Credit Score Request for Input

To Whom it May Concern,

Thank you for the opportunity to respond to your inquiry into updating the current practices by the Enterprises in regards to the Credit Scoring Model and Credit Reporting requirements. I am the President and owner of the Credit Bureau of Council Bluffs, Inc. which does business as Credit Information Systems. We are a reseller of credit reports for all three CRAs. We provide the information and the service lenders need to make sound lending decisions. Our company was established in 1915 and has been owned and operated by my family since 1948. I have had the opportunity to grow up in this industry and have seen the credit reporting space evolve from paper files with letter grades associated with the borrower which were read over the telephone to the electronically delivered and scored reports used today.

Credit Information Systems provides reports nationwide to lenders in all the lending spaces. From low income, first time homebuyers, to vacation homes and jumbo loans the information we provide helps ensure the lenders are making fair and sound credit decisions. Since Credit Information Systems is not a lender, and we do not process or underwrite loans I cannot answer all of the questions put forth in the RFI. However, I feel as a Credit Reporting Reseller who has been in the industry for over 30 years I would like to share my thoughts on those questions that are applicable to my business.

A1.1 When and how do you use credit scoring during the mortgage life cycle to support your business?
Credit Information Systems provides reports to lenders at all stages of the mortgage life cycle. We provide prospecting lists that are generated from the CRAs based on scoring criteria provided by our lenders, pre-qualification credit reports (which can be one, two or three bureau) , mortgage approval credit reports (standard Tri-merge credit report), and post closing quality control reports.

A1.6 Do you have recommendation on which option FHFA should adopt? I would recommend Option 1 – Single Score.

A2.1 what benefits and disadvantages would you envision for your business, your business partners, and/or borrowers under each of the options?
Option 1 – Single Score: The single score option is the best option for the borrowers. The multiple credit scores that consumers can obtain from the myriad of websites providing access to consumer credit reports already causes undo confusion for the consumer. We get multiple calls a month from consumers feeling upset that the score they received on their credit report from one of these websites, or the score they got on their credit card statement was higher than the score that was provided at the time of their mortgage application. We take the time to educate the consumer at that time on the various scoring models that are out there and the one model that is required by the Enterprises to be used for mortgage underwriting.
Option 2 – Require Both: Requiring both scoring models is an option that would ultimately hurt the American consumer. The cost of the credit report is a cost that the consumer is charged most times at the closing of their loan, sometimes during the application process. Although the credit report is one of the least expensive items used to underwrite a mortgage loan when compared to the appraisal cost or title search, obtaining a mortgage loan is expensive and all efforts should be made to refrain from additional costs. The American consumer should not have to pay more for their credit report because the Enterprises did not make a clear choice.

Option 3 – Lender Choice on which Score to Deliver, with Constraints: This option would cause undo confusion for the borrower.

Option 4- Waterfall: Consumers would not only have to possibly pay for multiple scoring models the integration of multiple models into the Enterprise's underwriting systems would also cause additional costs that would ultimately be passed onto the borrowers.

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 (options2-4) have on consumers? Are there steps FHFA, the Enterprises, or stakeholders could take that would mitigate any confusion about multiple credit score options? Consumers would need to be educated if there is a change that could cause confusion. Updating one model or changing to another model to be used by all lenders would cause the least amount of confusion and would therefore need the least amount of education.

Options 2-4 would cause the most confusion and therefore require the most education so consumers would be aware of the options and the consequences of multiple scoring models being used to secure loans with the Enterprises. Option 3 is very troubling I would be concerned that UDAAP violations could occur if a lender did not adequately educate the consumer on why they are choosing one scoring model over the other. Especially if the other scoring model could have been used and the consumer would have been approved.

I am not sure there would be any steps that could adequately mitigate this confusion if Options 2-4 were selected. Credit education is not being taught in our public schools today with any consistency. The process of obtaining a mortgage loan is very arduous and requiring classes before you apply would bog down the system even more. Because this would be so difficult to explain UDAAP violations could occur unintentionally. The Enterprises selecting Option 1 is the best way to avoid the confusion.

