# Federal Housing Finance Agency:

## Credit Score Request for Input

March 30, 2018

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Director Melvin L. Watt
Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 7th Street, S.W., 9th Floor
Washington, D.C. 20219

**RE: Credit Score Request for Input (RFI)**

Dear Director Watt:

Equifax appreciates the opportunity to provide input on the Federal Housing Finance Agency's (FHFA) questions regarding updating the Government Sponsored Enterprise (GSE) credit score requirement and evaluating the mortgage industry's continued use of merged credit reports. Equifax supports the FHFA's efforts to review the use of credit scores and consumer credit information in the industry and, to that end, has engaged with both Fannie Mae and Freddie Mac on research analytics to assist in their review efforts.

Equifax strongly encourages FHFA to give maximum consideration to consumers by ensuring that the GSEs and the broader mortgage industry use all of a prospective borrower's readily available predictive credit information in the mortgage underwriting process, particularly the twenty-four months of historical payment data, "trended credit data". Equifax does not recommend any of the credit score options suggested in the RFI because none include a scoring model that uses trended credit data. FHFA would help ensure fair credit access for consumers if it advanced new requirements on credit scores that utilize trended credit data. The time-series trended data view rewards borrowers who demonstrate healthy financial behavior and captures the most accurate representation of risk for the lender.

Equifax firmly believes that removing the underwriting requirement for a three bureau merged credit report would harm consumers and the quality of the mortgage underwriting process, yet merely yield inconsequential cost savings compared to the overall total closing costs. Industry research finds that the cost of a tri-merge credit report accounts for a de minimus 0.34% of the consumer's overall mortgage closing costs. Removal of the tri-merge credit report requirement, which would result in a dangerous reduction in predictive data used in the underwriting process, would deleteriously impact a consumer's ability to obtain credit at the most advantageous terms. Each bureau's credit report may contain different data fields or be updated at varying points in time, so a three bureau merged credit report compensates for such discrepancies and ensures that the entirety of a borrower's credit behavior is fully presented to the lender. Removal of the tri-merge credit report requirement would increase industry risk exposure at a time of rising consumer debt levels. And, most importantly, it would irreparably hurt the consumer by precluding otherwise credit-worthy consumers from obtaining loans or compelling them into loans at unfavorable terms.

A home mortgage loan is typically a consumer's largest financial transaction in their life as home ownership is an enduring ideal of the American dream. It is imperative that all of the information that could potentially help consumers qualify for credit be considered. Equifax welcomes the opportunity to discuss this response with you and looks forward to continued engagement on these topics. If there are any questions about this RFI submission, please direct them to:

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Again, thank you for your consideration of these important mortgage industry and consumer questions.

Sincerely,

Joseph ("Trey") M. Loughran, III
President, U.S. Information Solutions

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# General Questions on Credit Scores

**Question A1.3: Is it necessary for any new credit score policy from the Enterprises on credit score models to be applicable in all aspects of the loan life cycle, or could there be differences, such as in servicing?**

To the extent that a representative credit score is tagged to a loan and used across the ecosystem, the credit score policy should be applicable to all aspects of the loan life cycle. However, there are situations where an entity may elect to use a credit score model that is different than the model used to establish the representative credit score. For example, a loan servicer might use a different credit scoring model for internal risk management efforts or a bond investor may choose to utilize a different score, if the information is available, to analyze for trading and internal valuation purposes. Representative credit scores are also tagged to loans that are put into securities and may be anonymously disclosed to the market by an issuer in a credit risk transfer securitization or similar transaction. While these examples demonstrate the legitimate use of different credit scores in the ecosystem, the credit score policy for mortgage loan origination adopted by the FHFA and Enterprises should apply to the extent that a credit score is referenced across the mortgage value-chain in situations where multiple parties could be referencing data specific to a given loan. On the other hand, if an organization is using credit scores for internal purposes, the credit score policy should not apply.

**Question A1.4: How would mortgage lenders and investors manage different credit score requirements from primary and secondary mortgage market participants? Is it important for your business processes that government guarantee programs in the primary mortgage market (e.g., FHA, VA, USDA-Rural Development) have the same credit score requirements as the Enterprises?**

It is important for the primary market to operate according to common standards for credit score requirements, regardless of whether a loan is a conforming GSE, FHA, VA, or USDA loan. A common standard facilitates an orderly functioning primary market. Further, in many instances, the ultimate destination and structure of a mortgage is not known at the time a credit report that includes a credit score is pulled in the mortgage application. Without common standards, not only across the spectrum of Enterprise and government lending, but across the broader industry, the mortgage lending process will become more complicated and confusing to consumers.

**Question A1.5: How would updating credit score requirements impact other industry-wide initiatives that affect your organization? What is the relative priority of this initiative compared to other industry-wide initiatives?**

Equifax and other consumer reporting agencies ("CRAs") have all devoted significant investment and resources to creating an updated technology platform that enables lenders and the Enterprises to leverage what is commonly known as "trended credit data". The introduction of trended credit data to the mortgage industry, in 2016, represented the most significant improvement to the credit reporting business in over twenty-five years. While the specific features of trended credit data vary by consumer reporting agency, at Equifax, trended credit data provides additional, predictive time-series data that was previously not provided on a mortgage credit report. Specifically, the Equifax trended data enhancement has added three key data fields: scheduled monthly payment, actual monthly payment, and balance to the credit report, showing these data elements for each tradeline over a twenty-four month period.

