Bill Merrill: Good afternoon, and welcome to FHFA's Listening Session on Credit Scores, a very important topic to the agency. My name is Bill Merrill, and I'll be moderating today's session.

The first thing I would like to do is thank you all very much. Last time I checked, we had over 350 attendees, as well as 28 speakers. So thank you so much for your time. We greatly appreciate it today. And a special thank you to our speakers for the time to prepare.

I'll review our agenda very quickly. The Director will be providing opening comments to us this morning -- this afternoon. It will be followed by a comment from our general counsel's office. I will be providing a short overview on where the Enterprises and FHFA have been on credit scores. And then we'll move to the most important item, which is to hear from our speakers today.

So with that, I will turn it over to Director Thompson for opening comments, Director.

Director Thompson: Thank you, Bill. And let me thank our participants for joining today's virtual listening session. The purpose of this session is to update the public on the FHFA credit score project. We're going to discuss the progress the Enterprises have made to date, as well as the recent changes on how Fannie Mae and Freddie Mac use credit scores, their use of nontraditional credit, and we will review some of the access to credit issues that have been discussed in the past.

We very much want to hear from you about the impact of changing the credit score model, as well as any other ideas you might have. As you know, FHFA has a strategic priority to promote equitable access to affordable and sustainable mortgage credit. Toward this end, the Economic Growth, Regulatory Relief, and Consumer Protection Act required us to issue a rule establishing a process for Fannie Mae and Freddie Mac, to validate and approve credit score models.

FHFA issued a Rule in August 2019, establishing a four-phased process. As part of this process the Enterprises announced in February 2020 that they will accept applications for new credit score models. They received new model applications from FICO and VantageScore. And both companies are scheduled to speak as participants in today's session.

All of the newer credit score models offer advantages over classic FICO, which the Enterprises have used for nearly 20 years. The newer models are generally more accurate, reliable, and predictive than classic FICO, because they were devoted to include more recent borrower credit behavior, and they use newly available consumer information at the Bureaus.

FHFA expects to replace classic FICO, and the Enterprises have conducted a thorough evaluation of the applications received. But before the decision is finalized, we wanted to have this conversation and get as much input and feedback as possible on this very important issue.

For us, it's important for everyone to fully understand the pervasiveness of credit scores, and the magnitude of transitioning to new credit score requirements. As you all know, credit scores are used extensively throughout the housing finance industry. They're not just used to determine borrower eligibility for a mortgage; scores are used in pricing decisions, investor disclosures for MBS and CRTs, our Capital Rule and many more models, more than can be counted.

Any transition to using a new credit score, whether it's a single score, or multiple scores, will impact every sector of the mortgage market. We're here today, because we want your input so that we can make a well-informed decision regarding the options covered in the listening session.

I want to caution that no proposed credit score option will be a silver bullet for expanding equitable access to credit. Enhancements to the Enterprise underwriting systems have already minimized the impact of third party credit scores on access to credit. Expanding equitable access to credit will require a consistent, sustained approach to innovation beyond credit scoring.

These approaches include some of the activities in the equitable housing finance plans that have been developed by Fannie Mae and Freddie Mac to expand access to credit for underserved communities. We at FHFA are fully committed to working with the GSEs to responsibly reduce racial and ethnic disparities in homeownership and wealth.

Thank you again for joining today's listening session. And I'll now turn the program over to Kevin Sheehan.

Kevin Sheehan: Thank you, Director Thompson. My name is Kevin Sheehan. I'm a lawyer at FHFA. I think as Bill mentioned at the top, we are recording this session. And I know that many of the people who will be presenting have already provided valuable feedback to FHFA, Fannie Mae, and Freddie Mac, as we have followed the process that was laid out in our final Rule, and as described by Director Thompson.

FHFA has invited you to meet with us today, in order to obtain public input on credit score model validation and approval. So, you should be aware that FHFA will prepare a transcript of this meeting, including your names and the organizations you represent. And we're going to post the recording of this session and the transcript on FHFA's website and on our YouTube channel.

Please remember that nothing that's said in this meeting should be construed as binding on FHFA or the Enterprises, or a final decision by the FHFA Director, or FHFA staff. Any questions that we may have, I don't know what we'll have, we're going to be in listening mode. But any questions that we have, would be focused on understanding your views and are not intended to communicate a position of FHFA staff or the Agency.

So lastly, I know we have a great lineup of speakers. But the time that we've allowed for each is very limited, because we wanted to hear from as many people as possible. So I'm sure that each speaker probably has more to share than they can fit into the limited time that we've allotted.

But I would ask everyone to just help Bill keep us on schedule and respect his efforts as moderator. Because we really do want to hear from everyone. And we also want everyone to have the same opportunity to present.

And so with that, I'll turn it back to Bill to guide us through the session.

Bill Merrill: Thank you, Kevin, appreciate your time. And Director, thank you for your time as well. We want to move to the next agenda item.

We're going to be presenting a short presentation. We felt it was very important to give some grounding on credit scores, how they impact FHFA and the Enterprises. So I'm going to provide that information a little bit ahead of the speakers here to make sure we set the tone on where we've been and where we've come over the multiyear efforts that we've done.

So I'm going to start a little bit with background. The Director alluded to this. Back in 2018, Congress passed and the President signed, the Economic Growth, Regulatory Relief, and Consumer Protection Act. That had inclusive of it provisions around credit scores.

A couple items of note. The Act does not require the Enterprises use a credit score. However, if they use a credit score as part of their process of acquiring a loan, that score must be validated and approved.

It also asked FHFA to publish a regulation. That regulation would provide the standards and criterias for the Enterprises to follow, to approve and evaluate those models subject to the Act.

I'm happy to report that back in 2019, FHFA completed that regulation and published it out. As the Director mentioned to you, just to go into a little more detail, the main part of the regulation specified four phases for the Enterprises to follow.

That was the solicitation of the credit score model developers. The next part was to review the application, the Enterprises had specific requirements of any developer submitting a model and working through those.

The third phase was a credit score assessment. That was focused on trying to align the score with previous scores and to see and measure accuracy of score models.

The last and most encompassing phase was the Enterprise business assessment. The Enterprises were tasked with assessing the impact to the industry. And I'm sure many of you on this phone call potentially interacted with Fannie and Freddie, as they did a long-term assessment of the impact of credit scores across the industry.

So I'm happy and pleased to report that the Enterprises have completed all four phases of the regulation on time and have submitted their recommendations on how to proceed to us. And that decision, as Kevin alluded to, is now with FHFA for our consideration.

I'm going to cover a little bit on where credit scores touch the industry. There's certainly a lot of focus, and I think we'll hear some of that today on use of credit scores and underwriting. But it is very expansive in both primary and secondary markets and investors.

So I'm not going to go into too much detail here, but I wanted to make sure that we shared that as we looked at this, it crosses a lot of the aspects of mortgages. From the initial loan application and underwriting which may be done at a lender to look at product eligibility for a certain investor, to pricing and delivery. The Enterprises in their LLPs and their delivery fees use credit scores for pricing back to the borrower that could be affecting the borrower's rate.

It's used in servicing, the MIs may use it to help determine what their premiums are, and servicers may look at it to determine what the chances are a borrower may go into default or further into default.

Issues in our CRT programs, we take a look at it, the investors may look at it, determine and help with criteria for reference pools to take a look at where cut points may be and where credit enhancements in the capital benefit would be within CRTs.

And securitizations. It's in MBS and UMBS. Investors may use it for prepayment models and decide what they want to pay into the situation. It's disclosed to investors over time.

Risk models. I'm sure many of you use this as part of your day to day operations but the Enterprises do as well. Many of their risk models that they factor into their default, into their pricing, into the way they report out, are driven by the credit scores on the existing portfolio.

Also around disclosures. It's often forgotten but Freddie and Fannie still published Q's and K's. Credit scores can show up in Q's and K's in that process. It also has a role in capital. As we look at new regulatory capital framework for the Enterprises, it also factors with the MIs, because it also factors into PMIERS.

So I wanted to show for you all that it's very invasive throughout the process. And as we look at credit scores in the impact, we have to consider that it goes well beyond underwriting and impacts on the entire mortgage cycle.

One of the things we wanted to share was this has been a multiyear effort. There has been many activities and the Director alluded to this that the Enterprises have engaged in on credit scores. Often we'll hear about the impact that credit scores and newer credit scores can have on underwriting. So we wanted to share some of the activities that they do. These are, in our opinion, very important to the conversation.

The first is Fannie Mae's desktop underwriter does not actually use a credit score in its underwriting assessment. Freddie Mac's loan prospector or advisor will be moving in that direction shortly. What we have found is that the Enterprises' AUS systems, Automated Underwriting Systems, can actually come up with a more accurate decision than it can in using a credit score alone.

By using the borrower's information to their application and Bureau information, they are a more accurate predictor, and that includes any credit score that we've tested. So I want to make sure I pass on to you that DU and eventually LPA actually don't factor credit score in their underwriting.

Some recent innovations that we have done, both Enterprises will participate with lenders to underwrite loans that could be sold to the Enterprises without a credit score. So a lot of concern around thin files and borrowers without credit score. Certainly a group of borrowers we want to make sure we provide liquidity and homeownership too. And I'm happy to report that the Enterprises have taken over 45,000 applications with borrowers with thin files or no credit score at all.

Recently, Fannie Mae took some activities to look at how they look at credit scores. Historical underwriting, probably you ever heard the term middle of three lower two. Borrowers that have three or two credit scores, we typically chose which one. Moving to looking at average and median type scores. When you have more than one borrower, especially if there's a difference in credit, then moving to looking at averaging has helped borrowers out. We've been able to look at 12,000 applications, where moving away from the old way to look at credit scores helped improve their situation.

You've seen some recent announcements. Fannie Mae recently announced initiative for rental payment history, where they would look, where it's available, it still needs to be more available, but where it is. They would consider rental payment history if it helped the borrower and they're approaching and exceeding 1,000 applications now for rental history.

Freddie Mac recently announced some activities in their multifamily areas, I mentioned the rent history, working with multifamily loans and landlords. They can move -- hopefully move to a situation where more tenants can have their rent reported to bureaus which will expand that ability to use that information.

You also probably saw some recent media traffic and announcements from Freddie Mac around the use of their AIM tool. Fannie Mae has Day One Certainty out there. We're continuing to work with the Enterprises on looking directly into borrower's income and asset information to get that information directly. And we think that will have a long-term impact on underwriting.

This is a little bit of new information to you all that we wanted to share for purposes of the conversation. As I mentioned, the Enterprises, as well as FHFA, I've talked to many of you on this session. And we wanted to share with you some of the cost ranges and timeframes that we have assessed based on those conversations. I think it's also important to the conversation.

So without reading each number, just to talk a little bit at a high level, we've looked at two types of models, one is moving to a new single score. And of course, there are some different models that I will go through in a second around multiple scores.

But sticking with single scores for a second, you can see that we've assessed some ranges for lenders, vendors, MIs and the Enterprises themselves. You will note here that there's no cost on investors, that would be in addition to. Of course, we don't know if any of these costs would be passed on to the borrowers.

But for a single score, based on the feedback that we've gotten, we've seen a range there between $228 and $350 million of an impact to the industry of those three groups, with an approximate timely timeframe of approaching 24 months. That does not consider the fact that it could be elongated implementation depending on the ability to adopt it across the industry as we've seen in previous implementations.

Multi-scorers due to the difficulty and using additional information and system changes, the price does increase. You're looking at a total rough estimate, again, these are all approximate numbers please, between $374 and a little over $600 million for the industry. And it adds at least a year to the implementation timeline. And again, it could be longer than that, based on the ability and the timeframe to make the changes across the industry, it would be a very big effort.

A little explanation on multiple scores. We have considered a couple different ways to approach it. One is a waterfall, this is where we would use a primary score. If that score is not available, then we would go to a secondary score under the Act both would have to be approved. So we'd give a maximum coverage approach.

There is an approach that says require all approved scores. So if there was two or three approved scores, we would be getting all of them.

There's also an opportunity out there for the lenders to choose which score they want to use among a group of approved scores. As you can imagine, all three of these have their pros and cons to implementing them. But those are ones we've taken a look at as part of this estimate.

I wanted to share a couple quick things on fair lending. First of all, the Rule required the Enterprises to look at fair lending testing. It also required all model applicants to certify compliance with fair lending laws. So we wanted to make sure and know that that's all being considered as part of this process.

We also wanted to make sure you are aware that this will move us forward. However, the incremental increase in access to credit is likely to be small, based on the data that we can analyze.

FHFA remains fully committed, as the Director mentioned in her speech, to reasonably and sustainably reduce racial and ethnic disparities in homeownership and wealth.

One last slide for you. We often get the question: I would like to submit some more additional information to FHFA. Here is the email site for this. So if you would like to submit additional information to us, you are welcome to do so. It's well received. If you have sent us materials previously, you do not need to resend that, we have that. But if there's something new you feel we should be aware of, please feel free to use this.

So with that, I am going to move on to the next session of the agenda which I deemed to be the most important one. And that is to hear from our speakers, which we greatly appreciate.

