

N*A*I*C*R*A

National Association of Independent Credit Reporting Agencies, Inc.

SURVEY/STUDY

THREE BUREAU MERGED INFILE

vs.

**TWO BUREAU RESIDENTIAL MORTGAGE
CREDIT REPORT**

Prepared by the
N*A*I*C*R*A SECONDARY COMMITTEE
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PREFACE

BACKGROUND

Credit professionals within the industry empirically know that computers, credit report modeling, artificial intelligence and databases are no substitute for a detailed and professional review covering all variables found within a mortgage applicant's credit history.

Dealing with the complexities of highly active databases where hundreds of millions of updates are recorded each and every week is, to say the least, a very complex task.

As concerned credit professionals, we recognize Equifax, TransUnion and TRW for their attempts to provide the most accurate consumer credit report possible. Nevertheless, we are concerned with the potential implications of total reliance on the accuracy of these respective databases:

- Will consumers be denied the right to purchase a home based on erroneous information contained within a three repository merged infile report?
- Might they be assessed higher interest rates and points based on ill-perceived factors regarding their credit risk?
- Could the safety and soundness of certain mortgage loans be compromised on the basis of inaccurate credit information?

THE STUDY

Armed with these concerns, The National Association of Independent Credit Report Agencies commissioned a study to compare the three repository merged infile credit report against the Residential Mortgage Credit Report. The enclosed study specifically addresses two of the pervasive attitudes within the mortgage industry today.

The three (3) repository merged infile report is accurate, and therefore sufficient in determining the credit risk factor in context to the loan approval or denial process.

The custom developed Residential Mortgage Credit Report is "pass" in today's marketplace and should no longer be considered as an absolute, must-use source of credit history verification for conforming loans sold to or guaranteed by the U.S. taxpayer via the secondary market.

OBJECTIVE

Compare the Three-bureau Merged Infile to the Two-bureau Residential Mortgage Credit Report to determine:

- (1) if a three-bureau merged report should be considered an end product in the decision-making process for mortgage lending,
- (2) if the third bureau adds any value to the credit report process, and
- (3) if the Residential Mortgage Credit Report portrays the most accurate picture of the mortgage applicant's credit history.

SAMPLE/PARTICIPATION

Files were requested from a broad geographic sample of credit reporting agencies nationwide, including N*A*I*C*R*A members and supporters as of September, 1993, and all Factual Data offices (see Exhibit A).

Participants were asked to randomly select 50 files, pull a three-bureau merged infile on each, then do a two-bureau RMCR, including an interview, on each, and send the information required to the project coordinator. Thirty-two offices participated in the study, providing 1,710 files for comparison. (see Exhibit B).

SURVEY ANALYSIS

All survey data was assembled and tabulated by Glenn Heider, a former bank president who is an independent third party not affiliated with N*A*I*C*R*A, and the results were sent to the N*A*I*C*R*A research committee for analysis and reporting.

The results of the comparison between the Three-bureau merged infile and the Two-bureau RMCR are found in Exhibit C.

The results of the investigation into the value brought to the credit report by the third bureau are found in Exhibits D-I and D-II.

NON-PARTICIPANTS

A mini-study of 50 files was conducted after the completion of the original study. These files were requested from five offices which had been asked but had not participated in the original study.

The purpose of this mini-study was to make sure that there would be no significant difference in the results if data from non-participants were included with that of the participants.

The data from these files was tabulated by the same person in the same manner as the data from the original 1,710 files.

Offices participating in this mini-study were from California, Florida, Missouri, and Texas.

The results of the mini-study are found in Exhibit E.

