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Office of Housing and Regulatory Policy
Federal Housing Finance Agency
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Washington, D.C., 20219

Director Watt:

The National Urban League welcomes the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA) Credit Score Request for Input (RFI). Although we believe much more can be done, we applaud the agency for addressing concerns related to the current credit scoring model for Fannie Mae and Freddie Mac (the Enterprises) loans, which limit access to the housing market. All efforts must be made to create homeownership and wealth throughout the country, even if it seems to have only a marginal impact. The benefits of increased access to the housing market clearly outweigh the costs.

The National Urban League is a historic civil rights organization focused on economic empowerment. We have 90 Urban League affiliates across the U.S. who provide direct services to 2 million people annually. As a leading housing counseling agency approved by the U.S. Department of Housing and Urban Development (HUD), we operate housing programs at more than 40 of our affiliates. Since 2008, we have serviced over 300,000 clients.

BACKGROUND

Housing plays a critical role in the ethos of the country and its bottom-line. Homeownership is the American Dream because it creates wealth. Americans' homes are their biggest assets, by far. The forced savings and equity provided through homeownership help create economic and financial security.

Housing is a trillion-dollar industry, making up 15-18 percent of the nation's GDP.[1] In exchange for the government's backing, the Enterprises, who support more than one-half of the mortgage industry, are required to provide liquidity to the primary market and purchase loans from underserved families and communities.

Unfortunately, homeownership has become more and more difficult to attain for many families since the financial crisis. The homeownership rate has declined and purchase originations are at a near a 50-year low.

The slow churn of the housing market effects all racial subgroups, especially African Americans. While the African American homeownership rate peaked at nearly 50 percent in 2004[2]; it is approximately only 42 percent.[3] The African American homeownership rate is at or near where it was before the passage of

[1] https://www.nahb.org/en/research/housing-economics/housings-economic-impact/housings-contribution-to-gross-domestic-product-gdp.aspx
[2] http://www.nareb.com/african-american-homeownership-falls-50-year-low/
[3] https://www.census.gov/housing/hvs/files/currenthvspress.pdf

the Fair Housing Act – enacted to address racial disparities in homeownership – 50 years ago.[4] Unfortunately, the African American homeownership rate is expected to decrease through the year 2030.[5]

According to the National Urban League's 2017 State of Black America (SOBA) Equality Index, African American families have only approximately 5 percent of the wealth of White families, mainly due to their low-levels of homeownership.[6] African Americans' wealth is tied into homeownership.[7] African American homeowners have approximately $90,000 in wealth, compared to African American renters who have only $2,000 in wealth, according to Forbes.[8] The wealth gap, created by the lack of homeownership, can be addressed by increasing access to the housing market.

Unreasonably high credit score requirements prevent many prospective homeowners from accessing the market and attaining wealth.[9] The average FICO for the Enterprise's loans has been in-and-around the mid-700s, since the crisis, compared to a 640 FICO score, which was considered prime, before the crisis. According to the Urban Institute, "Mortgage credit today… is significantly tighter than it was in 2001, prior to the housing crisis… the market is taking less than half the credit risk it was taking in the pre-crisis period."[10] "In 2001 over 30 percent of borrowers had FICOs below 660." Consequently, over 6 million Americans were locked out of the housing market, between 2009 and 2015, alone.[11]

Millions of prospective borrowers will continue to rent, when they could be responsible homeowners, if credit scoring was more-fair and a better predictor of risk. According to a 2014 Washington Post article, executives from both FICO and VantageScore agree lenders' credit-score requirements for home purchasers are too high and out of sync with the actual risks of default presented by today's borrowers.[12] The National Urban League shares this sentiment.

To this end, we recommend the following safe and sound, positive and impactful changes to reverse the trend of overreliance of unreasonably high credit score requirements.

COMPETITION

The National Urban League supports a new credit scoring model that better predicts risk than the current model – and thus increases more access to the market for underserved communities. While the RFI pits VantageScore 3.0 against FICO 9; it is not our intent to pick winners and losers, so we will not.

More to the point, we do not believe either model will have the impact on the market that it should. We are intrigued with the prospects of the Options listed in the RFI. However, we believe they are limited and only marginal benefits will accrue, at best, if they are the only actions taken by FHFA.

Allowing VantageScore to enter the market would increase competition, in theory, because it is another scoring model. However, we question the impact their model would have on increasing access to the housing industry for communities of color. While more prospective homeowners would receive credit scores through VantageScore, given their scoring criteria, we have concerns many of the newly-scored

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4 https://www.urban.org/urban-wire/closer-look-fifteen-year-drop-black-homeownership

5 https://www.urban.org/urban-wire/lower-homeownership-rate-new-normal

6 http://soba.iamempowered.com/sites/soba.iamempowered.com/themes/soba/pdf/SOBA2017-black-white-index.pdf pg. 9

7 https://www.stlouisfed.org/publications/housing-market-perspectives/issue-5-july-2017/homeownership-racial-wealth-divide

8 https://www.forbes.com/sites/nextavenue/2017/05/10/declining-black-homeownership-has-big-retirement-implications/#40a1a85ae90c

9 Other barriers include: the lack of affordable housing supply; high rents; slow wage growth; high student loan debt; rising interest rates; rising home prices; perceived regulatory burden; lower margins; and confusion about tax reform, to name a few.