As detailed in the response to question A1.6 below, one of the major improvements that resulted from the introduction of the trended credit data technology platform is the ability for lenders and models to assess actual payment amounts on credit obligations as compared to scheduled payment amounts on a monthly basis at the tradeline level.

Another critical aspect of the use of trended credit data is its ability to supply scoring models and lenders with information on borrower balances over time as opposed to the legacy industry practice of simply showing the current outstanding balance on a given loan at the time of credit report generation. In the mortgage industry, the information detailed above is already being provided to lenders and the Enterprises. This is significant because

there is an element of information dislocation when consumer repayment behavior data provided on a credit report is not incorporated into the generation of a credit score. Today, consumers, lenders, and the Enterprises can see trended credit data on a credit report; however, this valuable information is not used in the credit score currently used in the industry (resulting in information dislocation) or as an input in either FICO 9 or Vantage 3.0.

It is critical that any new FHFA requirement on credit scores addresses the information dislocation issue and requires that any credit score used in the mortgage credit process utilizes all of the data actually provided by the consumer reporting agencies on a credit report as model inputs. If a borrower has demonstrated repayment behavior that indicates a history of paying more on a given obligation than is contractually required (for example, on an auto loan) and that information is on a credit report, it is only fair to a consumer for that information to be used in calculating a credit score and not be disregarded simply because the information was not available at the time a credit score model was engineered.[1]

Credit risk models should take trended credit data into account in order to best address consumer and industry needs. Due to the predictive value of trended credit data compared to the legacy static data and its ability to improve credit analysis, the lending community appealed to the credit reporting industry for many years to make this kind of information available. Prior to making any determinations on the future use of credit scores, the FHFA should pursue an independent, third-party analysis to research and advise the agency on the value of this information in the construction of risk models. Such an analysis could examine the impact of trended credit data and its use by both VantageScore Solutions LLC, in its most recent score version update, and Fannie Mae in its current internal Desktop Underwriter risk model version.

**Question A1.6: Do you have a recommendation on which option FHFA should adopt?**

Equifax does not support any of the credit score requirement options as detailed in the RFI because the three credit scores being contemplated by the FHFA are all based on legacy credit reporting technology that has since been updated and enhanced. Trended credit data platforms are now in place at all three nationwide consumer reporting agencies and this information is currently included on credit reports provided to the mortgage industry. Equifax believes that consumers and the market would be best served by a FHFA requirement that mandates the use of all the available predictive information on a credit report. Understanding the significant cost, challenges and complexities associated with the transition to any new credit score model, putting the industry through that cost to transition to a model that is instantly based on old technology would be a missed opportunity. As previously noted, trended credit data represents the most significant technological advancement to the consumer credit report in the United States in twenty-five years. This data enables lenders, regardless of whether they are employing credit criteria or a model, to consider items like tradeline balances and actual payment amounts on a historical, time-series basis. The use of trended credit data in the mortgage industry results in a consumer credit report that provides more information on a given consumer's credit behavior and history.

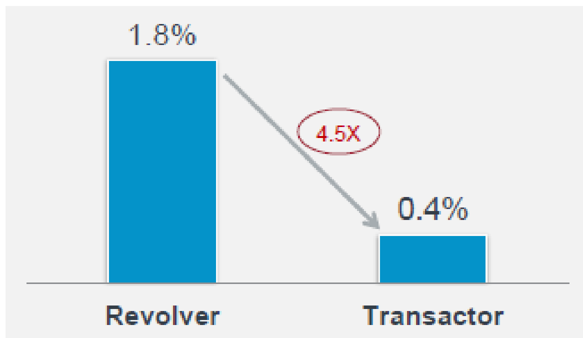
Although the credit reporting industry has the core technology in place to support the use of trended data in the mortgage lending process, constraints exist that create challenges for the optimization of this data. These constraints should not be a reason for the industry to ignore the use of this data. The major limitation on the optimization of trended credit data platforms is that some data reporting practices, specifically related to bankcard tradelines, do not result in the reporting of the Actual Payment Amount ("APA") data field, which is the amount paid by a consumer in a given month on a specific account. While bankcard issuer motivation behind this less than comprehensive bankcard data reporting practice should be understood, the result of this practice is that scoring models that leverage trended credit data have less of an opportunity to reward what is known as "transactor" credit behavior.

A consumer with a credit card balance who pays the balance in full every month, or more than the minimum amount, would likely exhibit transactor behavior, whereas a consumer who pays only the minimum required payment amount and allows a balance to carry over to the next month would likely exhibit "revolver" behavior, thereby carrying a larger balance on a month over month basis. Empirical research by Equifax shows that in

[1] Trended credit data was not available when Classic FICO, FICO 9, and Vantage 3.0 were developed.

general, consumers who exhibit transactor behavior represent lower credit risk than consumers who demonstrate revolver behavior. In conducting further analysis, FHFA should examine how any scoring model under consideration treats bankcard or other revolving repayment behavior over time, and whether or not the models truly consider transactor or revolver behavior, acknowledging the data reporting gaps. The ability for mortgage lenders to identify lower risk transactor borrowing behavior can lead to a lower cost of credit for consumers who exhibit this behavior. As demonstrated in Exhibit 1 below, Equifax research determined that consumers who engage in transactor behavior are 4.5 times less likely to default on new mortgages than consumers who demonstrate revolver behavior.[2]