A couple line items that I have asked the speakers to, as Kevin mentioned, we do want to keep them as close as we can to five minutes. So I will apologize in advance. If I think we're going to exceed that first speaker, I may interrupt you and give you a one minute warning. Hope not to do that. But I will if I need to. I apologize in advance if I interrupt you to do that.

I will also apologize in advance if I mispronounce any names or organizations. Apologies. I will work through it my best but if I do misspeak, I very much apologize for that.

And I'll remind you one last time, and I know Kevin did, that everything we're doing today is being recorded.

So thank you so much for your time. We felt we wanted to convey that information. We're very excited to hear from our speakers today. We have an exciting lineup of folks across the industry.

So if we are ready we'd like to move to our first speaker and begin the agenda. And I believe our first speaker is from the National Association of Realtors and that's Mr. Ken Fears. I appreciate it, Ken, hopefully you can hear us.

Ken Fears: I can thank you, and thank you for that introduction. My name is Ken Fears, and I'm Senior Policy Representative with the National Association Realtors. On behalf of the 1.5 million realtors across the country, we thank the FHFA for its efforts in building this framework for the GSEs review and adopt new credit scoring models. And the opportunity to share our thoughts and perspective on adopting new credit scoring models with the FHFA and the industry today.

Realtors view competition as critical to the development and adoption of innovations in credit scoring and the ability to meet the future demands of American homeowners. Furthermore, dependence on a single score raises counterparty risk for the GSEs, the public mission and the entire industry that depends on these scores.

One might argue that competition is not prudent in credit scoring modeling, and that competition could result in a race to the bottom. However, the credit score is not used in solitude and underwriting. And in fact, as was pointed out earlier, and as we're looking to in the near future for both GSEs, it is basically used as a gateway and for pricing purposes.

For all interested parties, lenders, PMIs, and the GSEs, contest the veracity of these models over time. So in fact, lenders relied heavily on the ability to do so in overlays that they put on top of credit scores during the Great Recession and the years after. So in the future, if we have true competition, we expect lenders to pull back, if they find a degradation in quality of one of these credit scores.

For these reasons, NAR supports the adoption of option number three, the use of a single score for all mortgages originated by lenders for a defined period of time. However, NAR would supplement this with an off ramp, if you will, that would allow lenders to switch to a second pre-specified score if they see a, and can prove a decline in the quality of that credit score. Thus, this guarantees the kind of benefits of competition.

Reliance on a score could result in a disparate impact or redlining claim. And this is something of concern. For instance, a lender that relies on an older or traditional lender -- credit score might not have access to the kind of new and alternative data that would allow it to expand its operations to underserved communities.

Consequently, NAR would further augment, number three, by allowing lenders to pre-specify the ex-ante, two or three models to use for specific segments of the population or underwriting characteristics. However, they would not be able to change the score that they use after they've pre-specified it, so they can't game it on the back end or after the fact.

With respect to the cost, we thank the FHFA for providing these cost estimates for the GSEs, PMIs, and lenders today. We look forward to reviewing those in more detail. However, we would note that providing liquidity to the market and to underserved communities is part of the GSEs charter duties. And not only that, the increased liquidity and transactions could benefit the entire industry, not just those underserved communities that we're targeting.

While NAR is not in the business of providing credit scores or reviewing credit scores, we would note that the CFPB in a 2012 study on the topic, was able to create a reference measure mapping two different credit scores for the purpose of comparison. Furthermore, in discussions with both MBS and CRT analytics firms, they indicate that not only is it possible, they already do as much.

Once again, on behalf of NAR we thank the FHFA for its continued efforts on this topic and the opportunity to discuss it with you today. And we look forward to seeing new and alternative credit scores implemented in the industry in the future. Thank you.

Bill Merrill: Thank you very much, Ken, we greatly appreciate it. Next up, we'll be going to Ron Haynie with the Independent Community Bankers of America. Ron, are you with us? Ron was having a little difficulty earlier.

Natalie: Ron, you're --

Bill Merrill: Sorry, Natalie?

Natalie: You're muted, Ron.

Bill Merrill: Ron, we can't hear you, sorry. I tell you what, Ron --

Ron Haynie: I'm here.

Bill Merrill: Go ahead, Ron --

Ron Haynie: Sorry.

Bill Merrill: Thanks for joining us.

Ron Haynie: Sorry, you know, I've only done like 12,000 zoom calls. You'd think I get it.

Bill Merrill: All good sir. Thank you for joining us and you're on the clock. Thanks for your time.

Ron Haynie: Okay, thank you very much. All right. Well, for starters, ICBA clearly appreciates the opportunity to participate in this listening session today. I thank the FHFA for recognizing it and hearing from all the stakeholders on this debate of credit score models.

ICBA supports FHFA's efforts to comply with S. 2155, which directed the agency and the Enterprises to review and update their credit score models used by the Enterprises in their automated underwriting engines.

It's critical that the scores that are used are robust and accurate, and provide the best possible indicator of a borrower's credit history, thereby helping and aiding the lender to determine the ability to repay, and provide the broadest access to the access -- to mortgage credit as possible.

It's also crucial that the scores are thoroughly tested to provide the best possible indicator of loan performance which is critical for the safety and soundness of the Enterprises, and the lenders, and servicers to support the housing market.

While no scoring model is perfect, care must be taken not to make decisions to change scoring models based on either political agendas or aggressive lobbying by other providers. While increasing access to mortgage credit and homeownership to all credit worthy, credit ready borrowers is a goal that everybody shares, making major model changes just for the sake of changing may not be in the best interest of all stakeholders, including mortgage borrowers themselves.

Scoring technologies will continue to evolve with future enhancements that will safely increase access to mortgage credit for all consumers. ICBA urges FHFA to move cautiously and carefully to minimize any unintended consequences of scoring models that have not been thoroughly vetted and tested.

ICBA strongly recommends that they adopt or continue with the single score option. While changing from the current score to a new single score, will require all lenders to make changes to their current systems and processes, adding the dynamic of multiple scores makes these costs rise more.

Additionally, if a new single score is different than maybe one that's currently used by community banks, some smaller lenders may choose only to portfolio loans rather than have to convert to another score model in order to sell loans in the secondary market.

ICBA strongly opposes the option for two scores. Again, because we believe it'll lead to increased cost, consumer confusion and lenders playing one score off the other. Further, it can lead to lenders placing additional overlays on loans with different scores, likely muting any perceived benefit that the multiple score option would have provided.

We also further believe that options three and four are actually worse than option two as proposed, and that ICBA strongly opposes them. Further, it's likely that using options two, three and four will impair UMBS trading in the liquidity as investors will likely add additional steps to those trades with multiple scores or untested scores.

This situation could be made worse if the Enterprises were allowed to have different scoring models, say FICO with Freddie Mac and VantageScore with Fannie Mae. That would just be absolutely horrendous.

Operational impacts from transitioning to and/or having lenders use multiple scores over time would be particularly challenging. The operational issues are acute, especially for smaller lenders and community banks. It adds another list of challenges that community banks now face in accessing the Enterprises and will probably drive more community banks out of the business aside, and would likely end up with -- they would just be become portfolio lenders.

Using multiple scores may initially lead to some increase in borrowers getting access to credit. But if those scoring models are not as robust as the current models, you may be putting borrowers into homes that cannot sustain.

None that -- I guess as far as like do we have anything else to share on this? And I guess our comments are nothing that we haven't already said in our various comment letters. And that, you know, we really do believe that this needs to be taken very, very slowly. We believe that there needs to be, if we are going to move to an addition -- to a different scoring model, there needs to be sufficient implementation time. And that, you know, there might be the need to explore additional rep and warrant relief to the industry as they get used to the new scoring model.

Thank you for your time. We appreciate the opportunity to participate today. And I'll turn it back over.

Bill Merrill: Thank you, Ron. I appreciate it. Next up, we have Maureen Yap with the National Fair Housing Alliance. And Maureen has a presentation that we'll be sharing on the screen, Maureen.

Maureen Yap: Thanks Bill, and thanks to FHFA for organizing this listening session. Next slide, please. Let's start by looking at the current housing challenges facing people of color. Credit scores are certainly part of the problem. There are large disparities between the credit scores of white consumers and consumers of color, largely due to centuries of discriminatory housing policies and wealth disparities.

For example, in many credit scoring models, consumers who have higher available balances receive higher credit scores than those with lower available balances, even though both pay their obligations on time.

Also, as demonstrated in the chart at the left, the GSEs have shown poor performance in the purchase of home loans for homeowners of color. So not surprisingly, the homeownership gap for black and white homeowners is as large as it was in 1968, before passage of the Fair Housing Act.

Finally, given that homeownership is the cornerstone of wealth, it is not surprising that the wealth gap between white households and households of color remains large and persistent. Next slide, please.

With this backdrop, it is critically important that FHFA and the GSEs provide as much transparency as possible into how and why the credit score models were selected. Right now it's very difficult for advocates to provide insightful granular comments, because we are faced with a series of black boxes.

We don't know which credit score models are being evaluated and how those models will generate a credit score. We don't know precisely how the GSEs will use the scores in their decisioning. For example, how will they use these scores in their underwriting decisions? What is the cut off for products? And to what extent will they continue to use scores and pricing LLPAs and delivery fees?

And finally, we don't know how FHFA and the GSEs are conducting the fair lending analysis. For example, have they conducted a robust search for less discriminatory alternatives as required by law with respect to each variable and its weight within the model and across models?

Have they used an inclusive data set? For example, if FHFA and the GSEs have relied only on GSE applications, they may have missed the many consumers, particularly consumers of color, that have FHA and VA loans, are credit invisible, or have loans held in portfolio including by CDFIs.

We understand that FHFA and the GSEs cannot disclose proprietary information, but we recommend that they review examples of how to provide a transparent fair lending review, such as the purpose, process, and monitoring framework recently released by the National Fair Housing Alliance and the Upstart Report from the Relman Colfax law firm. Next slide, please.

Our next recommendation is for FHFA to adopt a multi score environment. We believe the single score option is likely to stifle innovation and inclusiveness. Generally, we prefer option three because it supports market competition and allows lenders to choose the most inclusive, least discriminatory alternative.

That said, we share the concerns of other advocates regarding the potential for lenders to game the system to the detriment of consumers. So we also advocate for constraints to require lenders to choose one score for a year, and measures to provide FHFA and the other regulators with the ability to ensure compliance. Next slide, please.

Our final recommendation is for FHFA to ensure regular reviews, as required by statute, and pilot programs. Technology is moving fast and we are concerned that after this implementation inertia will set in even if better, more inclusive models enter the market. FHFA and the GSEs should plan now for regular reviews of pilot programs that would promote inclusiveness and innovation. Next slide, please.

The goal of FHFA's effort must be to move qualified underserved borrowers into the financial mainstream. Because the choices made here will have repercussions for credit access for years to come, we urge FHFA and the GSEs to aim for robust market competition, transparency and inclusiveness, the highest fair lending standards and the least discriminatory alternative.

Thank you again, we look forward to the continued conversation.

Bill Merrill: Thank you very much, Maureen, appreciate it, and thank you for taking the time to put a deck together. Next, we will go to Joe Pigg from the American Bankers Association. Joe, thank you for your time.

Joe Pigg: Thank you, Bill. And thank you to FHFA for putting together this listening session. The American Bankers Association supports this very important effort to accurately score and increase the accuracy and the scoring of more borrowers.

As we've said in our previous comments on this effort, credit scores must be reliable, empirically derived, and statistically sound. And we applaud the effort that FHFA has taken working with the GSEs to ensure that those standards are met.

We offer some comments around the multiple versus single score. Again, I think our bottom line is that the score needs to score as many borrowers as accurately and efficiently as possible.

If a multiple score model were to be approved, we would opt for option three, the lender choice model. We think that both the waterfall, or the require all score, approaches lead to significant difficulties that are avoided with the lender choice, if multiple scores are approved.

What we would say on that, though, is that in order to address fair lending and discrimination concerns, we would strongly urge that in a multiple score model, the lenders choice be given a safe harbor, so that -- against litigation, so that lenders do not face the prospect of having to either defend the use of only one score or use multiple scores, which would drive up the costs for both borrowers and lenders alike, and likely defeat the purpose of looking for a new model.

Bill, as you've mentioned, the timeframe is very important. And that's regardless of which score might be ultimately, or which models might be ultimately adopted. There needs to be adequate time for lenders to evaluate and implement and train for any new model that -- or models that are adopted.

We look forward to working with the FHFA and the GSEs on this as the process continues. And I'll turn it back over to you and save some time for other speakers. And thank you again.

Bill Merrill: Thank you, Joe. Appreciate your time. Next we'll go to Dennis Santiago from the National Asian American Coalition. Dennis, thank you for your time.

Dennis Santiago: Thank you. Good morning and thank you for the opportunity to address the Federal Housing Finance Administration on this important subject - consumer credit. My name is Dennis Santiago, and I am the Chairman of the Board of Advisors, and today I am speaking on behalf of Faith Bautista, for the National Diversity Coalition and the National Asian Americans Coalition.

Our organization is dedicated to advocating access for diverse minority communities that we serve. We are a CDFI and HUD approved counseling agency that helps low and moderate income persons qualify for first time home ownership. We also help struggling homeowners seeking to preserve homeownership. Our work also extends to assisting small businesses and accessing capital to grow and thrive. And we are active in promoting financial access to the unbanked and underserved members of our community.

