Comment #6

From: Mike Bixby
Sent: Monday, December 06, 2004 11:47 AM
To: AccuracyPilotStudy
Subject: Accuracy Pilot Study: Paperwork

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Mortgage Cr...

Comments regarding the Pilot Study to aid FTC Commission Staff in conducting a study of the accuracy and completeness of consumer reports pursuant to Section 319 of the Fair and Accurate Credit Transactions Act of 2003.

Your proposed study regarding consumer credit reports is a good starting place and should be done.

Another area that should be looked at in more detail, is the "3 Bureau Merge" credit reports that are used by mortgage lenders to qualify borrowers for home loans. These 3 Bureau Merge reports combine the data from the three credit repository bureaus (Equifax, Experian and Trans Union) into a single report. This process of "merging" the data is more art than science and can lead to errors that could affect the apparent credit worthiness of the borrower, as well as the interest rate and "points" that are offered to the borrower. Over the life of a mortgage loan, an error in a 3 Bureau Merge report can cost the borrower thousands of dollars in interest and other charges.

3 Bureau Merge reports are normally produced for mortgage lenders by credit bureaus (Informative Research, First American / Credco, CBC, Factual Data, Fidelity National, etc.). The credit bureau accepts the request for a 3 Bureau Merge report from the lender, orders the credit data from the three repository bureaus, and then "merges" the data from the three repositories into a single report and returns the report to the lender. The lender then runs the "merged" credit data through their automated underwriting system, and decides whether or not to accept the loan application. If the credit data is acceptable, the lender then make a decision about what interest rate and points to offer the borrower, based on the credit history in the 3 Bureau Merge report.

There are two steps in the production of the 3 Bureau Merge credit report, that can lead to errors or misinterpretation of the credit data by the mortgage lender:

1) "De-duping" is the process of identifying duplicate liability records, public records, and inquiry records received from the three repositories. A properly "de-duped" credit file should contain the all of the data records of the borrower, and not show the same record more than once. When liability records are not fully "de-duped", this can result in the report summary showing higher total unpaid balance and monthly payments. Some types of liabilities, like student loans, are sometimes difficult for a computer to always accurately "de-dupe" because often the student's SSN is used as their Account Number for all of their student loans. When public records are not fully "de-duped", this can result in the same tax lien, bankruptcy or judgment being counted more than once in the report summary totals.

2) "Merging" is the process of taking the information from a set of duplicate liabilities, or public records and blending that data back into a single record. For example, you would expect that auto loan data would be reported identically by all three repository bureaus. Often, this is NOT the case, especially for loans that have a lot of late payments or have gone into collection or have been charged off. When this data is "merged" by a credit bureau's software algorithm, the resulting data may not always reflect the true status of the loan account.

I don't want to give the impression that there is anything malicious or intentional about any of this. The best analogy is that it is similar to the exercise of telling a story to one person, who tells another, who tells another, etc. And the story that the last person hears may have significant differences from the original. The credit reporting process begins with a lender's interpretation of their borrower's payment history, converted into their computer codes, converted again when they report their monthly data to the credit repositories, who then convert it again into their own internal format. When a credit bureau orders a credit report, they take the coded credit data from each of the credit repositories, convert it again into their internal formats, "de-dupe" and "merge" the data, and then convert it again into the credit data format used by the lender, who then convert it into their internal data format they they use for underwriting.

Early this year I co-authored an article titled "Data Standards and Mortgage Credit Reporting" (attached). This article was published as part of a book titled "The Standards Edge: Dynamic Tension". The article focused on the impact of data standards on mortgage credit reporting. It also hinted (on pages 11-12) at some of the difficulties and potential problem areas related to credit data integrity. The types of potential problems that I discussed here, tend to have a greater effect on borrowers that have significant amounts of adverse data in their credit files. Borrowers in this "sub-prime" classification can least afford the higher interest rate or "points" that they may be offered on a mortgage loan.

I would recommend forming a study similar to the current proposed study, but uses 3 Bureau Merge reports. It should primarily use borrower subjects with "sub-prime" credit histories. The study should order 3 Bureau Merge credit reports for these borrowers from four or five of the major credit bureaus used by Fannie Mae and Freddie Mac. Ideally, the credit data from each credit bureau should also be analyzed by a group of lenders using their underwriting software to see what interest rate and "points" would be offered to those same borrowers, based on the credit history as presented in the 3 Bureau Merge reports from different credit bureaus.

I have worked in the credit reporting industry for the last twenty years and have developed software and algorithms for "de-duping" and "merging", as well as software for converting data from one format to another. Since 2000, I have been the Co-chair of the Credit Reporting Work Group of MISMO (Mortgage Industry Standards Maintenance Organization), which creates and maintains data standards for the mortgage industry. I believe that all of the companies involved in credit reporting make diligent efforts to provide data that is accurate, but I also know that because the "de-duping" and "merging" processes are more art than science and because of the number of data conversions involved, there is room for inadvertent errors to be made.

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