**Exhibit 1**
**Trended Credit Data: Transactors v. Revolvers**



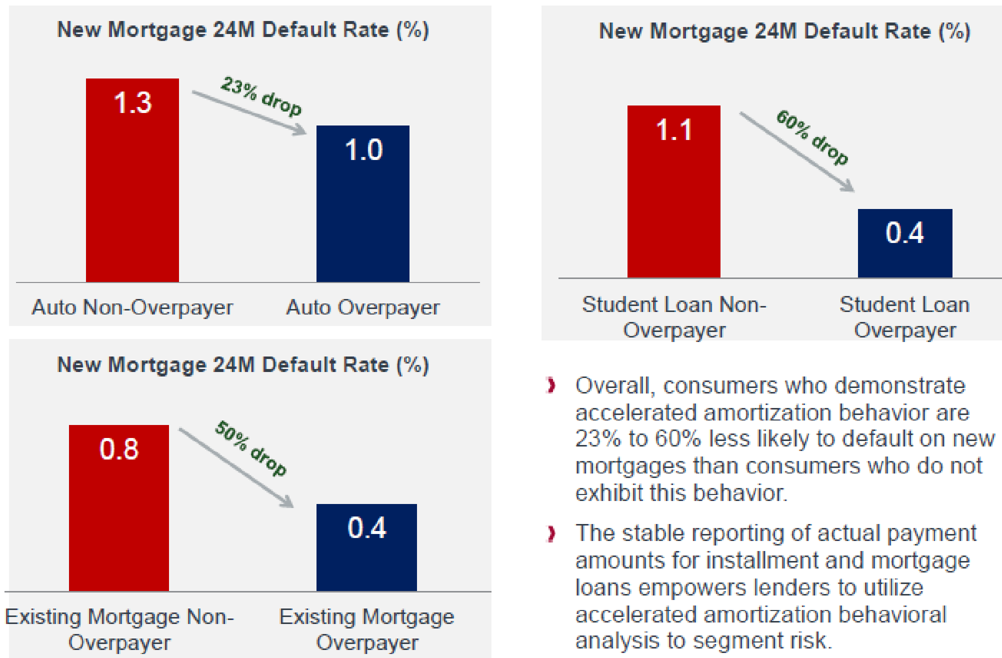

***Equifax research shows that consumers who demonstrated transactor behavior were 4.5 times less likely to go 90 days or more delinquent on new mortgage loans.***

Given the potential consumer benefits of full and complete data reporting from the bankcard industry, Equifax is eager to collaborate with the FHFA, the Enterprises, and other mortgage market participants on ways to address this issue.

In contrast to the bankcard industry, the fill rates for APA reporting in the installment lending and mortgage sectors are significantly higher. As such, scoring models and lenders using trended credit data can identify borrowers who repay credit obligations faster than their contractual liability; behavior that Equifax refers to as accelerated amortization. For example, a borrower who pays $500 per month on a car loan with a $375 scheduled monthly payment is demonstrating accelerated amortization. Trended data can also differentiate whether a consumer made a one-time overpayment on an installment credit obligation or routinely overpays on that term loan. Trended credit data effectively identifies this behavior and it can be incorporated into scoring models. As with the transactor credit behavior, Equifax research illustrated in Exhibit 2, shows that borrowers who make accelerated payments are generally lower risk than those who have not demonstrated the same behavior.[3]

[2] This analysis is based on Equifax data that isolated 102,000 mortgage loans opened in March, April, and May of 2014. It is important to note that since this analysis there have been changes in APA reporting on bankcard tradelines. The data fill rates for the APA reported to the Equifax database by bankcard issuers were higher at the time of this analysis than they are at present. New analysis is being conducted based upon current fill rates.
[3] *See* footnote 2.