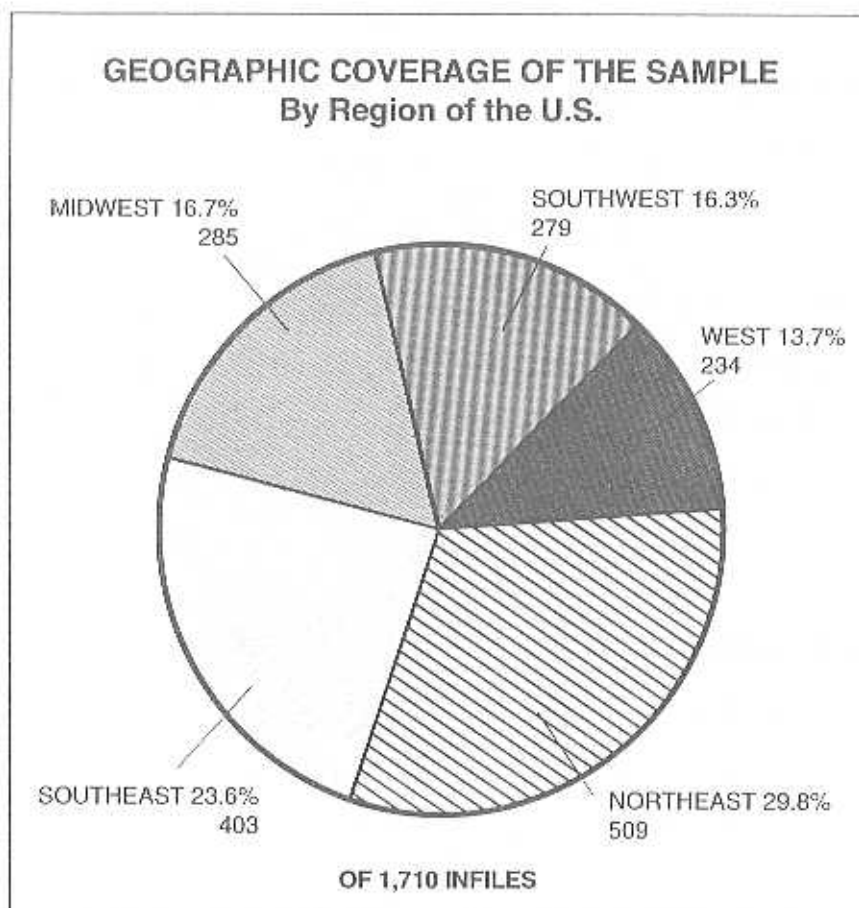
EXHIBIT A

LIST OF AGENCIES

FROM WHOM FILES WERE REQUESTED

NAME OF COMPANY	CONTACT PERSON	CITY	STATE
Mortgage Credit Services	John Holloway	Dorhan	Alabama
Credit Bureaus of Montgomery	John Holloway	Montgomery	Alabama
Factual Data - Phoenix (FDC)	Sue Schmitt	Phoenix	Arizona
Factual Data - Little Rock	Sonny Drouilhet	Little Rock	Arkansas
CAL Cred Corp.	Rick Kennedy	San Diego	California
Factual Data - Northern California	Mary Lou Nuehr	Sacramento	California
Factual Data - Los Angeles (FDC)	Debra Casados	Burbank	California
Lender's Credit	John Stanton	Woodland Hills	California
Factual Data - Southern California	Roy Greene	San Diego	California
Pacific Credit Information	Nila Flynn	San Francisco	California
Factual Data - Northern California	Ronald Ruzdzinski	Lowland	Colorado
Factual Data Corp.	Jerry Dannon	Fort Collins	Colorado
Factual Data - Denver	Jim Guilfo	Denver	Colorado
Factual Data - National (FDC)	Kathy Tomashoy	Fort Collins	Colorado
Merchadis Reporting Services	David Bradford	Wethersfield	Connecticut
Florida Services dba Datafax	Carolyn Herman	Tampa	Florida
CBJ Associates	Craig Buchanan	Jacksonville	Florida
Datafax Credit Bureau	Tom Mahaney	Fort Lauderdale	Florida
Factual Data - Tampa	Tom Fritz	Tampa	Florida
Direct Credit Research Corp	Allen Tullhill	Clearwater	Florida
Datafax Credit Services	Jerry Nickerson	Fort Myers	Florida
Florida Credit Bureau, Inc.	Howard Walch	Maitland	Florida
Associated Credit Information Services	Tom Droher	Rockledge	Florida
Credit Bureau of West Point	Sharelen Underwood	West Point	Georgia
CBD/Factual Data - Atlanta	Stephen Friedrich	Dallas	Georgia
Southern Mortgage Reporting	Kyle McMahan	Norcross	Georgia
Heritage Credit Reporting, Inc.	Michael Kelly	Palatine	Illinois
Factual Data - Chicago (FDC)	Willie Brunz	Des Plaines	Illinois
American Credit Connection, Inc.	Terry Clemans	Schaumburg	Illinois
Premier Mortgage Credit Services	Al Zernitz	Schaumburg	Illinois
Credit Bureau Services, Inc.	Susan Howles	Valparaiso	Indiana
Mortgage Reporting Services	Thomas Dent	LaPorte	Indiana
Factual Data - Indiana (FDC)	Monica Pontenberg	Indianapolis	Indiana
Mortgage Credit Services, Inc.	Donald Miller	Indianapolis	Indiana
Vistro Credit Services, Inc.	Alan Grabb	Davenport	Iowa
Credit Information Systems - Midwest	Ross Russell	Council Bluffs	Iowa