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 I believe that it is wise to have a disinterested third party score the credit reports. With the CRAs owning VantageScore I would worry that the scoring system would not be neutral. It would bother me even more if a tri-merge credit report were not required. The advantage of FICO scoring the credit reports is that the algorithm is secret and not connected to the data owners. However, if the VantageScore algorithm were shared, intentionally or unintentionally, with a repository data center the data could be manipulated to inflate scores on a given repository. That repository could then capitalize on their higher scores to obtain greater market share in a one or two credit report underwriting scenario. Greater market share would lead to greater stock prices. An unscrupulous shareholder could then sell their stocks and make gains before this manipulation was discovered. I believe a clear line between data and scoring should be maintained. For the VantageScore to be considered I believe it is in the best interest of the mortgage industry that the repositories sell their membership in the LLC to a disinterested third party.

A3.2 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? The current scoring models the Enterprises are using are extremely outdated. There have been several updated models developed by FICO which have not been adopted. The inability of the Enterprises to make changes with any type of efficiency would be evidence that it would be foolish to join the credit scoring marketplace. In addition to that the development and implementation of multiple models from multiple

companies would cause undo confusion for the borrowers as well as the secondary market when trying to accurately assess the worthiness of loans.

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? There is always the risk of a "race to the bottom" in an open market. However, it has been my experience that if one can prove that their product is superior to their competitor, people are willing to pay more. It might cause the vendors to strive to develop a proven superior product.

B1 If you have used a single credit report or two-file credit report in your business, please share any empirical information about how much incremental information/benefit is gained as a result of using a second or third credit report. As a Credit Reseller we serve both the mortgage and the non-mortgage lenders. In the non-mortgage market we tend to sell a few single bureau reports, we sell many bi-merge and quite a few tri-merge reports. The reason that our lenders buy two or more reports for their non-mortgage lending purposes is that the best lending decisions can be made when all the information is obtained. In the non-mortgage lending market those loans are kept in-house. Sometimes the loans are small, holiday shopping or car repairs, sometimes they are large, dream vacation or farming equipment. It is nice to have the flexibility to pull one, two or three bureaus depending on the amount and risk associated with the loan. They are lending their own money and want to ensure their stockholders that the decisions that have been made were made with the least amount of risk possible. Lenders and credit resellers alike are aware that not all credit information is on all three of the Repositories. Small banks, credit unions and collection agencies cannot afford to report to all three. Large lenders report information to the repositories at different times of the month. Bank A could report at the beginning of the month to Trans Union, mid-month to Experian, and at the end of the month to Equifax. Depending on the time of the inquiry the information may be more current on one vs the other repositories. Therefore it is important, in order to get the full credit picture of the borrower, to obtain the information from all sources possible.

Another example of lenders opting to use information from all three repositories vs one or two is this: The adoption of using the tri-merge product over the single bureau product for fulfilling the Enterprise's Loan Quality Assurance program. In the mortgage marketplace there are programs offered by each of the repositories to monitor the credit report of a borrower from the time of application to closing. There are various names for this product but Undisclosed Debt Monitoring sums it up the best. The repository chosen by the lender would watch the borrowers report for any new loans, credit card accounts, bankruptcies, inquiries or significant debt increases on open or revolving accounts. The lender would get a notification from the repository that an event had occurred so they could call the borrower to prevent the debt to income ratio from getting too high and disqualify them from the loan. Each of the repositories charges differing amounts for this service and they are not cheap. The other option our lenders have is to pull a tri-merge credit report shortly before closing to check for new debt. We are unable to successfully sell the Undisclosed Debt Monitoring to our lenders because they are sold separately by each of the repositories. If a lender chose to buy the three separate products the would pay almost twice as much per borrower as they would pay for the one time tri-merge report before closing. The three separate products could all alert on the same event causing the lender the need to investigate the same thing three times to pass underwriting. The benefit of the Undisclosed Debt Monitoring is that it starts at the application and can identify events through a new inquiry that a lender could mitigate by calling the borrower and warning them not to incur additional debt as it might cause them to lose their mortgage loan. The cost of doing all three is too much, however, most of our lenders

do not elect to only monitor one repository as they know that not all debt will show on the one repository. Our lenders would prefer to wait and pull the tri-merge report right before closing to ensure that they have all the data on the borrower and will not risk a buy back from the Enterprises because the debt was not disclosed on the application nor on the original credit report. Waiting to pull the report before closing can cause a last minute scramble to verify inquiry information or other event information before closing and could possibly kill the loan if the borrower took on too much debt. I believe that this is empirical information that shows that lenders know a tri-merge credit report is critical to ensure all information is obtained on the borrower at the time lending decisions are made.