**Exhibit 2**
**Trended Credit Data: Accelerated Amortization**

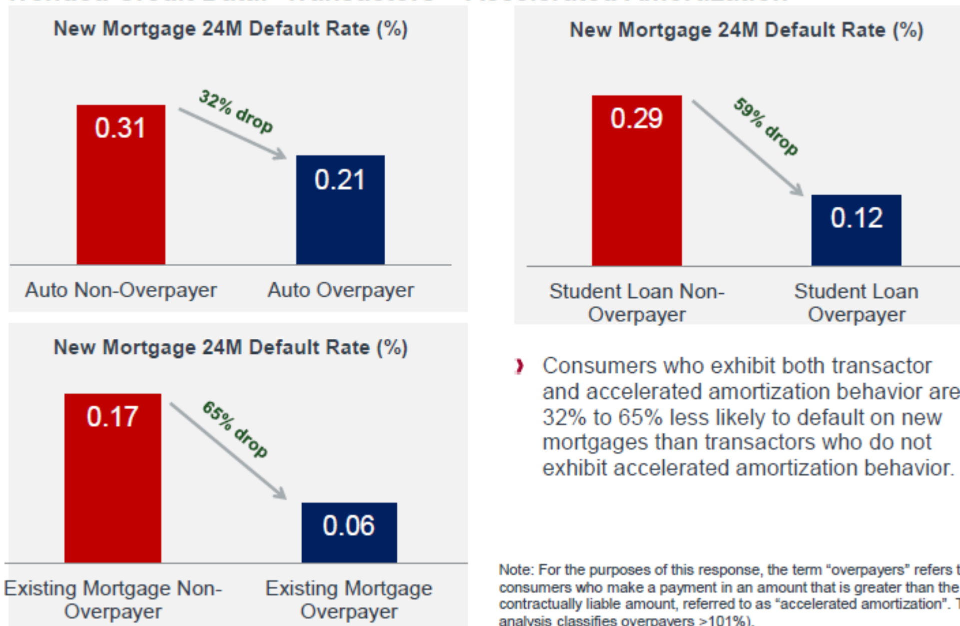



Note: For the purposes of this response, the term "overpayers" refers to consumers who make a payment in an amount that is greater than the contractually liable amount, referred to as "accelerated amortization". This analysis classifies overpayers based on the trended data attributes (Percent Total Actual Payment Amounts to Total Scheduled Payment Amounts in the Last 24 Months >101%).

Trended credit data provides the ability to further identify lower risk consumer repayment behavior with the potential to improve credit access or borrowing terms for consumers. As shown in Exhibit 3 below, which is based on the same data sample as Exhibits 1 and 2, consumers who demonstrate both transactor and accelerated amortization behavior on various types of consumer credit loans have ultimately performed better on new mortgage loans compared to consumers who demonstrate transactor behavior without accelerated amortization behavior.[4] The use of trended credit data in credit risk models and in credit underwriting enables lenders and investors to identify this type of behavior whereas legacy, static credit bureau data, such as the kind used in the scores currently under consideration by FHFA, does not.

[4] *See* footnote 2.

**Exhibit 3**
**Trended Credit Data: Transactors + Accelerated Amortization**




Overall, Equifax research indicates that credit models that use trended credit data inputs outperform models that are based on legacy, static data. The table below highlights the overall improvement in credit risk model predictiveness with the use of trended credit data.[5] Based upon the same research data used in Exhibits 1, 2, and 3, Equifax utilized VantageScore 3.0 credit scores (built without trended credit data, using static data) to segment a population of newly originated mortgage loans and compared how a static data based model would typically capture accounts with subsequent ninety days or more past due within a twenty-four month period as compared to a model that uses trended credit data. As illustrated in Exhibit 4, in the lowest 10% of the scored population of newly originated mortgage loans studied and represented below, the credit risk model that is supplemented with trended data captured 10.6% more of the loans that went ninety days or more past due within a twenty-four month period than did the static data based model. Of particular interest to the FHFA should be the incremental lift generated by trended credit data model in what has been identified as near prime and subprime populations. The trended credit data based model captured an incremental 14.3% and 5.7% of the accounts that went ninety days or more past due within a twenty-four month period in the lowest scoring 10% of the population, compared to a model that does not include trended data. Therefore, a credit risk model that effectively pushes an increased number of loans that are more likely to default into lower credit score bands allows lenders to approve a greater number of loans while taking on less risk. There is also a benefit to consumers, because the market can support the approval of mortgages to consumers who were not able to qualify without the trended credit data.

[5] *See* footnote 2.

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## Exhibit 4
## Trended Credit Data v. Legacy Static Data: Predicting Risk of Default in New Mortgage Accounts

| New Mortgage Account Representative Credit Score | Legacy Static Data | | Trended Data Based Model | | Incremental Lift with Trended Data Model | |
|---|---|---|---|---|---|---|
| | Target Capture Rate | | Target Capture Rate | | Target Capture Rate | |
| | 10% | 20% | 10% | 20% | 10% | 20% |
| Prime (VS3.0>720) | 29.8 | 40.4 | 29.8 | 40.4 | 0.0% | 0.0% |
| Near-Prime (620<VS3.0<=720) | 23.3 | 41.7 | 26.7 | 47.5 | 14.3% | 14.0% |
| Sub_Prime (VS3.0<=620) | 23.6 | 39.9 | 25.0 | 37.8 | 5.7% | -5.1% |
| Overall (Validation) | 47.6 | 71.3 | 52.6 | 72.2 | 10.6% | 1.3% |

While quantitative modelers can debate how best to conduct an analysis of the data summarized above, there should be no doubt that trended credit data adds predictive value. In fact, in 2016, Fannie Mae announced the requirement for lenders to use trended credit data for mortgages underwritten through Desktop Underwriter® Version 10.0.[6] Further, VantageScore Solutions LLC uses trended credit data for VantageScore 4.0; however, VantageScore 4.0 is not one of the scoring model options detailed in this RFI.[7] The FHFA should follow the lead of Fannie Mae and VantageScore Solutions in conducting an analysis of the value of trended credit data to enable more market participants and consumers to benefit from the most advanced technology available.

While trended credit data was not available when Classic FICO, FICO 9, and Vantage 3.0 were developed, this information is now readily available. As noted above with the transactor and accelerated amortization behaviors, consumers who demonstrate these positive behaviors will benefit from having that behavior fairly represented in their credit scores. Without the use of trended data as risk model inputs, this lower risk consumer credit repayment behavior is unable to be identified and taken into account when lenders make decisions, even though the information may be available on the credit report.

