwhelmingly comprised of lower income Americans, members of ethnic minority communities especially immigrants, younger and elderly Americans.

utilities and telecommunications companies who might otherwise wish to begin full-file reporting. PERC published the results of that study[6] in March, 2009. In general, the findings supported the earlier work, and emphasized the need for robust communications to the consumer about reporting practices.

Finally, we are presently engaged with PERC in a follow up to the 2006 study, to determine if the current recession has had any impact on the benefits to consumers described in the 2006 report. We hope to see this new study published later in 2010.

The TransUnion Perspective on Current Legislation

Exclusion of Specific Information from Scoring Models

Congress from time to time considers proposals to prohibit certain types of information from being considered by credit scoring models. Generally speaking, TransUnion believes that statistically significant and valid information should be available to lenders for making credit decisions, so long as the data does not run afoul of the "prohibited basis" provisions in the Equal Credit Opportunity Act. A current example of such legislation is H.R. 3421, introduced by Representative Kilroy. This bill would prohibit consumer reporting agencies from including in a consumer report any record of a paid medical debt that had been in collection. Thus this information would no longer be available to scoring models.

We share the view of many that the medical payments system in our country has much room for improvement. We also acknowledge the fact that some scoring models, such as *VantageScore*™ and our own insurance scoring model do not consider paid medical collections, and thus those two scoring models would be unaffected if this bill became law.

Nevertheless, we object to this bill for these reasons:

1. Paid medical collection information continues to have predictive value for some scoring models, particularly those associated with the collection of charged off bad debt. Account information that is accurate and that meets the reporting requirements of the FCRA should not be arbitrarily excluded from consumer reports.
2. To date, Congress has generally not interfered with the use of predictive information when making credit decisions, and we do not believe it would be appropriate to change course in the current lending environment. In fact, we fear that once Congress decides to intervene with respect to the use of certain debts in underwriting models that it will be difficult to draw a line as to where Congress should stop, and the process of underwriting will become a more politicized process.

Use of Consumer Credit Reports by Employers

At present there are bills in 15 or more states which would restrict or ban the use of credit reports by employers. Congress currently has at least one such bill, H.R. 3149 by Representative Cohen. Subject to certain narrow exceptions, this bill would prohibit use of consumer credit reports for employment purposes.

[6] Turner, Michael A., Robin Varghese, Patrick Walker and Katrina Dusek, "Credit Reporting Customer Payment Data: Impact on Customer Payment Behavior and Furnisher Costs and Benefits," Chapel Hill, North Carolina, PERC Press.

Employers seek credit reports on job applicants from TransUnion for a variety of reasons, including to verify that an applicant has a history of financial responsibility and to confirm identity. A 2008 report[7] by the Association of Certified Fraud Examiners found that the two most commonly occurring "behavioral red flags" among persons found to be responsible for occupational fraud were "living beyond means" and "financial difficulties". Proper use of a credit report could reduce the risk of such occupational fraud. That report also found occupational fraud occurring across a wide variety of industries and types of organizations.[8]

The FCRA already provides significant consumer protections when credit reports are used by employers. The employer must provide the prospective employee a clear and conspicuous written notice stating that a consumer report may be obtained for employment purposes, and the prospective employee must authorize that procurement in writing. The employer must also provide a copy of the consumer credit report together with a summary of the individual's rights under FCRA Section 615 to the individual prior to taking an adverse action. The applicant has a right to review this credit report and to dispute any information with the consumer reporting agency believed to be inaccurate or incomplete. This point in the hiring process also allows the consumer an opportunity to explain derogatory information to the employer.

We acknowledge that there may be a need among some employers to adopt best practices in the use of credit reports. Properly used, a credit report can reflect an individual's financial responsibility and stability over a period of many years. Especially in these difficult economic times, we do not believe that a single negative incident on a credit report should necessarily be used by a prospective employer as a reason to decline employment.

We believe it is worth noting that credit scores are not used in connection with employment. TransUnion will not provide any score on a credit report that is obtained for employment purposes. We support best practices concerning use of credit reports for employment purposes such as the following:

- The reason for obtaining a credit report for employment purposes is to evaluate an individual's financial stability and responsibility. Accordingly, isolated individual items of adverse information should receive little to no weight if the overall picture presented by the report shows a history of responsibility and stability.
- Certain types of information should not be given any weight, such as paid medical collections, and minor payment delinquencies—especially if these do not appear to form part of a larger pattern. In some circumstances is may be appropriate to ignore foreclosures—especially if there is offsetting, mitigating information. There are already restrictions in federal law against prospective employers considering bankruptcy.[9]
- Credit risk scores should not be used.