Our board of advisors has -- includes expertise in the technical aspects of banking, credit analysis, and regulatory safety and soundness. This helps us position our network of community service and faith based organizations in accomplishing their missions.

We are not just deliverers of NGO services, we are innovators actively working with federal agencies to find better ways to build access to credit. We partner with companies who are dedicated to helping low credit score individuals improve their profiles. We are building small business lending platforms that adapt risk management solutions that have been successfully used to deliver lending solutions in third world conditions for the US market.

We welcome this opportunity to provide our input to the FHFA on improving credit worthiness assessment environments. We believe it is important for the system to provide consumers and organizations who assist them with clear guidelines to create programs that help people succeed in accessing credit.

We observe -- we are observers of both traditional and contemporary credit scoring models. We believe that contemporary techniques can be incorporated into financial institution processes without adversely affecting systemic safety and soundness.

We believe the FHFA can do much to regularize emerging techniques by the lending industry. And we support the use of these innovations to expand access to credit by broadening the envelope within which more Americans can qualify for their piece of the American Dream.

In this regard, we are recommending that the FHFA favor the lenders choice and waterfall regime options. We believe these directions and policy will create more competition among companies that create credit scores and their partners at the credit bureaus. We believe this is the best path to expand the envelope of opportunity for consumers who make the effort to improve their profiles.

We do not favor a single score or multiple score regimes. These approaches tend to have the bureaucratic effect of locking in methods at the times they are approved. This tends to stifle advancements in modeling analytics, artificial intelligence, and other technologies.

We believe the US consumers should benefit from these advanced advancements, and the FHFA should opt for future credit regimes that embrace this constancy of change. For instance, recent additions of rent and utilities is an excellent example of a straightforward approach to consumers leveraging payments they are already making to build better credit scores.

We believe in a continuous improvement process that significantly increases the ability to leverage new data sources that can help consumers build better credit scores. We believe that a well-managed process overseen by agencies can successfully incorporate new solutions and contain experimentation risks. In practice, we spend a significant amount of our time educating potential homebuyers on the reasons why current single score models hamper their ability to leverage the many tools and services available to help them become credit worthy.

We encourage the FHFA to pursue strategies that have the effect of expanding the potential market for homeowners. We want to open pathways that enable consumers to improve credit scores and qualify for better interest rates. This is our definition of a major win for the consumer. We encourage the FHFA to move forward expeditiously with your efforts, and thank you for taking the time to listen to us. I'm turning the mic back over.

Bill Merrill: Thank you, Dennis, appreciate your time very much. Next, we will go to Simone Griffin from HomeFree USA. Simone, thanks for your time, and we will turn it to you.

Simone Griffin: Thank you guys. Hi. First of all, I will say that I'm not a policy expert like everybody else who’s been on this call. But I really wanted to come on, similar to what Dennis was just speaking about, about the importance of the consumers. I love and fully agree with everything that everybody has indicated about the importance of obviously expanding the credit model.

And really, but the one thing I want to add here is the importance of the consumer and, as Dennis kind of mentioned, the importance of the small dollar, our small landlords, are their ability to report as many of our smaller vendors that can report about the viability and consumption of their clients in a manner that can get on the credit reports and that can expand that credit box. That is really the manor that HomeFree USA fully advocates for.

We want to make it easier, we want the consumer to be fully reflected in all of their financial transactions. So I do agree that the single model doesn't -- the single score does not seem to be most conducive to the homeowner. However, I'm sorry, to the consumer, I'm so used to homeownership and homebuyers. Is not the most conducive to the consumer.

But again, whatever model we can get to allow smaller businesses, and I'm thinking about landlords because landlords with under 20 properties represent about 80% of the market. And that can drive a lot of efforts to understanding, are people really paying their rent on time. And if they're paying their rent on time, they are far more likely to be able to pay their mortgage on time. So that's it. Thank you very much.

Bill Merrill: Thank you, Simone. We greatly appreciate your time. Thank you so much. I think just looking at the speakers here, we're going to move to Pete Sapp, from the National Taxpayer Union. Pete, sorry I think we lost Vincent there for a moment. So if it's okay, we'll skip to you and come back to Vincent.

Pete Sapp: Oh, absolutely. Can you hear me okay?

Bill Merrill: Yes, thank you.

Pete Sapp: All right. So the points I'd like to make are basically updates to a paper we released in 2019, called Risky Road: Evaluating the Impact of Alternative Credit Scores on Taxpayers. And the conclusion here is that safety and soundness concerns over the housing finance system never really matter until suddenly spectacularly they do.

We don't know the point at which the safety and soundness of the system is degenerated to the point of taxpayers being imperiled until we're already in it. That's what makes it a thing to be avoided at all costs.

We believe that since our paper was published in 2019, a number of events have taken place that recommend FHFA move even more cautiously and deliberately in this area of allowing alternative credit scores into the system. For one thing, fiscal space, the plain fact is that since the pandemic, the United States government has taken on a great deal more debt. We're looking at something on the order of 120% of GDP in public debt. That is a massive load we are carrying at a time when the Federal Reserve is trying to offload some of its federal paper. And we do not necessarily have the capacity to absorb, say a third type of federal housing crisis to go along with the one that occurred in the late 1980's and the late 2000's. It could be very, very difficult to absorb that kind of problem.

Also, the capital cushions that the housing GSEs have developed are quite laudable. But the future of those capital cushions in terms of levels and hedges against risk, are still in doubt. And we need to take that factor into account.

It's also important to remember, as you pointed out in the introduction, that there are a lot of other federal government lending programs that utilize credit scores in one way or another. In our 2019 paper, we estimated it was something like $7 trillion worth of federal programs that had credit scores as part of their baseline, we estimate that that number is now closer to $8 trillion. It certainly hasn't shrunk since we last published our paper.

And then we take a look at the mortgage insurers as another example and the costs that they will have to incur in implementing multiple models. Well in Congress right now, there is a debate going on over the tax deduction for PMI. Whether that tax deduction gets renewed or not will directly affect how mortgage insurance is made more affordable in the market.

That in turn creates a ripple effect that the mortgage insurance industry may have to deal with at a time when multiple credit scores could come online and impose higher costs. Same with credit risk transfer. Climate change is going to force greater reliance on CRT for things like CAT bonds in order to offload risks to taxpayers. Would multiple credit scoring models make CRT a more difficult prospect to remain robust and available for things outside the conventional housing market? That has to be considered.

And what of credit scores in areas of non-government lending such as auto loans? Well those involve pretty large lenders. And if in turn, they are burdened with costs and we have systemic problems there, we could very well be looking at a situation where the federal government is asked to provide assistance in a downturn.

All of these things have to be accounted for when moving forward with decisions on credit scoring models. The good news here is that FHFA has options. After all, we are witnessing activity, as you pointed out, in both Fannie and Freddie to incorporate more data in rental housing and subsidized housing, that can lead to more opportunities for folks to become credit worthy, and move into housing.

There's also activity in Congress. We are working with one member of Congress, Byron Donald, on a bipartisan bill, to expand the availability of information in subsidized housing and feeding that back into the credit worthiness loop.

I would just close by saying that FHFA is the first best line of protection that taxpayers have for the safety and soundness of the system. And FHFA can afford a thoughtful, deliberative approach toward credit scoring models here. We're thinking that options one and three provide the best assurances, or at least minimal assurances, that taxpayers will be protected; two and four do not. FHFA can afford a thoughtful deliberative approach. Taxpayers can afford no less. I'm very honored to be able to present here on behalf of NTU. So thank you.

Bill Merrill: Thank you, Pete, appreciate your time. We're going to go back to Vince Porter from Monarch Mortgage. Vincent, thanks for your time, and we'll let you get started.

Vincent Porter: All right, thank you guys so much today. I'm really chiming into to hear some of those different actions that are helping create the ability for access to affordable housing, and we know how important the credit score is, and those things that are going on. So, you know, I appreciate the time that, you know, we can kind of chime in together and see where we can be assistive and also what the other agencies are doing, that have a little more control. And allow the ability to push programs that are out there in the market to assist first time homebuyers, and being able to acquire real estate in this highly inflated market.

A lot of real challenges with folks coming back into the workforce, and what things can be done to assist them and, you know, also addressing some of the long term practices from days of redlining and other things that have kept folks out of these markets. And, you know, that allowed them to be able to work through the challenges.

And are some of those things going to be looked at from the perspective of we know traditionally these groups have been underserved, and how can we create a curve to the market to allow them to enter maybe in, like FHA does, in some cases they have to lower credit score ranges, and thus be able to help them build up. Because I see a ton of government employees that are working two home -- two family households, that have two breadwinners, and the challenges are still pretty great to overcome.

You know, so those were my thoughts on this. And to see where this is going where we can assist in that and what we can do from the mortgage perspective to teach. I mean I do a lot of different trainings with a lot of different groups individually, but I don't have a, I think a large enough platform personally, to get to the masses. And to also where I'm seeing people help with non-occupying co borrowers that are becoming a vibrant part of just the absolute sheer ability just to get in the door. And how that can really enhance what we're doing as well. So those were my meager comments for the day.

Bill Merrill: Thank you very much, Vincent. We really appreciate your time. Thank you. With that, we're going to go to Tino Diaz from America's Homeowner Alliance. Tino, thank you for your time.

Tino Diaz: Oh, thank you and good afternoon. I'm the Managing Director of America's Homeowner Alliance, commonly referred to as the AHA. The AHA is a nonprofit membership based organization built to represent the approximate 82 million existing homeowners and all aspiring homeowners of America.

We thank the FHFA for this opportunity to address this critical decision of allowing credit scoring models competition in the mainstream mortgage market. And let me repeat some of the comments that we provided back in March 2018 to the FHFA in response to their request for information on this topic.

Our members believe in free market competition. The AHA rejects monopolies, especially any monopoly that may be unfairly discriminate amongst the credit worthy consumers.

More modern and predictive credit scoring models are available in the marketplace, but are prohibited from use by the GSEs. Instead, consumers must rely on the single source provider of credit scores today. Now many researchers believe that the required model excludes creditworthy borrowers and has adverse impact upon the minority and youthful consumers.

If there was a fully functioning free market for the credit scoring models, the large number of credit worthy borrowers who are currently locked out of the market might be served. From the research we've done, we believe that VantageScore is one of the models that uses more modern methodologies of credit scoring analysis to provide a reliable credit score for more than 30 million people who are not scorable today.

That “roadblock” created by this lack of competition has been a significant factor in the loss of homeownership opportunities for millions of credit worthy Americans and contributed to the black homeownership rates that are at a 50 year lows today.

Policymakers took a look at this way to correct this inequity by passing Senate Bill 2155 and including section 310, the credit score competition provision. Essentially demanding competition be facilitated amongst the credit scoring models and for use in the mainstream mortgage market.

We have heard some in the marketplace suggest that approving other credit scoring models will promote a “race to the bottom”. And our response to that is, we're already at the bottom. By using the credit scoring models mandated today, America has atrophied to nearly the lowest rate of homeownership in over 50 years.

The AHA believes that option three, the lender choice approach, is likely to offer the greatest benefit to aspiring homeowners. Lenders should be given the option to select the FHFA approved credit scoring model, much the same way that they have been selecting the private mortgage insurance providers for years.

We've read that there are over 2,000 lenders using VantageScore for other asset classes. The cost of implementation to those lenders to use the VantageScore for mortgages will be miniscule compared to the lift in newly scorable consumers. Some have claimed that there's going to be a material cost and complexity in the capital markets and to the GSEs and other credit scoring models are approved for their use. Our research indicates that no such cost benefit analysis or prohibitive findings were highlighted when the GSEs made numerous other critical “market changing decisions” over the past 30 years.

There are many examples of it, but here's one. There was no such analysis when the GSEs took over the automated underwriting systems of America and required the use of those parochial systems. In such cases, the GSEs, or the FHFA, or the U.S. -- United States Congress has determined that the benefits to consumers and to the homeownership objectives of America far outweigh the fact that will cost of such implementation.

This is no different. Advancing the opportunity for more than 30 million consumers and breaking up a monopoly our strategic imperatives for America. Any tactical costs to change the course of opportunity for the underserved consumers over the next 20 years are incidental to achieve the legislative upgrade imperatives. And frankly, to the AHA the choice is binary. Either you believe and support competition in the credit scoring models for the mortgage industry, or you believe in support a monopoly.

Again, we thank you for giving us the opportunity to comment on this critical and important topic. And on behalf of the existing and aspiring homeowners in America. we're anxious to see which choice the FHFA makes, and we thank you.

Bill Merrill: Thank you, Tino. We really appreciate your time. Next, we'll be moving to Dante Jackson of Quality Analytic Associates. Dante, thanks for your time and we will turn it over to you.

Dante Jackson: Thank you, thank you and thank the FHFA for giving us the opportunity Hopefully everyone can hear me, okay.

Bill Merrill: Yes.

Dante Jackson: I'm actually representing NACA, Neighborhood Assistance Corporation of America. And you know, we don't have a dog in this race. We have built our credit box to serve well over 100,000 successful homeowners with a foreclosure rate of 1/10 of 1% without using credit scores. So the credit score is not an indicator of how someone can pay if they have the ability or willingness to repay.