The information dislocation dynamic also flows into the capital markets for mortgages. The inclusion of trended credit data as inputs into credit scores would also enable other market participants to leverage the power of that data where that ability does not exist today. Mortgage-backed securities investors, ratings agencies, and other ecosystem participants typically use the representative credit score tagged to any given loan for a multitude of valuation and risk analytic purposes. In contrast to mortgage lenders and the Enterprises, these entities typically do not have the ability to see the raw tradeline level credit report data associated with a loan; therefore, they do not see trended credit data fields in disclosure information that drives their modeling. As a result, their only ability to benefit from the more comprehensive data on a trended data credit report would be through the credit score. If that data is not used as part of the credit score, these critical market participants would be using a credit score that does not fully represent the credit quality of the borrowers associated with given loans or loan applications. It is very important that the FHFA and these market participants understand and recognize the significance of this information dislocation issue. The additional transparency provided by the use of trended credit data in the scores would significantly benefit the entire mortgage marketplace. Many market participants, including state and federal

[6] Laura Lang Haverty, Trended Data Gives Lenders a Richer Credit History, Fannie Mae Business News, March 31, 2016, http://www.fanniemae.com/portal/media/business/credit-history-033116.html (last visited March 24, 2018).
[7] VantageScore Solutions, LLC, Scoring Credit Invisibles: Using Machine Learning Techniques to Score Consumers with Sparse Credit Histories, October 2017, https://www.vantagescore.com/images/resources/20171009_Machine%20Learning-online-3.pdf (last viewed March 29, 2018).

mortgage and housing agencies, do not have the large and sophisticated analytics units that can assess data and build risk models on their own. Similar to the information dislocation noted in the capital markets, these entities may also be unable to leverage the power of trended credit data if it is not incorporated into the construct of the risk model that they obtain on credit reports.

**Question A1.7: Do you have additional concerns with or insights to share on the Enterprises updating their credit score requirements?**

Given the great time and expense that would be involved in updating the Enterprises' credit score requirements by market participants, the FHFA should require that models used in the industry reflect the data actually provided on credit reports and utilize the most current proven modeling technology. There is simply no downside, but rather significant benefit to utilizing all the information provided in a credit report, and especially trended data in any newly approved credit score. The use of this information would lead to greater accuracy in predicting payment behavior, resulting in a greater number of credit-worthy consumers obtaining better credit terms than they would without full consideration of their credit histories. It would also reduce risk to financial institutions, including the Enterprises, by providing a more accurate predictive tool in the underwriting process. And, finally, by increasing transparency, it would reduce risk in the capital markets, ultimately benefiting homeowners through lower mortgage interest rates.

# Operational Questions on Credit Scores

**Question A2.2: How significant are the operational considerations for a single score update? Please discuss any comparison of operational considerations between a single score (option 1) and multiple score options (options 2-4).**

As noted, Equifax does not recommend any of the credit score options as currently detailed in the RFI because none include a scoring model that uses trended credit data. This response is based on an assumption that all credit scores under consideration would be based on trended credit data variables as core inputs.

Updating the single score would require changes to the Equifax core platforms, adverse action, risk-based pricing, other regulatory notification and disclosure services, product collateral, website, and user interface, as well as systems and technical testing across all lenders and loan origination system providers.

Moving to a multiple score model would require the same updates as the single score change, but would also require adding additional fields impacting storage, parsing, merge, and output thereby resulting in higher operational costs across the industry.

With the lender's choice option, in addition to the updates required by a single score change, more operational training would be required to support ongoing questions from lenders, particularly when a loan officer changes jobs. Supplementary operational support would be required for the additional consumer questions about why different lenders use different scores. This added support would increase the operational cost in the industry.

Finally, the waterfall approach would require the same changes as the multiple score model, but would also require the establishment of the waterfall ordering logic, data entry changes, and customer set up changes. The waterfall approach would likely require more nuanced training for lenders and customers, and more detailed consumer education, leading to increased operational costs.

**Question A2.6: Under the multiple score options (options 2-4), if other mortgage market participants have different credit score requirements, such as requiring dual credit scores, what operational and resource issues would that present for you?**

A mortgage market system with inconsistent credit score requirements would present challenges for operational support. For example, this system would require Equifax to maintain multiple system solutions and multi-product support. Additionally, trouble shooting could take longer and education of customers and consumers would be ongoing. These considerations would result in higher operational costs overall. Some of these costs have the potential of being passed on to borrowers, but the impact to the individual borrower would be minimal in comparison to the overall costs of closing the loan. These costs could be offset by the benefits to consumers of using a credit scoring model that incorporates trended credit data.

**Question A2.7: What impact would any of the credit score options have on a need for consumer education? What impact would the multiple credit score options (options 2-4) have on consumers? Are there steps that FHFA, the Enterprises, or stakeholders could take that would mitigate any confusion about multiple credit score options?**

Regardless of the option chosen, consumers would continue to benefit from additional education. According to a Center for Financial Services Innovation study, about fourteen percent of Americans either do not know their credit score or are not aware that they have a credit score.[8] One of the aspects of the National Consumer Assistance Plan (“NCAP”), launched by the three nationwide consumer reporting agencies, is to improve consumers’ experience and understanding of their credit reports; however, additional initiatives would likely need

[8] Center for Financial Services Innovation, Consumers & Credit Scores: Understanding Consumer Confusion to Target Solutions, https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/01/25200810/Consumers-and-Credit-Scores-Understanding-Consumer-Confusion-to-Target-Solutions-CFSI-FINAL.pdf (last viewed March 24, 2018).

to be commenced. A change in the credit score requirement would lead to increased questions from consumers and require consumer reporting agencies and other mortgage market participants to be prepared to respond to these inquiries. The burden for consumer training falls to Equifax and the other CRAs even though scores are developed by independent third parties. Because scores are intellectual property, the specifics of scoring models are difficult to ascertain. This is a significant burden on the CRAs that will be intensified by any change to the policy. It would be beneficial to provide consistent information to avoid additional confusion. To address this, the FHFA or the Enterprises could supply consumer facing material to be shared across the industry as to why a multiple score requirement is in place, and the associated benefits.