B2 If the requirements 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 borrowers and your business? Would could be the benefits or disadvantages to the credit reporting industry and the mortgage industry in general? I do not see any benefit to pulling only one or two repositories. It weakens the lending process and could cause undo harm to the American economy. Borrowers all depend on a robust lending market. If the lending process is weakened and poor lending decisions are made it is the American public that has to bail out the lenders.

We all watched what happened when loans were made without verifying employment and income that was stated on the applications. This was an issue of borrowers misstating their income, but also unscrupulous loan officers guiding borrowers to inflate their income to qualify for mortgages they could not afford to pay. The loan officers were gaming the system. I could see unscrupulous loan officers gaming the system again if only one or two repositories are required to get approval from the Enterprises. They could pull a tri-merge report and cherry pick the one or two reports they submitted to the Enterprises. Thus not reporting possible disqualifying information and getting loans approved that borrowers would not qualify for if all three reports were required to be submitted. Unsound loans would be made and the American public would be asked to bail out the lenders, or the lenders would fail neither of those options would be good for the American economy.

B3 If presented with the flexibility to pull data from just two CRAs or one CRA, would your business likely take advantage of this flexibility? If not, why not? My company would continue to promote the tri-merge credit report as our goal is to ensure our lenders make sound lending decisions. The cost savings for our lenders would be minimal and the risk taken by only buying one or two repositories is too great. When making loans for $50,000 or more it is imperative that all information on the borrower is obtained and verified.

B4 If presented with the flexibility to pull data from just two CRAs or one CRA, would you want the lender to choose the credit agency or would you want the Enterprises or some other market participant to mandate the agency? I strongly oppose the reduction of data in the lending process, as I believe it weakens the lending decisions. However, if only one or two repositories were to be accessed I would say that the lenders should make the choice. The lenders would know if they only report to one of the repositories which repository that was. They would want to ensure that their historical loan data on the applicant is considered when the report is submitted to automated underwriting by the Enterprises. By allowing the lender to decide which repository/repositories to use this would also prevent any strong arming, bribing or lobbying efforts by any one repository to dominate the market.

B5 If the option of using one repository were available, how would the Enterprises ensure that the lender is not electing to use the CRA with the highest credit score (best credit profile) at the loan level that results in preferential pricing and eligibility? This is the exact problem I suggested in B3. I would see

no way to prevent this. I could also see UDAAP violations if the consumer is not educated as to why one repository was chosen over the other. If the lender just bought one repository which had a lower score than the others and used that to determine pricing and eligibility then the consumer could lose out on the loan or pay a higher interest rate than would have been necessary. Had the consumer gone to another lender that used a different repository their loan would have been better. The fairest underwriting criteria takes the information and scores from all three and uses the mid-score to determine the loan eligibility and rate. Having all three reports and scores gives the most complete picture of the consumer and ensures all consumers are treated the same no matter which lender they apply with.

B6 What issues would this flexibility create if other mortgage participants (investors, insurers, guarantors) continued to require credit data from all three CRAs? I would think this could cause many lenders to be unable to sell their loans if they were underwritten on a one or two bureau report as incomplete data was used to approve the loan. In the case of credit reports being purchased after the loan was sold to investors I believe the buy back clause in the purchase agreement would be invoked. Multiple buy backs would cause harm to the lenders and weaken the housing market as the lender would not have enough capitol to continue to lend.

B7 If the Enterprises had to increase pricing for using less credit data from fewer than three credit agencies to account for the additional risk, would the flexibility still be attractive? If a borrower, who has to pay for the credit report at the time of closing, were to pay less for the credit data for a one or two repository report, they would not save enough money to purchase a meal and a soda at Applebee's. The Enterprises would have to increase pricing by more than $12.00 to mitigate the risk on a making a loan to purchase a home without obtaining all the information on the borrower. This increase in pricing from the Enterprises would be passed onto the borrower. The good borrower would be footing the bill for all the borrowers who should not have qualified for the loan. I would have to believe that that price would be steep. The price of a tri-merge credit report should not be considered relevant when mitigating the risk of a mortgage loan.

Thank you for your consideration and your beginning the dialogue on these very important issues in our industry.

Sincerely,

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