But we're here today, because we want to know what's in the model, what's in the box? What type of transparency are we going to have to make sure that the underserved will be served. You know, 85% of our members, our clients, our members, our borrowers are people of color. People of color, who may not have that magic 620, that magic 660 FICO score, that will not qualify on the current credit box.

So what are we going to do to make sure that these people can qualify for loans and give them access to loans? Because they're successful? We have, again, our program is very successful at putting people in homes, but -- and our foreclosure rate is so low, it's again below 1%, that it works.

So now, if it were up to us, we would say don't use credit scores go to character based lending, you know, like LP&D, are going. They're not looking at the scores. But we understand the scores are needed for pricing and other considerations. But we need to make sure that we know what's in the score.

And then who's going to monitor the disparate treatment, the disparate acts that are caused by this new model? So that's what we want to know. Those are the only comments that I have today.

Thank you guys. Thank you everyone for their time, and then we'll move from there. Thank you.

Bill Merrill: Thank you, Dante. We really appreciate your time very much. We will move to Ruhi Maker from the Empire Justice Center. Ruhi, thanks for your time today. We'll go ahead and let you go.

Ruhi Maker: Good afternoon. My name is Ruhi Maker, and I'm a senior attorney at the Empire Justice Center. I'm based in the Rochester office. Empire Justice Center has five offices and we essentially do a whole range of work around civil legal services, starting in Rochester and all the way down to Long Island.

Our work is we don't work in New York City but we work very closely with our New York City advocates. My own background is, I am a co-convener of the Greater Rochester Community Reinvestment Coalition that was convened in 1992. And since that time, we have been meeting with financial institutions, hundreds and hundreds of meetings, and also zeroing in on mortgage lending. So we have been gathering mortgage lending data for 30 years focused not just -- not on the, you know, all financial institutions and depositories, but zeroing in on the specific lenders and their lending to Black and Latinx households.

Essentially, I first started this coalition by -- because there were enormous disparities between a low income white people who were getting four times as much loans in Rochester as middle income black people. So it was very much focused on redlining started by doing maps, etc.

But I also have a foreclosure background. I represented the first homeowner in foreclosure in 2000. And then along with a whole bunch of folks, we grew it and we are now a multimillion dollar foreclosure program in New York State. And I'm sure a lot of the banks aren't happy with all the foreclosure protections we have.

So I’m extremely aware of what it is that we do. And I would never advise making a loan to someone when that loan is going to end up in foreclosure. But I'd like to center my comments, and I realize I only have a couple of minutes, in essentially in redlining.

In redlining, and the fact that a white homeowner bought a home for $20,000 in the '50s, having come back from the war, and fast forward to, you know, even 50 years or 60 years later, that $20,000 became a million dollars in equity. Now obviously, that maybe an extreme example. So we've got income shocks, and we've got huge wealth gaps between white and black homeowners.

Because remember, the black home -- the black person coming back, trying to buy a home, you know, they're huge -- we have enormous stories from Rochester trying to buy a home, was not able to buy a home. It was only in the '90s, as we started, that black homeownership began to happen. And not only did black homeownership began to happen, it happened in minority neighborhoods.

And so you can have, again a $20,000 home in a black neighborhood, and this is an actual number I'm not making these numbers up. And 100 years later that home is $120,000. And so that hasn't even kept up with inflation.

So the wealth gap is enormous. So what -- the reason I'm here today is, if we don't center changing the status quo in predatory lending and redlining, you know, we’re just not going to change. So 30 years we're meeting with the banks, let's do lending, let's do lending. Finally, two years ago frankly after George Floyd, and a murder that happened in Rochester, banks were finally like we are willing to give you Black, Latinx, and Asian goals.

So you know, we negotiate with the banks, without, you know, obviously, we have NDAs for all of these. And I'm going to be sitting down with banks. I actually already had one of my first meetings, and they’re community banks, they’re regional banks. And we're going to see how are we going to make meet the Black goal, the Latinx goal, the Asian goal for thin files, you know, renters.

So when you see people post-COVID, or during COVID, we have enormous problems with credit, you know. And how are we going to move forward and shift the homeownership gap? And for me, the point is, it's going to be portfolio loans, right? I mean that's like why am I even --

But I think what's really, really important, and you know these are detailed conversations we have with the mortgage lenders. You know, we sit down with the head of mortgages and we unpack, you know, item by item with our coalition members, including members that are within -- that are, you know, from New York or beyond New York. And we create these programs.

And nobody has come back to me in 30 years and say, you know, how we underwrote this or how we underwrote it so we could sell it to Freddie or Fannie, that's not working. That has never happened, I think we've heard from other people.

So what we need from -- what I know, when we're going to sit down with the head of mortgages in the next couple of months is, let's do this. Let's season it. And let's figure out a way for Fannie and Freddie to buy it. And, you know, we -- I -- so I think it's -- I think until we center the wealth gap, and redlining and racism, and we keep talking about, oh the status quo works. No, the status quo does not work.

I mean, having tried to improve lending to Black and brown people for 30 years, and everyone's been trying to do this. So I think I'm going to end there. And I'm happy to have -- I don't even know if my five minutes are up, but I will end there. And thank you, I, you know, all the formal thank you's and everything. Thank you. And I'll go back.

Bill Merrill: Thank you, Ruhi, really appreciate your time very much. We recognize that we've been going for a little while here. So we are going to take a five minute break. Five minutes. And when we get back, we'll have Ann Kossachev on the mic. So thank you very much. We're going to pause here for five minutes. Thank you for everyone's time.

Welcome back everyone. And thanks again for the speakers that have already gone and the speakers that will go. Next up we have in Ann Kossachev from the National Association of the Federally-Insured Credit Unions. Ann, thanks for your time.

Ann Kossachev: Thank you so much for the opportunity to deliver remarks before you all today, and thank you, Director Thompson and FHFA staff for hosting this listening session on really important topic of credit score models.

NAFCU has always supported alternative credit scoring options, as many credit unions have programs to extend credit to creditworthy borrowers who may not otherwise be able to qualify for a mortgage. NAFCU few supports competition among credit score models and has objected to government sponsored monopoly in place for credit scores on mortgages sold to the GSEs.

NAFCU appreciates the speed with which the FHFA acted to implement section 310 of S. 2155 and is generally supportive of the structure used for validation and approval of credit score models. We’re pleased to learn that the GSEs have completed all four phases of the validation approval process.

So as the FHFA evaluates the GSEs recommendations, NAFCU would like to stress the widespread use and reliance among mortgage lenders and investors on scores other than FICO. According to HMDA data, considering about 67 percent of credit union mortgage loans sold into the secondary market were sold to the GSEs, the ability to choose a credit score model based on an institution's individual risk assessment and the needs of their members could have a significant impact on credit union lending trends.

So NAFCU supports option three, lender choice. Credit unions have statutorily limited fields in membership and pride themselves on their relationship based model for providing financial service. Credit unions should be permitted to choose a credit score model that best accommodates their members and the communities that they are trying to serve. And would also best further Congress's goal of improving the availability of credit for those who are credit invisible.

Competition between credit score models is likely to lead to more accurate, predictive, and inclusive models that expand access to affordable credit for a broader population of borrowers, especially those communities that have been historically underserved.

The FHFA should allow lenders to choose the credit score they want to use on an individual loan basis throughout the entire loan lifecycle from origination to servicing. So credits the most simple and equitable process for lenders and consumers and enhance the ability of credit unions to sell their mortgages to the GSEs and better serve their communities.

However, NAFCU is not opposed to the time constraints on the use of a credit score to mitigate any concerns of arbitrage. With option three, credit unions stand to benefit through cost savings in addition to enhanced risk management and lending operations because reliance on a single source of -- or on a single score rather, can pose some challenges and increase risk.

Ultimately, adoption of the lender choice option would lead to greater competition and credit score market, leading to fair pricing, increase access to credit scoring transparency throughout the process and reduce cost for borrowers.

Options two and four require the delivery of two credit scores or the potential for the delivery of two which would translate to a high level of operational challenges for credit unions, impose greater transition and implementation costs and even create confusion for borrowers. The potential time constraints of option three would make it no more difficult to implement than a single score option or option one, as both require changes to operating policies and procedures and an initial transition and implementation cost.

We echo the concerns of others regarding a reasonable transition time for lenders to be able to effectively adopt and implement a new credit score, once it is approved. We urge the FHFA to continue to gather feedback from lenders to determine the most appropriate transition timeline.

We're pleased also that the GSEs have started using the average score instead of the middle or lower score for borrowers and encourage the FHFA to incentivize or to build on this momentum and incentivize the GSEs to continue to evaluate different approaches.

NAFCU strongly supports the removal of the outdated, inefficient and redundant tri-merger credit report requirement. In favor of a single or two credit report and score requirement. The tri-merger report also means borrowers face increased costs in the form of pass through closing costs.

Finally, the GSEs should also consider providing additional updated educational resources for lenders through the Mortgage Translations Clearinghouse that can then be shared with borrowers. Such a resource could help borrowers understand -- better understand credit scoring, how the different credit scoring models work, and how a credit score is used to determine pricing on their loan.

This could be an initiative that the FHFA chooses to provide in different languages as part of its broader effort to help Limited English Proficiency borrowers. Thank you again for the opportunity to discuss this topic with you today.

Bill Merrill: Thank you, Ann, we appreciate your time. Next is Silvio Taveras from the VantageScore Solutions. Silvio, thank you so much for your time today. And you're up next.

Silvio Taveras: Thank you. First let me extend my thanks to Director Sandra Thompson and the FHFA staff for the opportunity to speak today. My name is Silvio Taveras and I'm President - CEO of VantageScore Solutions.

We've submitted our latest credit scoring model VantageScore for Auto for consideration. As many of you know, VantageScore is an independent joint venture of the three national credit bureaus. We were established over 15 years ago to drive competition, innovation, and financial inclusion in credit scoring.

Our models are used by over 2,200 banks and financial institutions for all lending decisions including credit cards, auto loans, installment loans. The only exception where VantageScore is not currently widely used is in mortgage loans, where VantageScore has not been allowed to compete. And we expect that this will be resolved soon with the FHFA's strong leadership of the implementation process of newly validated and approved credit models.

It's for this reason that we urge the FHFA to adopt option three, lender choice. It's the best and only option that enables true competition and that will directly enable more creditworthy consumers to have access to mortgage loans.

Now there are three main reasons why option three is the best one. Number one, more financial inclusion. Number two, increased competition that delivers innovation and choice. And number three, lower systemic risk due to use of alternative models.

Now with respect to that first point on financial inclusion, as the Director noted in her opening comments, the FHFA's validation and approval process for credit score models largely grew out of the need for greater financial inclusion and access to credit for population segments that are in fact credit worthy, but have historically been underserved by mainstream financial services.

Modern and more inclusive and predictive credit scoring models can help address this critical issue and that is one main reason why option three, lender choice, is the correct option.

According to a 2020 Brookings Institute study, the gap in net worth between black and white families has not meaningfully improved in three decades. Underlying this is the fact that over 70% of white families are homeowners, while the homeownership rate for black families is 30 points lower.

And this gap continues to plague our nation. It's been exacerbated by the COVID-19 Pandemic. Residential mortgages purchased by the GSEs continue to use overly restrictive, outdated credit scores developed by a single company. So any option that continues to institutionalize the practice of using one legacy conventional model is contrary to the goal of driving financial inclusion for credit worthy, underserved populations.

Now secondly, with respect to increasing competition, monopolies by their very nature restrict innovation, creativity, and choice. And that is why VantageScore supports option three, lender choice. The GSEs should allow lenders to deliver loans with any score that's been validated and approved for use. We support lenders being asked to choose a model to use for a period of time to ensure that the risk represented by the credit score is consistent, and it's well understood by stakeholders, including capital markets participants.

So we believe competition is the lifeblood of innovation. And it's the lifeblood of a healthy marketplace. And as an example of this, in other loan categories where VantageScore competes openly, it's led to a greater number of innovations such as 37 million more consumers becoming scorable. By the way within that 37 million, over three million minority borrowers were scored above common mortgage eligibility thresholds.

And in part, we did this by becoming the first tri-bureau model to use rental payment data in our scoring models. When true competition among credit scoring companies exists, it's led to more predictive models, and there's no reason to believe that the outcome is going to be any different in the mortgage market.

Now with respect to my third point, alternative models lower mortgage industry systemic risk. As has been noted by many of the other speakers migrating to newer, more inclusive models should not be treated lightly from a risk management perspective.

We believe that option three actually leads to decreased risk. And that's because from a risk standpoint, VantageScore is bringing to the market, a highly predictive model that's been widely used and adopted by some 2,200 highly regulated financial institutions. Many of these lenders have gone on record to affirm that their usage of VantageScore has allowed them to approve more loans while decreasing credit risk.

And we post our performance analysis publicly on our website on an annual basis. And we've done this consistently throughout our history, including through the financial crisis. We are strongly committed to working with stakeholders, including our partners in capital markets, to ensure a smooth transition. And we're committed to doing that with data. So to conclude, we believe lenders should be given the ability to choose which models to implement. Thank you.