# Questions on Credit Score Competition

**Question A3.1: Given that the CRAs own VantageScore Solutions, LLC and set the price for both FICO and VantageScore credit scores, and own the data used to generate both scores, do you have concerns about competition? If so, please explain.**

Neither Equifax nor any other credit score reseller has the ability to dictate market prices for credit scores. On the contrary, credit score pricing tends to track closely with the royalty Equifax and other resellers pay for these scores.

Equifax maintains an approximate 33% ownership interest in VantageScore Solutions LLC. However, in the mortgage industry, Equifax does not advocate one credit score provider over another in business dealings with lenders, investors, the Enterprises, or the FHFA. Equifax has long been agnostic regarding the specific credit score used, whether it is FICO or Vantage. Rather, Equifax advocates for the inclusion of all data available in the calculations of credit scores. The primary interest of Equifax is in supporting consumers and business customers in a smoothly functioning mortgage market that effectively balances consumer access to credit and prudent risk management, while providing the appropriate levels of transparency to the capital markets.

Although Equifax does not recommend any of the options presented by the FHFA in the RFI, Equifax does support a credit score requirement change that leads to the use of a more current credit risk model version than the model that is now the industry standard, regardless of whether the score is produced by FICO, VantageScore, another source, or any combination thereof. Consistent with the opinions in this response, this support is conditioned on a new score requirement that ensures that all of the information on a consumer credit report, including the trended credit data fields, be contemplated as inputs to the new model.

**Question A3.2: Would allowing multiple credit scores in the mortgage underwriting process encourage new entrants into the scoring marketplace? If the requirement remains to keep a single credit score in the mortgage underwriting process what impact would this have on whether new entrants join the credit scoring marketplace?**

Allowing multiple credit scores in the mortgage underwriting process would plainly eliminate one barrier to new entrants. However, in practice, it is worth questioning whether the costs and complexities of developing, testing, and marketing a competitive, new score would create economics that prevent any sustainable new-entrant competition from developing.

An additional factor to take into consideration is the U.S. Senate's inclusion of language in a banking regulatory relief bill that would require Fannie Mae and Freddie Mac to consider and review new scoring models through a process to be established by the FHFA and the Enterprises.[9] The legislation also envisions an environment in which more than one score is used by the Enterprises at any given point, as long as those scores are approved through the process outlined in the legislation.[10] If signed into law, credit score developers may see this as an opportunity to capture the attention of the FHFA and the Enterprises with new scoring models thereby opening the door to new market participants.

**Question A3.5: Could competing credit scores in the mortgage underwriting process lead to a race to the bottom with different vendors competing for more and more customers? What steps could FHFA take to mitigate any race to the bottom?**

Opening up more competition for credit scores in the mortgage underwriting process would not lead to a race to the bottom. The notion of competition in the market for credit scores would likely promote innovation, resulting in

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[9] *See* "S.2155 – 115th Congress: Economic Growth, Regulatory Relief, and Consumer Protection Act," Section 310, www.GovTrack.us. 2017. March 15, 2018 https://www.govtrack.us/congress/bills/115/s2155. *See also* "H.R. 898 – 115th Congress: Credit Score Competition Act of 2017." www.GovTrack.us.2017. January 24, 2018 https://www.govtrack.us/congress/bills/115/hr898 and "S 1685 - 115th Congress: Credit Score Competition Act of 2017." www.GovTrack.us.2017. March 30, 2018 https://www.govtrack.us/congress/bills/115/s1685.

[10] *See* footnote 9.

improvements in accuracy and better risk predictability. If more competition existed in the market for credit scores, the current version of all scores in the market may very well include trended credit data today. Race to the bottom behavior on the part of any credit-scoring company would be a short-sighted view of market opportunity and could ultimately lead to that company's market position demise. Although originators theoretically would be tempted to choose the company with the highest average score, secondary market pricing differentials would quickly develop if that company's scores were viewed as more lenient or resulted in higher default rates than competing scores.

**Question B2: If the requirement to pull data from all three credit agencies were replaced with the flexibility to pull data from just two CRAs or one CRA, what could be the benefits or disadvantages to borrower and your business? What could be the benefits or disadvantages to the credit reporting industry and the mortgage industry in general?**

From both an economic and risk perspective for the U.S. taxpayer and consumer, a reduction in the number of credit repositories required on Enterprise mortgage loans would have a lasting, negative impact. Specifically, such a reduction would result in less data being used in the underwriting process (which potentially leads to declining loans that should be approved and approving loans that should be declined), and unjustifiably inconsistent loan approvals and terms among lenders considering applications from the same consumer. Such a change may save a few dollars in underwriting costs, but it creates new risks for lenders and consumers.

Consistent with Equifax's position on credit scores and trended credit data, Equifax believes that for consumers and the entire mortgage ecosystem, all available consumer credit information should be analyzed and contemplated as mortgage credit is underwritten. Potentially critical borrower credit information should not be suppressed when a consumer is pursuing a loan for what is for most individuals, the largest and most significant financial transaction of their life. In consideration of the high-stakes consequences for consumers, ranging from loan funding to loan denial to loan pricing, the FHFA should require broad-based use of all available consumer credit report information to support credit underwriting.