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[7] Association of Certified Fraud Examiners, "2008 Report to the Nation on Occupational Fraud and Abuse".
[8] Types of industry, in decreasing order of frequency: banking, government, healthcare, manufacturing, retain, education, insurance, construction, religious/charitable/social services, services—other, services—professional, real estate, technology, utilities, oil and gas, wholesale trade, arts/entertainment/recreation, telecommunications, communications/publishing, agriculture/forestry. Frequency by types of organization: private company—39%; public company—28%; government—18%; not for profit—14%.
[9] 11 U.S.C. § 525(b).

- Use of credit reports as part of a pre-employment screening regime makes sense when the position has access to assets or confidential personal information.
- Credit reports should be obtained only on finalist candidates—it is unnecessary to obtain a credit report on all job applicants.

<u>Free Score Disclosure by Consumer Reporting Agencies</u>

There are at least two bills currently before the Financial Services Committee requiring consumer reporting agencies to make free score disclosures—H.R. 2374 by Rep. Rodriguez and H.R. 4538 by Rep. Cohen. H.R. 2374 would require consumer reporting agencies to provide, upon request and at no charge to the consumer, a credit score in connection with the free annual file disclosure. The bill would also require free score disclosures directly to the consumer by certain credit grantors. H.R. 4538 would require consumer reporting agencies to maintain for one year, in each individual's credit file, any score that was calculated by the consumer reporting agency on that individual. The consumer reporting agency would then be required to disclose all of those credit scores, and information related to them, to the individual in connection with the individual receiving his or her free annual file disclosure.

For all the reasons discussed above, we believe that credit scores are already widely available in the marketplace. That availability will increase, perhaps exponentially, when the Final Rule on Risk Based Pricing takes effect in 2011. We also do not believe that someone should be required to provide their opinion or expertise without being able to charge for it. To the extent any requirement were to be adopted, we feel it is unfair to impose a free disclosure requirement only on consumer reporting companies when many others, including major score developers, are providing access to scores under a wide variety of value propositions. Further, we believe that to the extent free credit scores are provided, it makes the most sense for the disclosure to be made by the lender (or insurer) in connection with a current transaction with the individual and for clear disclosure by these decision makers whether that credit score was the deciding factor in the transaction. As we noted above, we believe that the accuracy and completeness of the information in his or her credit report is the most important area of focus for the individual when receiving the free annual disclosure.

For all these reasons, we believe that the requirement of Rep. Cohen's bill—to maintain a one-year history of scores and related information, to be included in the consumer's annual free file disclosure would substantially increase the costs of credit to consumers and would focus consumers on the wrong data—which would be a very poor policy outcome for consumers. We believe the proper focus is the accuracy and completeness of the credit report information and that has been addressed by the free annual file disclosure requirement. There is already a trend toward increased free credit score disclosures by lenders which are transactional and current. If the consumer wishes to obtain a score from a consumer reporting agency, we ought to be allowed to charge a fair and reasonable fee.

Again, I thank you for the opportunity to appear before you today. I hope you find this information to be responsive to your inquiry, and I would appreciate the opportunity to answer any questions you may have.

Attachment A

The Evolution, Benefits, and Processes of Credit Scores

Lenders have used various types of scoring models to promote fair and uniform lending decisions long before the arrival of generic credit risk scoring models developed from the databases of national credit bureaus such as TransUnion. These models were generally developed on the experience of the individual lenders using them, and thus were based on a relatively small population of a few thousand loans. Scoring algorithm development companies were at the time, as they remain today, principal providers of these types of tailor-made scoring models, based on an individual lender's experiences and customer footprint.

By the late 1980s TransUnion was completing its journey toward becoming a nationwide consumer reporting agency. Among the many benefits for both lenders and consumers of the existence of nationwide consumer reporting agencies such as TransUnion is the fact that such a large, dynamically updated database, having thousands of active data furnishers, can be used as the basis to accurately and fairly assess credit risk and to develop stable and robust scoring models which are highly predictive of consumer credit risk as they not based on the experience of a single lender. By harnessing the full and complete reporting of positive and negative data from thousands of lenders, generic credit scoring models have allowed lenders to more accurately manage their risk exposure at multiple levels. Credit scoring model based exclusively upon credit bureau information allowed for the implementation of more granular, risk-based pricing strategies, which have in turn led to decreased credit costs, and increased the availability of credit to consumers. This phenomenon was described by the Information Policy Institute in their paper, "The Fair Credit Reporting Act—Access, Efficiency and Opportunity. The Economic Importance of Fair Credit Reporting Act Reauthorization." (June 2003)