Bill Merrill: Thank you, Silvio, we really appreciate your time today. We're going to move to Terry Clemans from the National Consumer Reporting Association. Terry, thanks for your time as well.

Terry Clemans: Thank you, and thank you to Director Thompson, or Acting Director Thompson and the FHFA credit score team for diligently working on this complex subject. The NCRA appreciates the opportunity to provide our insights today as we have represented the housing consumer reporting industry for 29 years. Our members are the vast majority of reseller consumer reporting agencies or CRAs that provide the tri-merge credit report scores for the mortgage lending community.

Due to our specific role in the market, NCRA will only provide insights into areas that are germane to our expertise. NCRA believes that FHFA should select option one, and maintain a single score. This option has been researched carefully with the goal of selecting the model that produces the best results.

We believe strongly this is the correct path for many reasons. The first being previously noted several times the minimal technological impact to the industry, to the consumer and the fastest and most efficient implementation.

Regarding option two, multiple scores, three lender choice, or four, waterfall. Each of these options bring large technological challenges that will have significant costs to the entire mortgage industry, which will be passed on to the consumer.

With multiple scores the potential of no score, and then a low score is highly likely and offers no benefit to the consumer, just higher credit reporting fees for the rejection. These options further monopolize a captive mortgage credit score market, which FHFA has correctly expressed concerns about in the previous RFI and where true competition in the market might be counterintuitive.

Regarding the consumer, these other options will add up to the current problem of consumer credit score confusion. There are a plethora of score models out there, including the educational scores never used by lenders, but heavily marketed to consumers and have many people greatly misinformed.

For lenders variations in score models could create major underwriting issues, especially considering our multi-level mortgage industry. Many loan originators, including brokers, credit unions, community banks, who closed loans via wholesale lenders are going to find problems with option three due to the originator not really knowing which wholesale lender may best fit the consumer until the credit report score obtained.

Option three also brings the added risk of assuring lenders only use a specific score, putting a heavy burden on FHFA to set strong constraints to assure cherry picking does not occur.

If the goal is to factor alternative credit data into the mortgage underwriting, to expand credit, and to eliminate the current credit invisibles, no scoring model can calculate data that is not in the file. There continues to be significant resistance from many sides to include some of the most important alternative data into the nationwide CRAs. Each of them has been working tirelessly to gain access to this data, however, statistically, that dataset is just a fraction of what it needs to be to be a significant change.

Congress has tried and failed to get this data reported several times with different bills over several administrations and congressional leadership. And they have not been able to get alternative data into the nationwide CRAs to agree that is significant for change.

There are ways around this available currently to use the alternative data which have been successfully resulted in multitudes of consumers being approved for loans based on legitimate on time payments that were missing from the National CRAs. Unfortunately, that practice currently requires manual underwriting. And it is a sporadic use and it does not have to be. There are changes that could be made there and we urge FHFA to look at that.

The issue -- that issue alone is the biggest fair lending issue we see associated with this subject, and NCRA strongly encourages FHFA to require consistent use of all underwriting standards to require originators to know and use its consumers entire verified credit history for underwriting.

Today, the GSEs allow lenders who have a financial interest in the loan closing to actually verify the alternative data. This gets done only sporadically, and is an unsound underwriting practice that led to countless bad loans in the 2008 financial crisis and is unfair to loan applicants. In closing, FHFA's selection of a new credit score will certainly benefit America. And further we believe option one is the way to go.

The comments we have previously submitted to FHFA we refer FHFA to please review, and our only change from our previous submitted written statements is our concerns that options two, three and four will lead to very increased consumer litigation.

Consumer litigation against the reseller CRAs has greatly increased since the RFIs. Consumers are being recruited to file litigation for minor discrepancies on consumer reports. Even when the consumer obtained the loan. Consumers are counseled not to dispute any credit information as outlined in the FCRA, but rather to immediately file suit.

A substantial number of these cases claim the reseller should be held responsible for discrepancies in the nationwide CRAs. The score differences documented in options two, three and four would likely be used to justify more litigation against everyone involved in the mortgage transaction.

Thank you again, Acting Director Thompson, and to the entire credit score team. If you would like more information about our positions, we would be happy to provide further insight.

Bill Merrill: Thank you, Terry. Appreciate your time. Next, we go to Ruth Susswein from Consumer Action. Ruth, appreciate your time and the floor is yours. Thank you.

Ruth Susswein: Thank you. Thank you for the opportunity to briefly speak today about the adoption of updated credit scoring models. I'm Ruth Susswein with the National Nonprofit Consumer Action. For more than 50 years Consumer Action has been a champion of underrepresented consumers. We focus on empowering low to moderate income and limited English speaking consumers to financially prosper.

Consumer Action achieves this mission through issue focused advocacy and education. We partner with more than 6,000 community based organizations to serve hundreds of thousands of consumers annually. We provide in informative actionable materials in five languages to promote financial empowerment in the areas of credit, housing, banking, privacy, healthcare, and telecommunications.

As the agency weighs how to update credit scoring models, Consumer Action asks the FHFA to bear in mind that our current credit scoring system can only reasonably evaluate those with established credit histories. It cannot equitably assess those responsible people who don't regularly use credit or who don't have easy access to credit.

However, use of alternative data has the potential to impact both access to credit and to improve home loan pricing for consumers. Consumer Action supports the integration of alternative data and credit scoring models with some caveats.

The inclusion of alternative data is particularly valuable for low and moderate income consumers and for recent immigrants who often don't fit neatly into a traditional credit box. And they may not have other opportunities to demonstrate a pattern of responsible financial behavior.

Consumer Action supports the alternative data that consumers have opted in to share, such as rental data, or telecom data. While we recognize there are challenges to collecting rental data that's been noted earlier, we know that Fannie Mae has incorporated rental payments into its automated underwriting calculations. The latest FICO and Vantage score models do not include paid collection accounts, and they give less weight to medical collection accounts.

We would not suggest relying on utility data, unless consumers have consented to sharing this information. We would suggest never allowing behavioral data to be used in calculating credit scores. Probably most valuable would be bank account cash flow data. That's the data that includes both income and expenses. And it can help indicate a borrower's ability to repay, making it possible for lenders to more accurately and fairly evaluate risk.

For example, ultra FICO uses cash flow data, the data that can measure the length of time bank accounts are open, and can confirm both the frequency of payments and positive account balances.

The use of alternative data will not solve all credit problems, it still won't address credit report disputes, and the trouble resolving those disputes. Nor deal with chronic racial and economic disparities that have impacted borrowers of color.

However, by some estimates, use of a credit score model infused with alternative data would translate into an increase of less than 1% of loan candidates becoming newly eligible for a mortgage. But even that modest increase could result in more than 100,000 new homeowners being added to the market.

When considering whether to settle on one or more scoring models, please remember that consumers need competition in the data sources, not just data from the big three credit bureaus.

The FHFA should base its decision on a new scoring model or models on accuracy, default risk, and whether the new models expand access to credit for consumers who currently have such limited entree to the home loan market.

If GSE accepted credit scoring models were updated to include alternative data such as cash flow data, the cost of a loan could become more affordable. And the revised scoring model could be more predictive, allowing lenders to assess risk more accurately, and make mortgages more available to a greater number of underrepresented borrowers. Thank you.

Bill Merrill: Thank you, Ruth, we greatly appreciate your time. Next up, we're going to go to and I hope I'm pronouncing this correctly, you have to help me, Chi Chi Wu from the National Consumer Law Center. Did I pronounce that correctly?

Chi Chi Wu: You got it right.

Bill Merrill: Awesome. Thank you so much.

Chi Chi Wu: Congratulations.

Bill Merrill: I got one right today.

Chi Chi Wu: Yeah. Thank you and --

Bill Merrill: Thank you so much.

Chi Chi Wu: Thank you for having me. Thank you to FHFA for having this forum and for working on this important initiative. My name is Chi Chi Wu, and I'm speaking on behalf of the low income consumers of the National Consumer Law Center.

My remarks are going to focus on three themes today. First, get this done. It's taken far too long. Two of the four options, we oppose option three, lender choice, we oppose it strongly. And three, we agree with Director Thompson, that this is not going to be a silver bullet. And there are going to be other measures that are really needed to achieve racial justice in homeownership.

So getting this done. In November 2014, I sent FHFA a letter saying, we need to update the scoring models from classic FICO to back then it was FICO nine, or VantageScore two or three. Because those models reduced the impact of medical debt. And it shouldn't take years and years and years to do that.

Well that was November 2014. And here we are in March 2022. It's been seven and a half years. Consumers have waited long enough. Section 310 of S. 2155 was passed in 2018. And I'm pretty sure Congress didn't think it was going to take four years to get to where we are.

So I'm not going to belabor this, but I would say implementation once a decision is made should be as quick as possible. And remember, this needs to happen again. Section 310 and the implementing regulations contemplate that this is going to be a regular process.

The only other thing I want to say about this is medical debt. One of the biggest advantages of the newer scoring models is that they reduce the impact of medical debt. The CFPB just issued a report today showing the huge impact of medical debt that they're 58% of the debt collection items on credit reports, $88 billion worth. And it is a huge racial impact. And this is from the CFPB.

This means that consumers with medical debt are disproportionately Black and Hispanic may be negatively impacted if creditors use older scoring models that may overweight medical debt.

Notice some of the language there. Disproportionate, negatively impact. I would say for lenders, especially lenders, those of you in the audience who make other types of loans, like credit cards and auto loans, that you really should move to the newer scoring models because those are some of the magic words that are used in the disparate impact analysis.

Of the four options, we oppose option three lender choice, and we strongly oppose it. We are concerned lenders will use it to game the system. Even if they supposedly are supposed to stick to one type of score either FICO or VantageScore for a year. We can easily imagine a lender using one scoring model but telling consumers that the score from the other model is what they're using if this benefits the lenders and allows them to upsell the loan. We saw a lot of these kind of tricks and behavior in the run up to the foreclosure crisis, lenders are very creative.

But the other reason we oppose lender choice, and we would oppose option one if it were just VantageScore is what I call the Uber effect. What I'm really concerned about is that VantageScore is owned by the big three credit bureaus. And they have the ability to offer scores at a very cheap price as a loss leader, and come in -- the way Uber does in the market. Comes into a city, drives all the taxi drivers out, and then after the taxi industry is decimated jacks up the price. Concern you see the same thing if Vantage Score drove FICO out of the market.

Now I'm not saying FICO is the taxi industry and VantageScore is so technologically superior. In fact, I would say they're pretty much comparable and any expansion that VantageScore talks about in terms of more people scored is mostly illusory. What you end up getting is a lot of consumers with subprime scores.

And remember the GAO noted that nearly half of credit invisibles are under 24, or over 65. Not exactly the hugest market for mortgages.

Also, remember that the entire credit reporting system is dysfunctional. And all this talk about competition and anti-competitive effects doesn't really work here, because the anti-competitive element here is the dominance of the big three credit bureaus. We've heard it over and over again. They are an oligopoly. They are more than an oligopoly. And remember, they own VantageScore.

So definitely, strongly 100% oppose to option three, or option one, if it's just VantageScore. Finally, just to reiterate what the Director said about this is not a silver bullet. If we want to be able to have more black consumers access home ownership, we need to go way beyond this. We need pilot programs, alternative data, Ruth Susswein of Consumer Action covered this well. You know, we need to do it, but we need to do in a super careful way that helps consumers doesn't hurt them.

We also need to see lower scoring thresholds, frankly. What we're hearing from industry is that the reality is that Fannie and Freddie basically require a 720 credit score, that even technically -- even though technically 640 or 680 should be good enough, that really never happens. If you get approved with a score lower than 700, the loan level pricing adjustments make the loan so expensive, you're better off going with FHA.

We also need to see special purpose credit programs and Fannie and Freddie definitely should be involved and promoting and buying those. And, frankly, we need to see a whole paradigm shift in how credit is offered and underwriting is done in this country. Thank you.

Bill Merrill: Thank you, Chi Chi. Appreciate it very much. Thanks for your time. We're going to move to Eric Kaplan from the Milken Institute Center for Financial Markets. Eric, thanks for your time.

Eric Kaplan: Great, thank you very much and always hard to follow Chi Chi. Hopefully you can see me, maybe something wrong with my camera here. Thank you, Director Thompson and the rest of the FHFA team for the opportunity to participate in today's listening session. My remarks are my own. And I don't speak for any of the organizations with which I'm associated today.

We've heard compelling perspectives from many of today's speakers about the importance of the validation and approval of credit scoring models Final Rule. And this includes the challenges that certain credit score models pose for credit invisibles for low to moderate income and Black and brown communities and for those who may be credit worthy, but who fall outside of the traditional credit box or the four corners of these models.

I'm a strong proponent of leveraging technology and innovation to improve the ability of credit scores to assess creditworthiness across all demographics, so that anyone who's able to sustain mortgage credit can obtain it on fair, equitable, and inclusive terms. Filtering this goal through the nuts and bolts of the mortgage finance ecosystem, I support the use of a single credit score model that's supported by the use of interim pilot programs applied under carefully prescribed circumstances. That's also subject to a commercially and operationally reasonable review process that allows for champion challenger competition without systemic disruption.