Quality Mortgage Reporting	Charles Greco, Jr.	Lenexa	Kansas
Investor's Data Services, Inc.	Rick Illand	Lexington	Kentucky
Credit Bureau of Shreveport	Karen Vestrine	Belton Rouge	Louisiana
Credit Bureau Services	Sonny Drouilhet	Metairie	Louisiana
Credit Bureaus of Del-Mar-Va	Steven Grant	Salisbury	Maryland
Standard Credit, Inc.	Stephanie Puleo	Boston	Massachusetts
Factual Data - New England	Stephen Sheldon	Burlington	Massachusetts
Factual Data - Detroit	A'fred Achilli	Southfield	Michigan
Factual Data - Minnesota	Diana Ho'ec	Saint Paul	Minnesota
Mortgage Information System, Inc.	Rick Mortgage	St. Louis	Missouri
Factual Data - Missouri	Krista Davis	Jefferson City	Missouri
Factual Data - Nevada	Logan Bagley	Las Vegas	Missouri
Consolidated Information Services, Inc.	Kenneth Inadomi	Flanders	New Jersey
Credit Resources, Inc.	Karen Sluzak	West Paterson	New Jersey
Credit Link	Mary Ellen Bush	Atlantic Highlands	New Jersey
Credit Lender Services	Thomas Swider	Cherry Hill	New Jersey
Eastern Credit Research	Allan & Lisa Niemoika	Brock	New Jersey
Factual Data - New Mexico (FDC)	Michelle Harmon	Albuquerque	New Mexico
The Credit Bureau	Gregg Heiler	Williamsville	New York
Credit Bureau of Rochester	Gregg Heiler	Rochester	New York
TCAR Credit Data Services	Chris Dunkleavy	Schenectady	New York
DD&C dba Factual Data of Carolina	Rayo Holston	Charlotte	North Carolina
Factual Data - Ohio	Tom Fritz	Cincinnati	Ohio
Factual Data - Oklahoma (FDC)	Tammy Braswell	Tulsa	Oklahoma
Confidential Data Services	Doreen Murner	Malvern	Pennsylvania
Johnstown Credit Bureau, Inc.	Nancy Bois	Johnstown	Pennsylvania
Professional Mortgage Ref. Services	Susan Newman	Morrisville	Pennsylvania
Credit Bureau of Harrisburg	Lee West	Harrisburg	Pennsylvania
Credit Services, Inc.	Cindy Harrison	Memphis	Tennessee
Factual Data - Central Texas	Kenneth McCrady	Austin	Texas
Mortgage Credit Services, Inc.	Larry Knigge	Houston	Texas
Factual Data - D/FW Metroplex (FDC)	Gail Naderer	Dallas	Texas
Advanced Credit Technology, Inc.	James Fuchs	San Antonio	Texas
Factual Data - South Texas	Louie Smith	Houston	Texas
NACM Intermountain	Logan Bagley	Salt Lake City	Utah
Factual Data - Seattle	Jim deMoye	Seattle	Washington
Metco West Credit Bureau	Scott Zendarvan	PawPaw	Wisconsin
Factual Data - Wisconsin	Gene/Barbara Meisner	Brockfield	Wisconsin
Credit Information Systems	Linda/Jerry Russell	Rawlins/Casper	Wyoming