TransUnion was the first of the nationwide consumer reporting agencies to bring these benefits to lenders and consumers when, in December 1987, we introduced the first generic model as an added dimension to the consumer credit report used to approve credit applicants. This first credit bureau-based scoring model, *Delphi*, which was developed to identify consumers more likely to become bankrupt, was produced in conjunction with an Atlanta-based model developer named Management Decision Systems. Later, in conjunction with Minneapolis-based Fair Isaac, another generic credit risk model was introduced, *Empirica.* In the ensuing years, *Delphi* and *Empirica,* their successor versions, and subsequent competing products have evolved and grown to be more and more commonly used due to the benefits they provide to both lenders and consumers. For example:

1. Not the sole determinate of credit eligibility, yet improving risk assessment. Credit bureau based scores are contractually intended to be used in conjunction with additional information either provided directly from the credit applicant (e.g. income, employment status, length of residence), internal information available to the lender from other contractual relationships with the consumer (deposit and asset information, performance with previous credit obligations), or other third party information (property appraisals, employment verification, identify verification) when assessing the credit eligibility of the consumer. When used as a supplement to either a judgmental underwriting system based upon expert human judgment or an automated underwriting process credit report

information and credit bureau based scores add to the consistency, objectivity, speed and accuracy of the underwriting process.

2. A valid credit risk assessment tool for a variety of loan products and credit applications. Most credit risk scoring models predict a general dimension of creditworthiness, and are used throughout the account life cycle on a wide variety of credit-risk decisions.

3. Fair and objective. Credit bureau scoring models are based exclusively upon unbiased, objective account payment histories, public record information and credit inquiries generated by consumers when seeking credit. Demographic information that may be part of one's credit report, such as age, is not used to develop or calculate a credit score. As a result, the scores generated are fair and objective.

4. Uniform Application. From the standpoint of risk management, uniform application of a quantifiable, consistent decision criteria results in loan portfolios (or group of insurance policies) which can be expected to perform consistently over time. In contrast, the performance of loans or policies created using more subjective, individual criteria tends to fluctuate with less predictability. This is important to both risk managers and consumers, because the more predictable the risk, the less hedging must be built into the price of the financial instrument. For example, this is an important part of the reason that mortgage loans in the United States are roughly two hundred basis points less costly than in many European countries. This is based, in part, on the existence of a reliable consumer credit reporting information infrastructure, which allowed the creation of highly predictable credit scoring algorithms.

5. Scalable. Credit decision making systems using credit scoring models can be scaled in two important ways: One, they are independent of volume, which means that they can be used to uniformly evaluate 10 or 1,000 or 1,000,000 decisions each day. Two, they can be calibrated to create precise risk tiers. A binary yes/no credit decision is no longer the only option. Interest rates, credit limits or other product features and levels of service can be offered to consumers based on the risk reflected in the score. Because credit scores provide a very granular scale (e.g. *VantageScore*™ ranges from 501 to 990), risk managers can adjust multiple decision strategies based upon the different points assigned by the scoring model.

6. Promotes Competition. As noted above, the use of risk scores allows financial institutions and property/casualty insurance providers to make decisions without reliance on individual credit managers or agents. These systems offer important elements of scalability and objectivity that result in reduced customer acquisition costs and improved portfolio performance. This lowering of barriers to competition lowers costs and thus provides more choices for consumers in the marketplace. The increased competition among financial institutions and property and casualty insurance providers in the US in the past 10 years is in part attributable to the deployment of decision systems that rely upon credit bureau based scores.

***Underlying Processes of credit scores—selecting scores and factors*.**

The components used to develop credit risk models and subsequently calculate a consumer's credit score are based an objective approach whereby hundreds, and often thousands, of candidate credit characteristics from the credit histories of millions of consumers are empirically evaluated and selected for their ability to distinguish future loan performance. The candidate characteristics evaluated originate from the collective experience of consumer credit risk experts who construct and apply different rules against the underlying contents of the credit reporting system from which the model is developed. The list of candidate characteristics, which grows with each generic model redevelopment effort, are analyzed and tested using advanced multi-variant statistical techniques which find the optimal combination of credit characteristics that are the most predictive of the credit behavior for which the model is being constructed. Characteristics that are identified from this process are then evaluated by highly trained and experienced statisticians who review each characteristic identified in terms of its relative importance and relationship with other characteristics selected. Characteristics that cannot be rationalized from this process are then replaced with other characteristics and the preliminary credit model is reevaluated until all characteristics selected for the final model can be logically understood and explained by the team of statisticians involved in the project.