Having a single model with no alternatives under any circumstances would be too limiting. We should and must strive to apply the new data and technology that continually arise to help responsibly expand access to sustainable mortgage credit, particularly to the underserved, as well as to root out any embedded discriminatory elements.

However, there are practical considerations and challenges to allowing multiple models and to ignore these simply for the sake of competition, or to achieve policy or societal goals is to put both borrowers and the mortgage finance system at risk.

First and foremost, any new model must do what it purports to do in a manner that is statistically and methodologically sound. The model must be subject to and pass stringent analysis and back testing, and be able to resolve or explain anomalies clearly and transparently. All as contemplated by the Final Rule.

Beyond that a liquid, efficient mortgage finance system and keep in mind that this includes the Enterprises, lenders, investors, rating agencies, and many other participants requires the ability to do an apples to apples comparison of competing credit score models.

For example, does a 700 under one model equal a 700, a 780 or a 600 under another model? And what if the answer is different for different loans and different borrowers? Requiring odds charts or odds tables that correlate scores from different models might help bridge the gap, but that presupposes a consistent reliable correlation is possible in the first place.

Without consistency and reliability, risk material deficiency and the use of credit score data across numerous applications, which translates into real danger for consumers and the markets alike. FHFA widely recognize this danger. The Final Rule provides for the evaluation of the potential impact of new or different credit score models across the myriad parts of the Enterprises and the overall mortgage finance ecosystem that involve credit scores.

In this regard, options two and three pose inherent risk. Even if we create valid, consistent reliable odds charts, correlating competing credit scoring models, we must require a lender to identify up front which model we use to originate a loan. We must not under any circumstances allow forum shopping when it comes to competing models. Nothing good comes from forum shopping, never has.

If an appraisal comes in too low to support a loan, we don't allow additional appraisals until one finally allows the loan to move forward. If we don't follow the same prudent practice for credit scores, we risk saddling the applicant with mortgage credit that he or she can't sustain, and potentially violate consumer protections and impair systemic safety and soundness.

In contrast to the challenges posed by competing models, a single approved score ensures consistency throughout the markets. A champion challenger review process encourages and fosters continual innovation in service of the goals the final rule lays out. By requiring this process to be commercially and operationally reasonable, we minimize disruption of a mortgage finance ecosystem, whose stakeholders will need time to review and transition to shift some credit score models.

All that said, FHFA should employ pilots, partnerships, and data analysis in between review periods to mitigate the risk of any modeling use from becoming too stale for too long, and not serving too many people. Leverage cutting edge -- leveraging cutting edge data and technology at all times. Combining a measure of competition with operational feasibility.

These interim programs could identify methods such as the use of rental and utility payments that could help responsibly expand access to sustainable mortgage credit, particularly for underserved communities. And if successful, these interim programs can help inform the next credit score model review period, and possibly serve as the basis for an approved model in the future.

Any such interim program or future program must be subject to stringent standards, with all appropriate governance -- program governance and consumer and systemic protections. This concludes my remarks. Again, thank you for the opportunity to share my thoughts today. Appreciate it.

Bill Merrill: Thank you, Eric. We appreciate your time. Next I'll go to Richard Cooperstein from Andrew Davidson and Company. Richard, thanks for your time.

Richard Cooperstein: Thank you, I appreciate the opportunity to provide some insights on housing finance policy. I have five minutes. I have five points. The first one is that the market structure for the mortgage credit score market is better served by two providers rather than one or 10. Other major consumer credit markets have had two major providers for years, so it's likely that will work for mortgages, and you're much more likely to get innovation and the kind of cooperation, while at the same time there's tremendous utility-like characteristics to the credit score market, externalities and duties to serve. And so if you pick a couple of providers, you can't punish them when you extract cooperation from other members.

Point number two, the credit providers are the ones who set the rules for which score and not the credit requesters. Full stop. The other point is it's a false choice anyway, because Fannie Mae has been using extra data and not using credit scores for years. Or Fannie Mae will soon be anyway. And because so much of the finance industry is already using two scores, I have my doubts whether it would really cost $500 million over three years to do it, but even so, that's about a basis point on mortgage volume over three years in moderate markets. It's not that much money for the winners to pay so that the underserved and underbanked can get better access.

Point number three, there's pretty important consumer data that's not included in classic scores, which everybody's been talking about. And some of them may never be included in credit scores because they're not credit data: rental data, telecom, utility data, trended data are all really important to consumer financial performance. And Fannie Mae is using some of them now, they're working to use others.

And on one particular point, trended data is really important. And not all credit cards report on their consumers because they don't want the competition. Regulators need to make sure that's true. And secondly, even if it was possible to combine this stuff into one score, credit scores have a tremendous impact on the financial life of consumers and households. I'm not sure it's a great idea to make credit scores even broader, and control even more like -- even more of the financial life of consumers. Fannie Mae is not doing it, Freddie Mac’s probably not going to be doing it.

You can have things like trended data and bank cash flow data and telecom utility data separate so that consumers have some more transparency and not bake all that into an opaque score.

Point number four. It's quite likely, many people have already said, that expanding consumer financial data beyond the classic credit score into mortgage underwriting and pricing will benefit first time buyers and underbanked populations that have been discriminated against for a very long time.

And digital availability of this data improves all the time. So the transition expenses and difficulties of going to broader data, or a choice -- a couple of choices among scores, cannot be a reason to avoid moving forward to expand fair lending. It's going to happen at some point anyway, we should just do it.

My fifth point, which has also been raised by a bunch of folks is if you’re going to go to new scores or expanded criteria, institutions beyond Fannie and Freddie need to know what that's worth. So they’ve quantified the impact on underwriting and on mortgage risk for this extra data. The rest of the market needs to know: the depositories, the mortgage insurers, the impact investors, shared equity investors, they need to know too. But they're not in a position with the data or the infrastructure to do it.

So the data to make a bridge from the old scores to the new ones or from narrower consumer data to broader consumer data is going to need to be made available so that these bridges can be quantified one to another, either by the market or by the individual institutions themselves. And I'll stop there.

Bill Merrill: Thank you, Richard. We greatly appreciate your time. Next, we'll move to Tony Hadley from Experian. Tony, thank you for your time and you have the floor. I don’t know if you’re on mute? Sorry, Tony. We can't hear over you.

Tony Hadley: Can you hear me now?

Bill Merrill: Yes.

Tony Hadley: Great. Well thank you, Mr. Merrill and the FHFA staff for having this listening session. It's been very interesting to hear the different points of view. I’m Tony Hadley, Senior Vice President of Regulatory and Public Policy for Experian, which is one of the national credit bureaus.

Experian supports option three, lender choice. Under this scenario, the GSEs would allow lenders to deliver loans with any score that has been validated and approved for use, as required by law. Experian has already seen and experienced how competition has led to more predictive and equitable credit scores in the non-mortgage industry since VantageScore was introduced in the marketplace in 2006.

VantageScore’s introduction and acceptance led FICO to update its non-mortgage model in answer to this competitive move. FICO’s updated model lead VantageScore to answer with VantageScore II and VantageScore III, in part to embrace this virtual cycle of innovation, and competition in credit scoring analytics.

There are clear winners across the board because of competition. Credit score developers are challenged by the market to keep up with innovations in data analytics. Lenders make better decisions based on advanced analytical capabilities. And consumers win because risk based decisions better reflect their individual risk.

Competition among credit score model providers has resulted in more predictive and equitable credit scores for more consumers, including those who have historically been in underserved. And as for both VantageScore and FICO. This continuous and virtuous competition model is distinct from that in the mortgage industry, where lack of competition has led to retention of now a 20 year old scoring model that must be used by lenders who want access to capital liquidity, as provided through the GSEs.

When given a free market choice VantageScore’s adoption in the non-mortgage industry has been steadily growing in every other loan category, because of its proven predictive power and inclusivity. In fact, many very large non-mortgage lenders and small lenders alike, have adopted VantageScore, making the successful transition from FICO. And there's been no gaming of the system as they've done so.

Regulators should refrain from adopting and sustaining policies that pick winners and losers in the private market, especially when competition can lead to better outcomes for consumers and lenders. This is especially true when competitive scores can be validated and improved to predict acceptable outcome again, as required by law.

Some have asked about their transitional costs, lenders and GSEs, would be required to bear with the introduction of Credit Score Choice. These costs are real, but they are negligible when considering that GSE policy must logically force a transition from a 20 year old credit score model to a new incumbent, or competitive version anyway. A transition that will itself require transitional costs.

In practice, non-mortgage lenders are continuously migrating to new scores, or to new versions of scores, and all lenders constantly migrate among other analytical tool. So migration and credit scores and analytical tools is a common business practice every day.

A policy of competition and choice will allow lenders and the GSEs to rationalize transitional costs related to credit scoring models as they, like all organizations, continually update their technology to meet business, safety and soundness, and inclusion principles. So I close it there by thanking you for this opportunity. And we're looking forward to continuing to work with you.

Bill Merrill: Thank you, Tony. We appreciate your time. Next, we'll go to John Rogers, and I apologize, is it ACRAnet, Incorporated? And John, you have the floor

John Rogers: Thank you very much. It's ACRAnet, Inc. And we are a credit reporting agency based in Spokane, Washington serving customers from Seiko, Maine to American, Samoa. I am the Mortgage Services Product Manager, and I possibly clicked the wrong button and ended up being a speaker on this body of talent. So thank you very much. Thanking Director Thompson, Acting Director Thompson, Associate General Counsel Sheehan, policy analyst Merrill.

I would also like to acknowledge Terry Clements, the Executive Director of the NCRA, of which we are proud members. And as well, Jeannie Ferguson and John Porter of the National Association of Mortgage Brokers, and their ad hoc score, credit score committee.

Basically, of course, obviously the goal is how to make credit available to more consumers, how to make mortgage credit available to more consumers, how to find more consumers. And this is all under the aegis of fairness.

So I'm really not going to delve into the models per se, because that is going to be determined, I think at a greater level. From my perspective, in my day to day, I feel that there's a need for three models, three scores, a tri-merge report.

The reason I say this is that my empirical study, which is not statistically valid, is that roughly 20% of all tradelines report to fewer than three bureaus. So the issue is if you don't have the data coming in from all three bureaus, you're going to miss what by my again, not statistically valid analysis, would be about 20% of the information that would be available on a credit report.

Obviously, you know, we're dealing with scores version two, four, and five at Fair Isaac, they go back to the 1980's. We have VantageScore, which is a, you know, very robust product. My question would be to the FHFA is there or were there any other options of score that were evaluated or still being analyzed under the RFP? So I don't know if that questions been answered.

I'd also like to identify some definitions of being at this level of providing the actual credit reports to our customers. So we are a reseller. So we basically resell the data that Experian, Equifax, and TransUnion have available amongst other vendor products that we deliver to our to our customers. Then there's the end user. So those would be our customers similar to many on this list, which would be using the credit reports that we provide.

And then there's the data furnisher. So those would be the creditors that report the trade line information. And one of the challenges that we deal with is that again, this inconsistency of the reporting of the data, and then we end up having to resolve that or find solutions.

So basically, the question is, how do we get credit scores to our customers. So basically, the scores come from the data that we buy with each individual bureau. So for example, Experian would provide us their scoring model, which they will then pay a royalty to whoever the score provider is, and then that's incorporated into our net pricing, which we then have to analyze in order to price to our end user.

So I wanted to be clear on that. So one concern is, and having that discussion with our technical provider this morning, that to provide multiple scores, or even just updating the score model, is going to require, well we have existing score models in place that we can program. But bringing in multiple score options into a credit report would be onerous and unwieldy for us to provide that.

So again, obviously, I support the NCRA position with option one. And however, you know, if it's going to be Vantage, or Brand X, or Fair Isaac, we're just the messenger. But I want you to understand that there's very -- a lot of complexities in us providing these scores to our customers. And if we had to do so, in a cafeteria style basis, it would be almost impossible to do so. And even any modest change in that is going to require development dollars and time that we'll need.

So basically in closing, what I would ask of the FHFA is to please, please, please think this through as far as extrapolating these wonderful ideas and providing more credit to more people with the practical aspect of how we deliver that to our end users, our customers, the people that lend. So that's all I got. Thank you again.

Bill Merrill: Thank you, John, appreciate your time very much. Next I'm going to go backward one to Chris Killian from SIFMA. Chris, thanks for your time. We'll turn it over to you.

Chris Killian: Yeah, thanks a lot and thanks for accommodating the little switch there. So SIFMA, as an organization, we're focused on the secondary markets, TBA market and CRT and trading markets. So you know, our axe to grind really isn’t, you know, the underwriting types of issues per se. But what we've been focused on since back in 2014, or ‘15, whenever this started, was really just on that whatever was done was done in a way that preserved the, you know, liquidity of the TBA market and likewise in the CRT space.

And I think one of the primary things that we heard from members was just the desire to better understand what these alternative scores are. There's a, you know, a good understanding of the existing scores, but there are new scores that people have more or less information with. And so we, you know, we had in our previous, you know, responses and whatnot have, you know, talked about the need for lots of date to come out for the market, you know, old loans to be rescored, you know, however it gets done.