10 https://www.urban.org/urban-wire/tight-credit-standards-prevented-52-million-mortgages-between-2009-and-2014

11 https://www.urban.org/sites/default/files/publication/88826/quantifying_tightness_of_credit.pdf

12 https://www.urban.org/sites/default/files/publication/88826/quantifying_tightness_of_credit.pdf

borrowers would receive scores lower than 620 (or a newly designated VantageScore 3.0 score to qualify for conventional mortgages) and be declined as a result – without having the opportunity to apply through the Enterprises' automatic underwriting systems, where they may have a better opportunity to qualify without a score.[13]

For this reason, first, we believe FHFA must encourage lenders to "fill the box" and accept lower scores, than the current custom, no matter which credit score model the agency adopts. The need to do so is clear given the discussion above, where millions of eligible borrowers have been locked out of the market because of unreasonably high credit score requirements.[14] It is also clear, because numerous prospective borrowers with "subpar" credit scores may qualify by way of automatic underwriting, a better predictor of risk, but never make it to that point, because their score is too low.

Further, the Enterprises' credit score model must include more sources of data than the information collected by the 3 national consumer reporting agencies (the CRAs), currently. There's something wrong when rental history is not readily collected by the CRAs. In our view, rental history alone can determine a borrower's readiness to own a home, as a result it should be included in their credit score. The CRAs must do more to incentivize landlords to provide this information, in addition to using other alternative sources of data that are not included, currently.

Moreover, additional CRAs should be required, or at least be considered, as FHFA mulls reforms. More competition is needed among the CRAs that FHFA uses, than among the credit scoring models it is considering. Both FICO and VantageScore use the CRAs to tabulate their scores. The information they use for their scores is often limited as a result.

Other CRAs collect alternative sources of data, such as whether the applicant has a college degree, the length of time at their jobs or if they have professional certifications – important predictors of risk that may help qualify more eligible borrowers for affordable mortgages.[15] Digital transactions and other remittances should also play a role. FHFA should seek to incorporate these and other alternative sources of data into their new credit scoring model, where available, and to the extent these sources do not have a disparate impact on applicants. Anything less is not true competition and will not affect significant change.

Credit scores often serve as an arbitrary barrier to the housing market because they do not include the requisite information to provide a full picture of an applicant's ability to repay the loan. Changes should be made to incentivize lenders to originate loans with 620 credit scores and above, in addition to allowing alternative sources of data, such as rent from the CRAs, as well as other strong predictors of risk from other CRAs, to ensure all eligible borrowers have the opportunity to purchase an affordable home.

PRICING

Credit scores should no longer play a dominant role in the pricing of loans, no matter the credit score model that FHFA selects. Because more information is included in the data collected for automatic underwriting decisions to predict risk, this information, not credit scores, should determine the

[13] FICO and VantageScore provide conflicting information related to the number of consumers who would have the equivalent of a 620 score to qualify for Enterprise loans if VantageScore 3.0 is used. It is not clear to us, which figures are correct or not.

[14] According to Urban Institute, "Credit is very tight in large part because originators are putting credit overlays on top of the Fannie Mae, Freddie Mac.. underwriting box. That is, Fannie Mae may be willing to underwrite a mortgage with a 620 FICO, but the originator requires a 660 FICO." FHFA can and should do more to encourage and incentivize lenders to accept applications with lower scores, https://www.urban.org/sites/default/files/publication/88826/quantifying_tightness_of_credit.pdf

[15] http://insights.lexisnexis.com/creditrisk/2016/09/13/alternative-data-series-part-1-what-is-alternative-data/

affordability of conventional loans. According to the RFI, "the Enterprises' automated underwriting systems more precisely predicted mortgage defaults than third-party credit scores alone."[16]

Making this change could create hundreds of thousands, millions, even, of new Fannie & Freddie homeowners over the years. Currently, the overwhelming majority of African Americans and Latinos get their mortgages through the FHA program, over 70 percent and 60 percent, respectively, because they are priced out of the conventional housing market due to unreasonably high credit score requirements, in many cases.[17] This is unfair and it often leads to discriminatory-steering into FHA products.

Automatic underwriting, which is a better determinant of risk, should determine pricing for LLPAs, mortgage insurance, and other decisions that are based on credit scores. Credit scores play too large of a role in the pricing of Enterprise loans, currently.

HOUSING COUNSELING
In addition to the changes listed above, housing counseling should serve as a compensating factor for prospective borrowers, with lower than average credit scores, who have shown they ability to be responsible homeowners. Housing Counseling works. Research shows that homebuyers who work with housing counselors have better outcomes than those who navigate the housing market on their own.[18] According to Freddie Mac, face-to-face pre-purchase education and counseling, the services that we provide at our Urban League affiliates, reduces loan delinquencies by as much as 29 percent.[19]

Similar to private mortgage insurance, housing counseling should be allowed as a credit enhancement tool, allowing borrowers who do not have the requisite credit score, down payment, or debt-to-income ratio to access the traditional housing market. A data field should be included on the mortgage application to give borrowers credit for receiving these services. "Integrating" housing counseling services into the mortgage application process benefits all parties involved, including the Enterprises, borrowers, lenders and servicers, by educating homebuyers and preventing future delinquencies and foreclosures. This would not increase defaults; it would create responsible homeownership. We support efforts similar to HUD's Homeowners Armed With Knowledge, or HAWK, program, which provides incentives for borrowers to participate in HUD-approved housing counseling services.

FHFA's credit score reform efforts must and should include housing counseling as a compensating factor, or as a credit enhancement tool, to help more borrowers access the conventional market.

CONCLUSION
Homeownership creates wealth and benefits the economy. We support all efforts designed to increase access to the housing market. We urge you to adopt our recommendations to this end.

Sincerely,

Marc H. Morial
President and CEO
National Urban League

[16] https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/CreditScore_RFI-2017.pdf, pg. 3
[17] http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-2016hmda-policy-brief-sep2017.pdf
[18] https://www.hud.gov/sites/documents/OHC_COUNSELINGWORKS1214.PDF
[19] http://www.freddiemac.com/perspectives/pdf/benefits_of_pre_purchase.pdf, pg. 1