Attachment B

TransUnion Insurance Risk Index Declines for Second Straight Quarter

Chicago, March 22, 2010 – New TransUnion data finds that its proprietary Insurance Risk Index declined for the second straight quarter at the end of 2009, possibly pointing towards a moderation in risk for the U.S. insurance industry. Developed as a risk barometer specifically for the insurance industry, the Insurance Risk Index is designed to show the relative expected loss ratio for market segments throughout the country.

The Insurance Risk Index decreased by 14 basis points in the fourth quarter of 2009, falling from 99.46 in the third quarter of 2009 to the current 99.32 level. The last time the Insurance Risk Index decreased two consecutive quarters was prior to the current recession between the fourth quarter of 2006 and the first quarter of 2007.

The key ingredient in the Insurance Risk Index is TransUnion's insurance risk models, which are influenced by the length and stability of responsible credit performance. Benchmarked to the U.S. national average of 100 as of March 31, 2001, the Insurance Risk Index facilitates comparisons across geographies and demographic segments. For example, a state with an index of 110 is 10 percent riskier than a state with an index of 100.

"The drop in the Insurance Index is encouraging news for the industry and consumers," said TransUnion's Geoff Hakel, group vice president, Insurance business unit. "Allowing the insurance industry to compare the risk level of states in which they operate to their own portfolios creates an environment where more informed risk decisions can be made. Better portfolio management has the potential to lead to better insurance pricing for consumers."

TransUnion's Insurance Risk Index – Statistics
From an insurance risk perspective, the Insurance Risk Index posted its second noticeable decrease since the fourth quarter of 2007. More importantly, every state, except Connecticut, Minnesota and Mississippi exhibited a decline from the previous quarter. Year over year, the Insurance Risk Index has increased only 0.14 percent since the fourth quarter of 2008.

Montana continues to rank as the riskiest state with an index of 109.33. It is followed by Washington (105.56), Mississippi (103.02) and Arkansas (101.78). The states demonstrating the least risk from an insurance risk perspective are Alaska (94.80), Minnesota (95.34), Massachusetts (95.41) and Hawaii (95.82).

Analysis
"The Insurance Risk Index, which today stands below 100, should continue to drift slightly lower and then flatten out over the next few quarters as employment conditions across the U.S. improve. Improving employment conditions enable more consumers to remain current on their existing credit obligations, as the timely repayment of credit obligations is an important component within TransUnion's insurance risk models. " said Chet Wiermanski, global chief scientist at TransUnion. "In particular, the second consecutive quarterly decline in the Insurance risk Index within more than 47 states is very encouraging."

TransUnion's Trend Data database

The source of the underlying data used for this analysis is TransUnion's Trend Data, a one-of-a-kind database consisting of 27 million anonymous consumer records randomly sampled every quarter from TransUnion's national consumer credit database. Each record contains more than 200 credit variables that illustrate consumer credit usage and performance. Since 1992, TransUnion has been aggregating this information at the county, Metropolitan Statistical Area (MSA), state and national levels.
www.transunion.com/trenddata

About TransUnion
As a global leader in credit and information management, TransUnion creates advantages for millions of people around the world by gathering, analyzing and delivering information. For businesses, TransUnion helps improve efficiency, manage risk, reduce costs and increase revenue by delivering comprehensive data and advanced analytics and decisioning. For consumers, TransUnion provides the tools, resources and education to help manage their credit health and achieve their financial goals. Through these and other efforts, TransUnion is working to build stronger economies worldwide. Founded in 1968 and headquartered in Chicago, TransUnion employs associates in more than 25 countries on five continents. www.transunion.com/business

Attachment C

TransUnion Credit Risk Index Plateaus, Suggesting Improved Consumer Risk Conditions for the U.S.

Chicago, March 16, 2010 – TransUnion reported that during the fourth quarter of 2009 the Credit Risk Index (CRI) indicated that risk conditions in the U.S. are beginning to moderate. The Credit Risk Index is a statistic developed to measure the changes in average consumer credit risk within various geographies across the nation.

During the fourth quarter of 2009, TransUnion's Credit Risk Index increased nationally 38 basis points to129.67 from 129.29 in the third quarter, the smallest increase of this measure since the early stages of the current recession.

"Based upon the Credit Risk Index it appears that we may have possibly reached a plateau for credit risk after five consecutive quarters of significant increases, suggesting that the financial recovery is beginning to take hold as consumers continue to adapt their lifestyle and debt management practices to navigate these difficult economic times," said Chet Wiermanski, global chief scientist at TransUnion.