And apparently there were some roadblocks with some of that, but hopefully they can be worked around. You know, and concurrent with that is the issue of timing right? Like there should be a long runway before changes are made to make sure people understand things, people can recalibrate models. And all that. And, you know, I mean there's a low FICO spec pool bucket, for example, right. And so people will need to figure out what to do with that.

So, you know, another, you know, key feature of the TBD market is that it's homogenous, right. Like one pool from Fannie is the same as another pool from Fannie and since UMBS went into effect is the same as a pool as Freddie. And, you know, related to this data issue that, you know, there has been some thought that well, what do you do if one pool uses FICO four, and another pool uses new FICO and another pool uses, you know, VantageScore, you know? Theoretically in time, and with data, the models can all work and there can be tables set up that say, okay well 671 FICO is equal to a 696 Vantage, which is equal to this and that and the other thing.

But you know, that all takes time. And, you know, people also ask questions about well, okay, so if the GSEs start using a new score, what happens to old pools? Do they just stay with the old one? Do their scores get updated? So anyway, I'll stop here. I mean I think the key, you know, from our perspective is just that whatever is done is done on an appropriate timeline and with an appropriate amount of data to the market so that everybody can understand what's happening, and there's no sort of unintended hiccups or complications that arise. But thank you again for the opportunity to speak here today.

Bill Merrill: Thank you, Chris. We appreciate your time. Next I'll be going to Sally Greenberg from National Consumers League. Sally, thanks for your time, and you have the floor.

Sally Greenberg: Thank you very much. And Director Thompson, distinguished FHFA leadership and staff, good afternoon and thank you for the opportunity to speak. My name is Sally Greenberg and I'm Executive Director of the National Consumers League.

The National Consumers League has been working to ensure competence and safety for consumers in the marketplace and the workplace since 1899. These principles are core to our policy work today and after reviewing the work that your agency has been doing over the past several years on credit scoring, we believe there are principles that you and the FHFA share with us as well.

We appreciate the careful and thoughtful work that you and the Agency have done on the credit score rule and the way you have sought input both from the industry but also from consumers and others whose lives are affected by these rules.

NCL has been carefully watching and offering our thoughts and suggestions since this process first started back when Director Watt issued his RFI in 2017. We responded to the RFI in 2018 and also made comments on the proposed rule in 2019.

Our main goal throughout this process is to give voice to the concerns of consumers, current and prospective homebuyers who are searching for the opportunity to own their own homes. We're dedicated to helping potential homebuyers navigate the market and get the information they need to make good choices.

This is especially important in light of the pandemic and the economic hardship that has swept this country. Rising housing prices coupled with job losses and economic uncertainty have resulted in a very troubling state of affairs for many low and middle income families. The last thing any of us want to do in times like this is to increase uncertainty, potentially raise costs and add more pressure to those who already have faced so much hardship. We just want to ensure that consumers are truly being protected.

Here are our top questions and concerns for your consideration, which we have consistently raised throughout this process. In terms of requiring a single score or multi score solution the concerns we raised in our comments are especially true with the current economic uncertainty brought about by the pandemic. We still have trouble understanding how adding another score to the mix will ensure more people get scored.

Not all credit scores are equal. Scoring more people for scoring sake doesn't mean that all those people receive great credit scores or great loans. Would this process result in more consumers receiving subprime scores and getting locked out of the market? Is no score better than a subprime score for consumers?

The GSEs currently have a manual underwriting program that's quite successful and that helps folks who do not have a credit score. We also continue to have concerns about competition, especially because one of the credit scoring companies involved in this process is owned by the credit bureaus. Consumer organizations like ours have been raising concerns about the accuracy of data and the behavior of credit bureaus for years, will adopting a multi score solution give too much power to the credit bureaus, or to one company? What does that mean for prices and competition in the marketplace?

We're also concerned about the costs that will result from transitioning to a multi score system. Back in 2018, in our comments, we asked FHFA to consider what kinds of costs would result in this change for FHFA, for the GSEs, the mortgage companies, for banks, and most importantly for taxpayers and consumers.

Oftentimes, we see hidden and not so hidden costs passed on to consumers and taxpayers. And that's the last thing consumers need right now. We don't need any more unpredictability in the market. And it's not the time to rock the boat or change things for change sake.

That being said, FHFA has not been afraid to innovate parts of the system that need changing to help consumers, and we appreciate the hard work the agency has been doing to increase the use of alternative data at the credit bureaus and with scoring companies.

In our comments in 2017, we stated that real work needs to be done by FHFA, the GSEs and all the scoring companies to find new sets of data to supplement what is found from the credit bureaus and to help score more consumers. And suggested that FHFA looked for pilot projects like the US Treasury was using.

We've been encouraged and excited by Director Thompson's recent call for increased access to rental data and other pilot programs the agency has been pursuing over the past month. Consumers cannot afford more delay when it comes to the credit scoring process at the federal level. It's time to get the system moving again. Some players in the market are still using older scores. We believe that some of the newer scores out there are better and stronger for consumers.

We know that you at FHFA have been carefully evaluating the data, the cost and the benefits and using standards of safety and soundness. And we hope that you will make the best choice for consumers.

And finally, we want to thank you and your staff for all the hard work and patience during this complicated process. We applaud FHFA's commitment to transparency in your careful factual analysis, your commitment to consumers and your thoughtful, considerate, and deliberative approach. Thank you.

Bill Merrill: Thank you, Sally. Appreciate your time and your comments. Next is Allison Shuster from TransUnion. Allison, thanks for your time, and we'll turn it over to you.

Allison Shuster: Thank you. Good afternoon. My name is Alison Schuster. And I'm the head of US Government Relations for TransUnion. Thank you to the FHFA for putting together this listening session on this important topic of credit score models.

TransUnion supports option three, lender choice, which allows lenders to deliver loans with any score that has been approved for use. We believe that the FHFA's approval of additional credit scoring models, particularly those that include previously unscored individuals would be a net positive for consumers. We believe that the most impacted would be consumers who are considered part of traditionally underserved communities.

TransUnion has long been a proponent of advancing financial inclusion through the use of alternative data such as rent and utility bills on credit reports. We believe that alternative data has the potential to elevate more than 60 million credit invisible or credit disadvantaged people, those who would not qualify under traditional credit evaluations, to new opportunities that would otherwise be unavailable to them.

Some Americans haven't had the opportunity to build credit through traditional means, such as making credit card or car payments. However, many still would have a strong financial track record by always paying their rent, utilities and cell phone bills on time.

Providing a fair and accurate assessment of credit risk to a broader population through a more inclusive credit score affords a higher number of consumers the opportunity to enter into mainstream markets and pursue financial growth.

TransUnion also believes that competition among credit score models results in more predictive and equitable scoring. This more predictive and equitable scoring means more credit scores for more consumers and specifically its competition will help provide access to credit to consumers who have historically been underserved. And in addition to that, competition in the marketplace always spurs innovation.

From TransUnion's perspective the operational considerations involved in the inclusion of a new score would be very low. We do not think there is a material difference between updating the traditional models and incorporating a new model altogether. Also, we do not believe that including an additional scoring model would be significantly disruptive to the market. While there would be resources needed to ensure a smooth transition, we do not view these resources as materially significant. Thank you for your interest and your consideration of this important issue. And thank you for your time today.

Bill Merrill: Thank you, Allison. Really appreciate your comments. Thank you. Next we'll go to John Wong from the Asian Real Estate Association of America. John, thank you for your time, and we will turn it over to you.

John Wong: Thank you very much. And I ask for all your indulgences in advance because I am making my comments from the Houston Airport.

Bill Merrill: Oh, okay.

John Wong: So there will be some background noise and I apologize in advance. I also recognize that I am risking my COVID safety score by taking my mask off for five minutes. My name is John Yun Wong, I am a founding Director of the Asian Real Estate Association of America, otherwise known as AREAA. It's an organization that is approaching its 20th birthday with over 17,000 members distributed across the

United States in 42 chapters. And we appreciate Acting Director Thompson the opportunity to share our comments on this important topic.

The reason I say this important topic is what credit scoring takes the history of behavior to do an evaluation, I'm going to take us back on a history of AREAA's involvement with credit scoring. From the very beginning from its formation, the understanding of how the Asian segment is viewed in credit scoring has been critical.

So when AREAA was formed back in 2003, its primary purpose and use, the core purpose is to help more AAPI Asian American Pacific Islander families into homeownership. Because a study from Freddie Mac back in 2005, showed that the APAI segments, this is a study of census data, even though this segment had higher median incomes, had higher educational attainment, had higher savings, lagged in homeownership. In fact, by the percentage of 59% of the AAPI community to 67% of Americans as a whole.

So in the very beginning, and in the spring of 2004, AREAA commissioned the UCLA Asian Studies Center, along with support from Freddie Mac, to do a study on why this was so. The result of that was in 2006, the release of a document called Homework Bound and in depth look at Asian American homeownership in the United States. And there showed significant differences validated what AREAA's members felt knew anecdotally, but came to be very clear, a lack of understanding of the importance of credit was a primary reason for this lack -- this distinction in the homeownership percentage.

And in particular, because there were many Asian cultures that do not value credit. So the Asian AAPI communities who are very close to immigrant times, or parents or immigrants, did not choose to get the credit cards and then other items that are needed to score themselves.

So based on that, AREAA created a class called effectively serving the AAPI community, and delivered in fact, teaching to over 6,000 individuals across the country on this particular segment. So core, data, we found out that there was a disparity and why credit scoring was one of them.

Education, we went out to educate the general public practitioners who served AAPI community that in fact, part of the education is understanding the importance of credit scores. And maybe you should get a credit card before you're applying. So that's the occasion part.

But we also recognize the voice component. And one of the things that AREAA did is in 2010, with the FHA Reform Act of 2010, worked with Congressman Al Green, to include in the bill, a beta test for FHA to look at alternative credit models. And that was a major, major victory for the association because we're now going to get some definitive data via the FHA program of can you measure items that weren't currently measured to determine credit effectiveness?

Unfortunately, something called the great recession happened. And I recognize that FHA had other things to focus on besides a particular beta test. So it's set in the background, but it was something that the Asian Real Estate Association continued to monitor over the years.

And in all of our -- what started as a five point plan and now three point position plan to Washington DC, every year in AREAA's Hill visits, has been one of the policy points been alternative credit. So based on that, and we were very involved with Congressman Green in the 2019 HR. 123, which is a reauthorization of the beta test from FHA that was in the original 2010 FHA reform bill.

The reason I give this litany of history is to give some context for where the association's recommendations come from. It's not started just because, oh we got a chance to speak on this listening posts. What are we going to say? It is not even the fact that in 2017, the RFPs went out and we became engaged. This has been important for the association because it is critical for our members and the consumers they serve, because credit scoring is critical. Now in reference to the bullet point of responses, of the four options, AREAA strongly, strongly, strongly supports option three, lender choice. And the reasons for that is the first option.

Bill Merrill: Hey, John, I'm sorry to interrupt you, but maybe like in 30 seconds, wrap it up, just to --

John Wong: Okay.

Bill Merrill: But go ahead, finish up, 30 seconds.

John Wong: Okay, yeah, and the reason is, because of the work that we have done with organizations like FICO and VantageScore, two nuances in the Asian community can be recorded. The reason that we certainly suggest that because of options is that we talk about rent, that when we first started it was impossible to measure rent, because you couldn't ask a small landlord to record the data. The ability is now there with digital payments.

And so because of that, we want to keep the option open for new evolving models to emerge as well. And we believe that option three will give that option. Regarding my last comment, let's get moving.

Bill Merrill: Yeah, thank you John.

John Wong: I don't respectfully request that we move. I emphatically implore that we move forward on this. We've been at this for 20 years, it's time to get a result. Thank you.

Bill Merrill: Thank you, John. I appreciate it. I wish you safe travels as well. Next, we have Jim Wehmann from FICO. Jim, let me turn it over to you.

Jim Wehmann: Thank you for the opportunity to speak today. We applaud the FHFA and its continued focus on this important initiative. FICO is not a credit bureau like Equifax, TransUnion, or Experian. Nor are we owned by the credit bureaus like VantageScore. We are an independent analytics provider. And our long standing role in the conforming market is to provide predictive credit scores free from the conflict that comes with owning the credit bureau data. We rely on the credit bureaus to distribute and sell our scores. And they set the price of both VantageScores and FICO scores to the lenders.

Which leads to lender choice versus single score. Lender choice is not a mechanism that will ensure competition. A level playing field cannot be achieved among credit score providers under lender choice, given the unique competitive dynamics in the conforming market caused by the credit bureaus and their joint ownership of VantageScore.

FHFA recognize this problem when former Director Watt asked "how do you ensure in the long run that one of the credit scoring companies, which is owned by the credit repositories, doesn't have an advantage over the credit scoring company that is not owned by the credit repositories,"

But FHFA can establish competition without lender choice. The credit score evaluation process articulated in the FHFA Rule requiring credit score providers to compete directly on factors such as accuracy, reliability, and integrity, is the essence of competition. Selecting the single best score through a competitive review process is how we compete every day in a variety of markets.