EXHIBIT B



NORTHEAST

ME, NH, VT, NY, MA, CT, RI, PA, NJ, DE, DC, MD, WV, VA

SOUTHEAST

NC, SC, GA, TN, KY, AL, MS, FL, LA, AR

MIDWEST

OH, IN, IL, MI, WI, MN, ND, SD, IA, MO, NE, KS

SOUTHWEST

TX, OK, AZ, NM

WEST

MT, WY, CO, UT, NV, CA, ID, OR, WA, AK, HI

EXHIBIT C
RESULTS

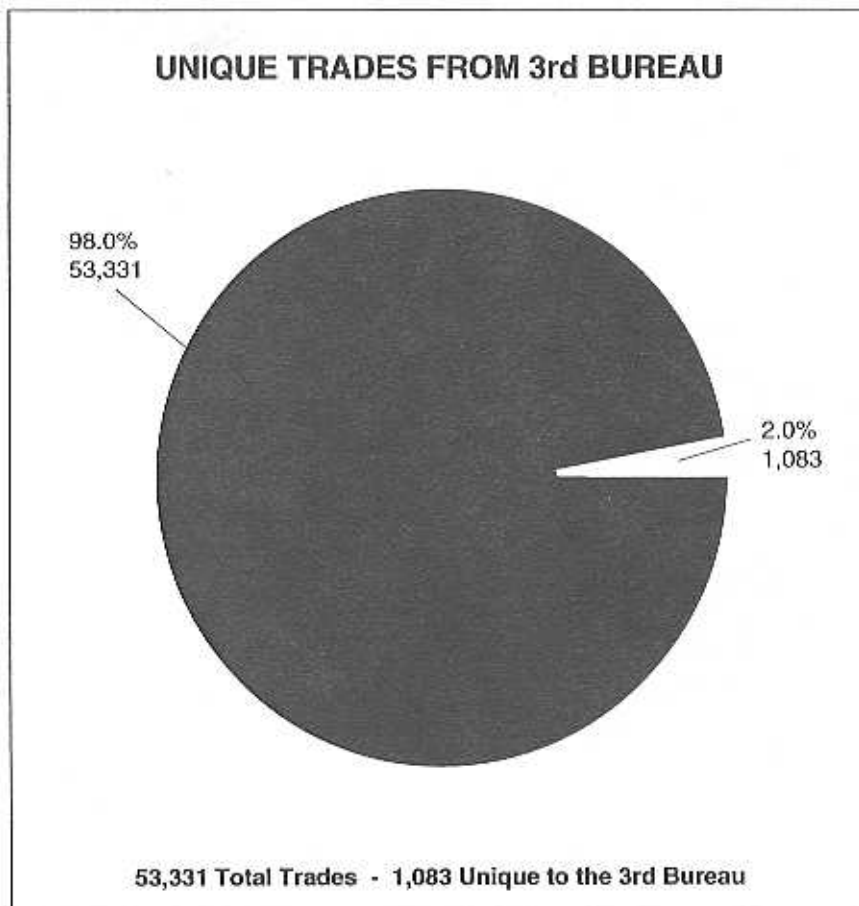
REGARDING THE THREE-BUREAU MERGED

- 29% of the Trades were duplicates
- 15% of the Inquiries were duplicates
- 26% of the Public Records were duplicates
- 19% of the files had outdated trades showing balances over 90 days old.
- 44% of the files had missing information (balance/payment)