Further, the tri-merge credit report requirement should be maintained because: (1) the value of the tri-merge report for consumers and the industry far outweighs its minimal cost to consumers; (2) the tri-merge report mitigates the risk of any credit reporting and score anomaly that can be magnified if only using a one or two bureau credit report; and (3) the tri-merge report reflects prudent credit policy for the country less than ten years removed from the largest mortgage market crisis in U.S. history and at a time of rising interest rates and consumer debt levels.

First, the cost-to-value equation supports continued use of the tri-merge credit report. The three key financial metrics in mortgage loan underwriting are the Debt-to-Income ("DTI") ratio, the Loan to Value ("LTV") ratio, and credit score. Two of these three measures, the DTI and credit score, are directly driven from consumer credit data. Thus, consumer credit information and credit scores are among the most critical data elements in underwriting credit risk, and are provided at relatively low cost in the overall mortgage costs.

Consumers also benefit from the ability to view their trended credit information on a credit report from one or more of the bureaus. This data provides consumers a detailed, longitudinal view of their own credit behavior. When trended credit data is not included in a credit score, there is yet another example of information dislocation, because the data that the consumer sees is not included in the credit score that is used when the consumer applies for a mortgage loan. This information dislocation is further exacerbated if the FHFA discontinues the use of the tri-merge credit report. In this example, a consumer would be aware of their own trended credit information; however, that information may not be used in their mortgage application process.

The FHFA should not be loosening an important risk mitigation tool considering that the U.S. is still recovering from a mortgage crisis that had a devastating impact on consumers, lenders, and mortgage-backed security investors. The meltdown also resulted in the U.S. taxpayer and federal government being forced to inject more than $188 billion into the Enterprises to facilitate continued functioning of the mortgage market.

To address the RFI's stated concern about the cost of a tri-merge credit report, the focus should be on other, higher cost aspects of the lending and loan-closing process. Based upon available data from the four largest banks in the United States as reported to the financial data website ValuePenguin, the cost for a tri-merge credit report represents approximately just 0.34% of the closing costs paid by a consumer on a mortgage loan at the

median home price of $198,000.[11] The typical tri-merge credit report accounts for approximately $24.90[12] of the average $7,227[13] in closing costs paid by a consumer on a mortgage. Based upon these numbers, moving to a two bureau credit report would save a consumer approximately $8.30, or a mere 0.11% in overall closing costs. A change to a single bureau credit report requirement would result in about $16.60 in savings, or just 0.23%, in overall closing costs. With industry average loss severity amounts of approximately $100,000, or about 41% of the average mortgage loan,[14] the risk associated with moving to either a single or two bureau credit report far outweighs the $8.30 or $16.60 savings to consumers.

Despite accounting for only 0.34% of the costs incurred by a consumer during a closing, the RFI states that "the cost for a tri-merge report can be more than three times the cost of a single report typically used for credit cards or auto loans for consumers." Based on an analysis of the Equifax consumer credit database, the average new auto loan originated in the U.S. in November 2017 was $22,585 and the average new credit card account opened in November 2017 had a credit limit of $5,140. Conversely, the average first mortgage loan opened in November 2017 was $242,249. With average loan amounts of more than ten times that of an auto loan or more than forty-seven times that of a credit limit on a new credit card, mortgage lenders need to have all available data in order to best analyze credit and manage risk exposure. Tellingly, some companies have made the decision to use the tri-bureau credit report for loans outside of mortgage lending. A credit card company known for its market leading position in credit risk management has relied on tri-bureau data and credit scoring to ensure the most accurate credit scoring for its consumers. Further, the production and delivery of credit reporting services in the mortgage industry is a much more comprehensive and complicated process than that which exists in other consumer lending businesses. Therefore, comparing the cost of credit information in the mortgage world to the cost of credit information for loans with substantially smaller credit amounts is, inherently, a flawed comparison.

Second, the tri-merge credit report prudently mitigates the impact of any data differences that may exist among the three consumer reporting agencies. Despite it being a common goal among furnishers to report data accurately and timely, and a concerted effort by consumer reporting agencies to facilitate the timeliness and accuracy, there are occasions in which the data processing is delayed. Having tri-merge data is critical to filling those data gaps to benefit the consumer. Consumers should not be penalized and prevented from owning a home due to reporting issues, and a tri-merge report minimizes the harms to the consumer. Leading industry data aggregators have found that the reporting gaps by data furnishers will impact trended data as well. Given the criticality of trended tri-bureau data and having the best accuracy of that data, having a tri-merge trended data solution is incumbent to ensure accurate and fair consumer reporting and scoring.