We have supported this FHFA process from the beginning, and have always said, may the best score win. Single score has other benefits. It establishes a consistent measure of risk. Multiple credit scores are not interchangeable and will result in impaired liquidity, market confusion and increased transaction costs.

Single score also avoids adverse selection through score shopping, which can't be prevented by placing restrictions on lenders. And finally, single score is prudent risk management. In the conforming market where the Enterprises assume the risk the Enterprises specify all requirements of acceptable loans, including loan pricing, LTV, and the credit bureau reports and other requirements.

Specifying the credit score is no different. In fact, letting lenders choose a lower performing credit score should be unacceptable to all stakeholders. The credit score decision belongs with the Enterprises and the FHFA.

We believe the latest version of the FICO score will be that best score. We believe it is the most predictive score, which promotes safety and soundness and helps more consumers qualify for mortgages. It is designed to minimize implementation costs and ensure continuity is for lenders, investors and consumers.

The FICO score is the most recognized and reliable measure of consumer risk. We have never compromised our standards, despite pressure and financial incentives to do so. When times are good, it's easy to undervalue high standards. Things can change. With trillions of dollars at stake, investors around the world gain confidence from the most trusted score, the one that's been tested in good times and bad.

Regarding the idea that a waterfall or other two score approach can benefit consumers, there are no shortcuts to financial inclusion. Lowering the minimum scoring criteria to score more people only creates the illusion of inclusion. Former Director Watt agreed saying, “We just didn't find there was a significant difference in these credit scores from an access perspective.”

Credit scores based on stale or incomplete data will not facilitate mortgage approval and will do more harm than good. Retooling the entire conforming market around a waterfall from the same traditional credit data will only result in greater implementation costs and confusion, not more homeownership.

It also leaves behind the 25 million consumers without traditional credit files. Where such data isn't enough, leveraging positive, reliable data outside traditional credit files offers all consumers a chance at approval.

Finally, FICO is committed to fair lending. We conduct fair lending testing and our models are explainable and palatable. Regarding palatability, our flagship FICO scores exclude mortgage variables, which avoids directly penalizing applicants because they don't own or have never owned a home, a segment disproportionately comprised of already disadvantaged groups.

Newer, untested credit scores that utilize mortgage variables could result in consumers being denied for mortgage simply because they haven't owned a home. In conclusion, FICO has been a trusted and reliable partner to the Enterprises since they first adopted the FICO score more than 25 years ago. We appreciate the opportunity to provide these comments.

Bill Merrill: Thank you, Jim. We appreciate your time. Next, we go to Nicholas Schmidt from BLDS, LLC. Nicholas, appreciate your time, we'll let you get started.

Nicholas Schmidt: All right, thank you very much. And first I'd like to thank FHFA for organizing the listening session, and also thank the other participants for their insightful comments. My name is Nicholas Schmidt. I'm a partner of BPLDs. We're a consultancy based out of Philadelphia that uses statistics and economics to assess evidence of discrimination in employment, housing and lending.

I'm also the CEO of SOLSAI, which provides software that the tests for and mitigates potential discrimination through algorithmic decisioning. I've worked at the intersection of law and regulation and economics for over 20 years. My clients have included many of the largest US lenders and Fortune 50 companies, as well as many federal, state and local government agencies charged with enforcing anti-discrimination laws.

As we all understand, it is essential to consider the fair lending implications of any changes and how credit scores are reported to or utilized by the Enterprises. Understanding the impact of these changes requires looking beyond the superficial appeal of requiring multiple scores, such as assumptions that increase coverage rates result in better outcomes for consumers.

The Enterprises use credit scores in nuanced ways throughout the lifecycle of a funding decision. As a result, even seemingly beneficial elements of the proposal may not result in more favorable lending outcomes. In fact, allowing or requiring lenders to provide multiple scores to the Enterprises may counter intuitively harm minorities in traditionally underserved communities. This may be true across any of the three proponents methods for considering multiple scores.

Determining the impact of these changes is ultimately an empirical question answered only through a review of the data available. It is essential that this analysis not only incorporate high level effects such as coverage rates, but also consider the many downstream ways that scores affect outcomes from borrowers.

In this, I want to underscore three elements that should be concerned. First, and as has been mentioned, because no loan is rejected solely because borrowers lack of credit score, unscored consumers are not necessarily harmed by lacking coverage.

Second, borrowers who do have a credit score can be rejected if those scores are too low. As a result, extending coverage by giving borrowers low scores may actually lead to more rejections on loans for these borrowers than if they did not have any score at all.

Third, inequitable or differential outcomes and loan acceptances may be better improved by having the Enterprises minimize disparities in the scores that they create for determining eligibility.

Here it is worth stating that the Enterprises make little or no use of publicly available credit scores when they determine eligibility using the DU and LP algorithms.

Regarding the first few points, we know that the Enterprises have attempted to increase the pool of eligible borrowers by using different data and different models for unscorable customers. This means again, that a lack of a credit score does not per se result in a rejection on the loan.

On the other hand, Enterprises do use credit score cut offs when the credit scores for borrowers are available. As a result, a borrower who is rejected because of a low score might have been accepted under the Enterprises non-scorable models.

This is the counterintuitive result. If one credit score has a larger coverage than another, but the increased coverage primarily comes at the lower end of the score distribution, then borrowers may actually be made worse off by having multiple scores available to the Enterprises.

And to state another way, since the Enterprises have methods for evaluating unscored borrowers, increase credit score coverage through lower scores may result in fewer acceptances. Whether this is the case, and whether it affects minorities disproportionately, is ultimately an empirical question. But given the possibility, the assumption that increased coverage leads to increased access to loans is worth evaluating.

And further beyond the cut offs, the Enterprises make relatively little use of credit scores to determine acceptance. Instead, they primarily use their own models. As a result, under the current processes and proposals it's likely that's the simplest and most effective way for the Enterprises to expand access to credit would be through performing discrimination testing, and disparity mitigation of their own models.

So to summarize, the mechanisms by which the Enterprises utilize credit scores is complicated. And the impact of these proposed changes will be as well. The most effective way to determine the impact of these different proposals is through empirical testing. That is, we should determine if more minorities and underserved borrowers would get access to conforming loans when using one credit score, or when using multiple.

If the results of these tests show that requiring additional scores leads to significantly change -- significant changes in the number of minorities accepted, then that should be given the appropriate weight relative to any other potential benefit that might come from changing the scoring process.

But to reiterate, simply giving weight to differences in coverage rates is inappropriate and can be misleading. So again, thank you very much for the opportunity to speak.

Bill Merrill: Thank you, Nicholas, for your time. Appreciate it. We're going to move to Lindsey Johnson from the US Mortgage Insurers. Lindsey, thanks for your time, and we'll turn it over to you.

Lindsey Johnson: Perfect, thank you. Good afternoon. My name is Lindsey Johnson. I'm the President of US Mortgage Insurers. And I'll just echo the appreciation for Director Thompson, Bill, the entire FHFA team for the continued engagement with all stakeholders on this very important topic.

USMI understands and supports the review of different credit score models for utilization by the GSEs in order to increase transparency, market competition, access to mortgage credit. I know that I'm probably at the tail end of the day, so I'm going to keep my comments really short. And would just note that in our RFI response in 2018, we do speak to all the questions that are posed for today's listening session, including various considerations around fair lending, impacts to consumers and many other aspects of moving to an updated or new score model or models.

For today's comment, I want to focus on one particular question posed for the listening session, which specifically asked, how significant are the operational considerations for transitioning to an updated or new credit score or credit scores? And then the question asked respondents to share any comparisons of operational considerations between a single score, option one, and multiple score options, two through four, using high, medium, and low scales for complexity and costs.

We think this is a really important question that FHFA is asking around complexity and costs, as we know that both can not only be felt, but are at times borne by borrowers. So we urge FHFA to consider reducing both complexity and costs associated with any new updates, models, or approaches.

Bill, you mentioned at the beginning and others have also highlighted throughout this discussion, credit scores are used by virtually all housing finance market participants, lenders, servicers, MIs, the GSEs to an extent, investors including CRT investors, just to name a few. And therefore changes to credit scoring will materially affect their operations, the processes and the technologies, of which all market participants are using much more up and it'll have to be integrated into those technologies.

So updates to the GSEs credit score requirements really should -- has to take into account both the benefit for consumers and also the extensive implications for market participants, and recognize the potential operational risks associated with the implementation of updated or new scoring regimes, as they're a critical component of risk management within the housing finance system.

In this way, to reduce complexity and cost, USMI and my members believe that option one, a single transparent credit score model, regardless of whether it's an updated or entirely new model, is the best option for preserving the necessary tools to prudently underwrite borrowers and actively manage mortgage credit risk, while also expanding access to credit in a sustainable way.

And while the selection of a specific option is going to create variances in complexity and costs, as we noted in our 2018 response, we do believe implementing option four or the waterfall approach would add significantly more complexity and costs for implementation than say a single score.

Again, we do believe it's essential that there be increased transparency and consistency when it comes to scoring between mortgage market participants, including between the conventional and FHA markets. As noted by earlier participants, the GSEs AUS's are capable of assessing and pricing borrowers with non-traditional credit. USMI encourages the GSEs to make these credit scoring models transparent to the marketplace, because we think this is going to be a very meaningful way to provide additional credit factors for consideration, and to improve both risk management and access to credit.

Should the FHFA pursue a system with multiple credit scores, it's going to be very beneficial and important for market participants, for FHFA and the GSEs to share as much as possible, the data including the back testing, and any kind of mapping or translation that's occurred between different scoring models and analytics between -- around those models, so that we can ensure we've all got the necessary information and ability to transition to new updated scores.

It may also be necessary to create an equivalency tool based on historical data analysis in order to compare two models. USMI firmly believes that in the event FHFA determines to make significant changes, a longer implementation timeline is appropriate to integrate these new credit score models throughout the entire mortgage process. Thank you for your consideration, and we look forward to working with you and the other stakeholders on this call.

Bill Merrill: Thank you, Lindsey. Appreciate your time. We're going to move to Barry Wides with the OCC. Barry, thanks for your time as well. We'll give you the floor.

Barry Wides: All right. Good afternoon, and thanks very much for the opportunity to share some thoughts with you this afternoon. I'll keep my comments brief since it's late in the day, and many of the points we were going to make have already been covered.

So I wanted to just share some observations that we have as a result of the work that OCC has done around our Project Reach Initiative. I am the OCC staff lead for the affordable homeownership workstream, which is very much focused on increasing homeownership amongst financially excluded populations in the past and underserved groups and communities.

Over the past year and a half, we have been convening a group of approximately 80 practitioners in the mortgage industry and in the civil rights community around ways that we can expand access to homeownership.

And really the major issue that has come up time and time again with our group has been the issue of not being able to give a fair shake to individuals who have thin files, or no credit history. And the work that we have done both as regulators around the issue of alternative data and credit underwriting has really become a priority for us.

Back in 2020, the bank regulatory agencies put out an interagency statement about the use of alternative data and credit underwriting. And I just wanted to share with the group some of the key points of this bulletin. It says that the agencies recognize that the use of alternative data may improve the speed and accuracy of credit decisions and may help firms evaluate the credit worthiness of consumers who currently may not obtain credit in the mainstream credit system.

Using alternative data may enable consumers to obtain additional products and/or more favorable pricing and terms based on enhanced assessments of repayment capacity. The innovations reflect the continuing evolution of automated underwriting and credit score modeling offering the potential to lower the cost of credit and increase access to credit.

And I think that's our touchstone with our work on Project Reach in the homeownership space. And so I don't necessarily have an OCC recommendation regarding how one approaches this very challenging question that you've posed today.

But I would echo the comments that are made by three of our Project Reach participants that testified earlier, the National Fair Housing Alliance, the National Asian American Coalition, and HomeFree USA, all three of whom made very, very powerful comments regarding the need to have transparency and heightened fair lending considerations. And the ability to provide a fair shake to people that have repayment histories, but are not using credit to establish and show their credit repayment capacity.

So, you know, as a good regulator, I want to make sure that I do point out that the other important factor to be considered is a new approach should not contain greater risks than data traditionally used in the credit evaluation process. But we believe that there have been significant advances made in this space in terms of evaluating people based on means other than previous credit repayment history through alternative data, including the payments that they may come on their regular utilities and other recurring obligations.

So just to keep things brief, I'll conclude my remarks there. And again, thank the FHFA for convening this meeting. And we look forward to working with you to share our further findings as we continue our work through Protect Reach. Thanks very much.

Bill Merrill: Thank you very appreciate your time. At this time, I want to thank all our speakers today. It's certainly a lot of effort and time to put comments together. We greatly, greatly appreciate it. It's a critical issue to the entire industry. And your input is very valuable.

I want to leave you with the email address again, it's being presented on your screen again. If there's additional information you would like to provide to us that you haven't done already, feel free to send it to this email address on the screen. We would appreciate any additional information data that you want to provide.

So with that, I will bring the listening session to a close and thanks again for everyone's attendance and appreciate everybody's time. And special thanks to the FHFA team. They coordinate all this and kept everything running behind the scenes. They've done a fantastic job getting this organized and getting it out there on short notice. So thank you all to them as well. Appreciate it. Everybody have a great rest of the day. Thank you.