REGARDING THE TWO BUREAU RMCR:

- 19% of the files had additional trades added from the 1003 which were not reported by the respective repositories
- 11% had additional trades, not reported by the repositories, added as a result of inquiry investigation
- 16.5% had derogatory information deleted as a result of the investigation
- 3% had trades which were removed because they didn't belong to the borrower
- 2% had erroneous public record corrected
- All outdated \$\$ balances were updated
- All missing information was verified as a result of the investigation (balance/payment)

EXHIBIT D-I

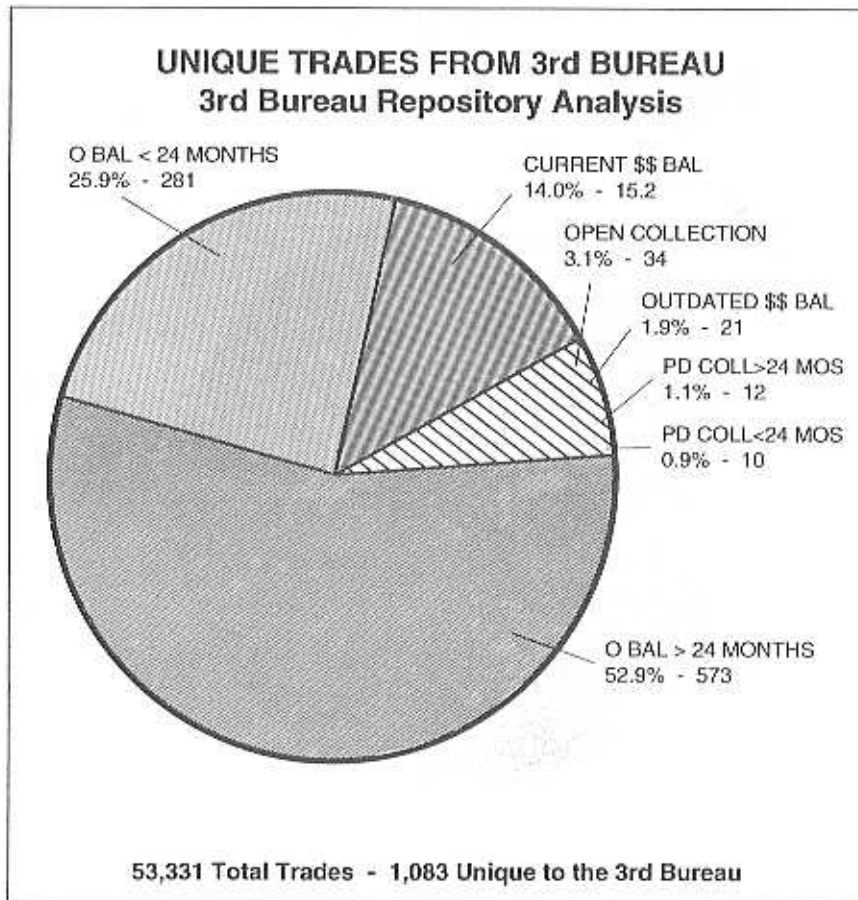


After the results of the first 250 files were presented to representatives of the Federal Home Loan Mortgage Corporation and the N*A*I*C*R*A committee was asked to include additional information on the third bureau contribution, the remaining 1,460 files were analyzed to include that information.

Looking at the 1,460 files, then, with 53,331 cumulative total trades, 1,083 trades were found to be unique to the third bureau. This represents two percent of the total trades pulled by all three repositories.

The breakdown of the 2% of trades unique to the third bureau follows in Exhibit D-II.