TransUnion Credit Risk Index – Statistics

Although the Credit Risk Index continued its climb reaching an all-time high at the national level for the fifth consecutive quarter; the growth rate continued to decelerate, as 10 states, predominately located east of the Mississippi river (Alabama, Tennessee, Illinois, Kentucky, District of Columbia, Rhode Island, Vermont, Maine, Alaska, and North Carolina) experienced quarterly declines.

The rate of increase between the third and fourth quarters for the Credit Risk Index was the lowest since the end of 2008, when the nation experienced a 2.61 percent decline from 120.89 to 117.74. On a year-over-year basis, the Credit Risk Index increased 3.92 percent (from 124.79 in the fourth quarter of 2008).

On a state basis, Mississippi continues to rank as the riskiest state, from a credit risk perspective, with a Credit Risk Index of 169.22. It is followed closely by Nevada (167.19) and Texas (164.23). Continuing from the previous quarters, the least risky states are concentrated in New England and the Upper Midwest areas of the country, with North Dakota coming in at 84.76, Minnesota at 91.50 and Vermont at 92.97.

Analysis

"We anticipate the Credit Risk Index will remain flat as consumers continue to take on less bank card debt and as employment conditions improve," said Wiermanski. "The prospect of a decrease in the Credit Risk Index for the first time in more than two years possibly as early as the end of 2010 continues to improve as the economic recovery expands to a greater number of states in the coming months."

The Credit Risk Index is defined as the weighted average probability of 90-day delinquency or worse among consumers in a given region relative to the nation as a whole. The Credit Risk Index uses the fourth quarter of 1998 as a baseline for comparison. Therefore, it measures changes in consumer credit score distributions relative to the national distribution and delinquency rates as a whole at the end of 1998.

TransUnion considered 1998 as a representative year of credit performance within the usual dynamic of the historical credit cycle. A value of more than 100 represents a higher level of relative risk. For comparison purposes, the Credit Risk Index in recent years has generally ranged between 110 and 120, experiencing a one- or two-point shift between quarters.

TransUnion's Trend Data Database
The source of the underlying data used for this analysis is TransUnion's Trend Data, a one-of-a-kind database consisting of 27 million anonymous consumer records randomly sampled every quarter from TransUnion's national consumer credit database. Each record contains more than 200 credit variables that illustrate consumer credit usage and performance. Since 1992, TransUnion has been aggregating this information at the county, Metropolitan Statistical Area (MSA), state and national levels.
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Attachment D

Free Consumer Credit Videos, Quizzes at TransUnion.com Focus on Key Aspect of Personal Finance: Managing Credit Health

DVD Version Offered to Help Educate Consumer Groups, Organizations
February 9, 2010

TransUnion, a global leader in credit and information management wants to help U.S. consumers get a better handle on how credit works, when they have access to it, and what their part is in that process. To do so, the company has introduced a credit education video series on its U.S. website entitled "Understanding Your Credit." The series features 5 topically-based segments, knowledge quizzes for each segment and informational links to related content at TransUnion.com. The videos can be accessed free of charge from that home page or directly at www.transunion.com/creditvideo

"The current economic climate has consumers more focused than ever on their credit standing, yet we're seeing that there's quite a bit about how credit works and the role individuals can play in keeping their own credit in good standing that many people just don't understand," said Mark Marinko, TransUnion President of Consumer Services.

After viewing a brief introduction, consumers can either let the full video program play straight through or opt to pause between segments in order to take brief credit literacy quizzes covering the content they've just watched. The quizzes provide feedback as well as a letter grade based on the knowledge consumers demonstrate about each section. A built in "share" feature makes it easy to invite others to view the material at their convenience. The five topical segments covered in the series are:

-- Credit Reporting and How Credit Works

-- Seven Steps to a Healthier Credit "Core"

-- Ensuring the Accuracy of Your Three Credit Reports

-- Fraud and Identity Theft

-- Credit Scores

"TransUnion has created a solid primer for a broad spectrum of consumers struggling through an economic crisis rooted, to a great extent, in financial illiteracy," said John Hope Bryant, Operation HOPE Founder, Chairman and CEO, Vice Chairman, U.S. President's Advisory Council on Financial Literacy and author of the new bestselling book, LOVE LEADERSHIP. "The video series promotes understanding and transparency around the key areas of credit -- what it is, how it impacts our lives -- and ultimately provides the kind of knowledge that can help families better navigate today's complex financial world."

A DVD version of the videos is also available upon request to groups seeking credit education-focused presentation materials for large audiences.

"We've tried to put ourselves in consumers' shoes," added Marinko. "What would we want to know about how credit works, and how would that knowledge help each of us better achieve our own personal life goals?"

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