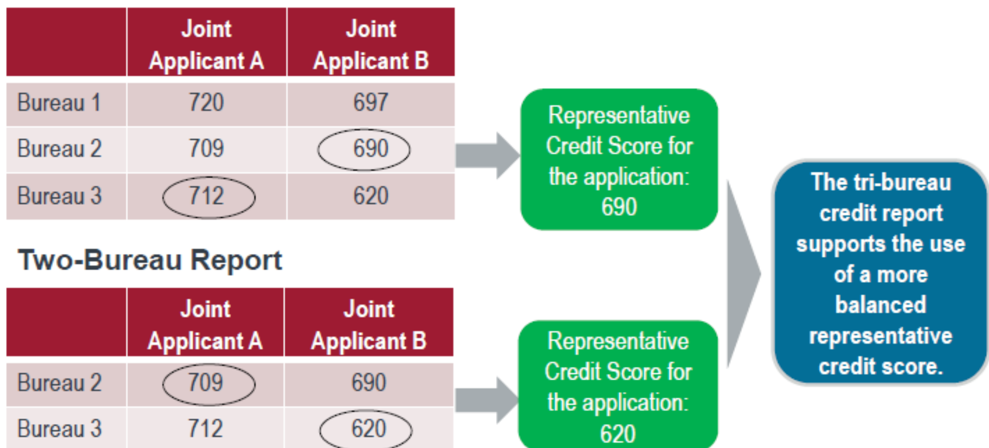
The tri-merge credit report supports the establishment of a representative credit score based on the middle of the three scores, benefitting both consumers and lenders in that the use of three bureaus and three credit scores creates a buffer against any credit data reporting anomaly that may exist at a given point in time at just one of the repositories. In a three repository environment, a data reporting outlier that exists at just one repository will not have the same, potentially negative effect on a consumer as it could in a two-bureau merge or single repository credit report. For example, if a consumer has paid off a previously delinquent and significant balance on a credit obligation that is reflected on a given day at two of the repositories, but is not yet reflected on just one credit repository and that repository is used in a two-bureau merge or single repository environment, that consumer's credit application is likely negatively impacted, as shown in Exhibit 5. The yet-to-be updated delinquent balance would weigh down a consumer's risk score resulting in negative consequences in a two-repository environment.

[11] Average Closing Costs for a Mortgage in 2018, ValuePenguin, https://www.valuepenguin.com/mortgages/average-closing-costs (last visited March 5, 2018). This data assumes a down payment of 10% and a credit score of 740.
[12] Average Closing Costs by State, Bankrate.com, https://www.bankrate.com/finance/mortgages/closing-costs/united-states.aspx (last visited March 5, 2018).
[13] Average Closing Costs for a Mortgage in 2018, ValuePenguin, https://www.valuepenguin.com/mortgages/average-closing-costs (last visited March 5, 2018).
[14] *See* Xudong An and Larry Cordell. 2017. Regime Shift and the Post-Crisis World of Mortgage Loss Severities. Federal Reserve Bank of Philadelphia Working Paper No. 17-08, https://www.philadelphiafed.org/-/media/research-and-data/publications/working-papers/2017/wp17-08.pdf (last viewed March 29, 2018).

However, in a three repository, tri-merge application, the lower credit score from the repository that has not yet updated its files to reflect the payment on the previously delinquent account would be offset, as illustrated below in Exhibit 5.

**Exhibit 5**

**Tri-Bureau Report**




***In a tri-merge application, the lower credit score from a credit bureau that has not yet updated its files to reflect a full payment on a previously delinquent account with a significant balance would be offset by the other two scores that accounted for the payment and updated account status.***

Finally, the tri-merge credit report mitigates the risk of consistently rising U.S. consumer debt levels. According to the Federal Reserve Bank of New York's Q4 2017 Quarterly Report on Household Debt and Consumer Credit released in February 2018, consumer credit outstanding in the U.S. now exceeds $13.15 trillion, an increase of 17.9% since the second quarter of 2013.[15] The $13.15 trillion figure, illustrated in Exhibit 6, represents the fourteenth consecutive quarter of aggregated debt balance growth and the total amount of U.S. consumer debt is now $473 billion higher than the previous peak of $12.68 trillion in the third quarter of 2008.[16] In a more granular sense, total consumer auto loan debt has increased by 4.9% year-over-year to $1.24 trillion, while total consumer bankcard debt has increased by 6.9% year-over-year to $752 billion.[17] The Wall Street Journal also recently reported on the rising U.S. debt levels and an economy creeping toward a financial crisis.[18] In consideration of these staggering figures, the tri-merge credit report requirement is more important than ever as one of the critical control measures to mitigate risk during a mortgage origination.

[15] Federal Reserve Bank of New York, Center for Microeconomic Data, Household Debt and Credit Report, 2017:Q4, released February 2018, https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2017Q4.pdf (last viewed March 10, 2018).
[16] Equifax Inc. (February 28, 2018), *US National Consumer Credit Trends Report: Originations*, Internal Equifax report. Unpublished.
[17] Equifax Inc. (February 28, 2018), *US National Consumer Credit Trends Report: Originations*, Internal Equifax report. Unpublished.
[18] Greg Ip, A Decade After Bear's Collapse, the Seeds of Instability Are Germinating Again, March 14, 2018, WSJ Pro, https://www.wsj.com/articles/a-decade-after-bears-collapse-the-seeds-of-instability-are-germinating-again-1521035171?emailToken=c10fd66436641d9308eaa237a189a58dauJDaRQRx70CtHMYehPsN7KOQnL/oQobhLGxAt9JUZU2y1BQDdos76M8KXVnSce4Wiyijzic70m48cmXPv2E3zdEW5eZ54WIIj92ITsNwDUI43nPMpj8ceXUd4OO7jNme82yBGPvhtKZXJfsigDGXQ (last visited March 15, 2018).

**Exhibit 6**

## Total Debt Balance and its Composition