EXHIBIT D-II



BREAKDOWN OF THE 2% OF TRADES UNIQUE TO THE 3rd BUREAU:

- 573 (52.9%) of them had been paid off over 20 months ago
- 281 (25.9%) were paid off within the past 24 months (15 showed derogatory)
- 152 (14%) were current accounts with \$\$ balances (13 showed derogatory)
- 21 (1.9%) were outdated showing a balance over 90 days old (4 showed derogatory)
- 34 (3.1%) had open collection accounts
- 12 (1.1%) had collections which had been paid off over 24 months ago
- 10 (0.9%) had collection accounts which had been paid off within the last 24 months

EXHIBIT E

RESULTS - MINI STUDY

REGARDING THE THREE-BUREAU MERGED

- 32% (521 trades) were duplicates
- 9% of the Inquiries were duplicates
- 26% of the Public Records were duplicates
- 12% of the files had outdated trades showing balances over 90 days.
- 50% of the files had missing information (balance/payment)

REGARDING THE TWO BUREAU RMCR:

- 18% of the files had additional trades added from the 1003 which did not show up on the repositories
- 2% had additional trades not reported by the bureaus added as a result of inquiry investigation
- 30% had derogatory information deleted as a result of the investigation.
- 2% had trades which were removed because they didn't belong to the borrower
- 4% had erroneous public record corrected
- All outdated \$\$ balances were updated
- All missing information was verified as a result of the investigation (balance/payment)

CONCLUSIONS

March 8, 1994 at 3 p.m. CST, The Board of Directors for N*A*I*C*R*A adopted the following conclusions from the N*A*I*C*R*A Survey/Study, Three Bureau Merged Infile vs. Two Bureau Residential Mortgage Credit Report, March 1, 1994.

1. The three bureau merged infile does not provide an accurate picture of the homebuyers credit report history and shouldn't be the end product for making the mortgage lending decision.

2. The third bureau does not add significant value to the mortgage credit report process.

3. The RMCR (Residential Mortgage Credit Report) provides the most complete and accurate picture of the homebuyers credit.

SUMMARY

The study found the three (3) repository merged infile product to be fraught with erroneous and misleading information which, in conjunction with an artificial intelligence underwriting system, could draw the wrong conclusions concerning the credit worthiness of certain borrowers. Even with personal review by mortgage industry practitioners, the data could be cryptic and misleading.

Only through the tried and proven development of a Residential Mortgage Credit Report can the mortgage industry and government sponsored agencies be reasonably assured that the credit profile of the borrower will be correctly portrayed. The consumer may otherwise not be given the benefit of reviewing his/her credit record within the early stages of the mortgage loan process, nor the ability to challenge the accuracy of certain information. All such information is directly re-verified with the credit grantor, collection agency, or court, and deleted or corrected if not verifiable by the original source.

Under an automated three (3) repository merged product, the consumer may be totally unaware of the credit circumstances under which his/her loan was approved, denied or concomitant rates and points set. Under a "turn down" or underwriting contingency, the consumer will be required to request a re-investigation of the raw data from the infile directly from all three repositories. Such action would take, under today's environment, an absolute minimum of 5 weeks from the time of initiation of the credit report request. This compares to a matter of days (typically two to three) under the certified Residential Mortgage Credit Report.

Mortgage underwriters and investors have, for the past 3 to 4 years, concluded that if two (2) repositories are needed to ensure depth and accuracy in developing a RMCR, then three (3) repositories will bring even greater accuracy to the final product. Such is not the case.

Our industry standard is to draw consumer credit data from the strongest and second strongest databases within each postal zip area. Through this study, we have proven that a very small percentage of original data is developed by using the third (typically the weakest database). In fact, only 1/4% of all the data is considered to be of any value whatsoever. We ask the question: "Is it worth the added expense, time and value to the underwriting decision to sift through thousands of meaningless bits of information to find the one (1) item out of four hundred (400) that may or may not have any value to the underwriting decision?"

Please join N*A*I*C*R*A in our effort to assure the use of the most reliable source of credit information for each person as they seek the "American Dream" of home ownership.

**For further information regarding this report
or
to order a copy of the report, please contact:**

N*A*I*C*R*A

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