March 26, 2018

Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 Seventh Street SW, Ninth Floor
Washington, DC 20219

RE: Credit Score Request for Input dated December 20, 2017 ("RFI")

Dear Sir or Madam,

TransUnion LLC, a Delaware limited liability company ("TransUnion") appreciates the opportunity to provide commercial information with respect to each comment/answer regarding this important matter. As a consumer reporting agency that compiles and maintains files on consumers on a nationwide basis (as defined in 15 U.S.C §1681a(p)) (a "CRA"), consumer reports prepared by TransUnion are a critical input into the mortgage lending ecosystem. Any potential changes to that mortgage lending ecosystem requires careful consideration in order for the Federal Housing Finance Agency ("FHFA") to support its mission to ensure that Fannie Mae and Freddie Mac (the "Enterprises") operate in a safe and sound manner and that they serve as a reliable source of liquidity, funding and fairness for housing finance and community investment.

TransUnion collects and maintains non-public personal information, including detailed credit information, on over 225 million consumers in the United States. TransUnion has acquired over 30 petabytes of data for use in the management of credit risk, identity authentication and fraud protection. We update our US database daily with credit and identity information collected from thousands of financial institutions so that lending institutions (and the Enterprises) can have more granular views of geographical segments of the US population as well as more holistic views on individual consumers.

Attached are TransUnion's responses to questions posed in the RFI. If you have any questions with respect to our input into the RFI, please do not hesitate to contact the undersigned at the address provided.

Respectfully submitted,

Joe Mellman

Senior Vice President, Mortgage

I. Updating Credit Score Model Requirement

General questions on Credit Scores	
Question A1.1	*When and how do you use credit scores during the mortgage life cycle to support your business?*
Answer A1.1	Mortgage lenders, investors, servicers and insurers can inquire about and use a person's credit score so long as the institution has a permissible purpose as defined in the Fair Credit Reporting Act ("FCRA")[1]. Permissible purpose activities to use a person's credit score span the mortgage lifecycle and can range from account solicitation to default servicing.
Question A1.2	*Do you use the same credit score version for all of your lending business lines, whether it is mortgage lending or non-mortgage lending (e.g., credit card and/or auto loans)? If so, why? If you use multiple credit scores (e.g., FICO and VantageScore) in making credit decisions for any one line of business, please identify which credit score you use for the type of lending and why? Are you considering updating credit scores that you use in your non-mortgage lending business lines?*
Answer A1.2	Many of our clients that offer a full range of consumer lending products commonly use different credit scores across the different business lines they operate. We have many non-mortgage lending customers spanning from global banks to emerging "Fintechs" using both VantageScore and FICO in making credit decisions. These non-mortgage lending customers often use both scores in a dual score matrix, a system which uses VantageScore on one axis and FICO on another axis "cross-tabbed" together. Identifying applicants that pass one score cutoff but fail the other allows lenders to reduce risk and broaden access to credit by excluding potentially bad credit risk and including potentially good credit risk that may have gone undetected with a single score. We believe there is an opportunity for mortgage lenders to realize the same benefits and increase access to homeownership by using both VantageScore and FICO in a dual score matrix.
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?*
Answer A1.5	TransUnion is committed to fostering financial inclusion and helping organizations optimize their risk-based decisions. Updating the credit score requirement to one that makes the most complete and multidimensional information available in the mortgage origination process (such as Option 2) would support the goal of broadening access to homeownership while helping our lenders make the best possible mortgage approval decisions.
Question A1.6	*Do you have a recommendation on which option FHFA should adopt?*
Answer A1.6	Option 2 ("Require Both") is TransUnion's recommendation because it makes the most information available in the mortgage origination process and corresponds best with TransUnion's belief that more information drives better decisions. As referenced earlier, using both scores in a dual score matrix may offer mortgage lenders the opportunity to reduce risk and broaden access to homeownership.

[1] https://www.transunion.com/client-support/permissible-purpose

Operational Questions on Credit Scores	
Question A2.1	*What benefits and disadvantages would you envision for your business, your business partners, and/or borrowers under each of the options?*
Answer A2.1	Updating the credit score requirement to Option 2 would benefit consumers by (1) potentially including more creditworthy borrowers and therefore widening the access to homeownership and (2) potentially giving them better rate opportunities. Option 2 would also benefit mortgage industry stakeholders by giving them more complete information to help them make the best possible decisions. As discussed earlier, using both scores in a dual score matrix could produce benefit for consumers by broadening access to homeownership. Using both scores in a dual score matrix could also qualify a consumer for a better rate if he or she qualifies for an improved pricing adjustment with one score but not the other. It's also important to note that limiting mortgage lenders to a single credit score could potentially force them to use the suboptimal credit score for a particular mortgage product. The two credit scores under consideration, FICO 9 and VantageScore 3.0, weren't optimized for a single type of loan instrument and were developed to predict the likelihood that a new or existing general credit obligation will become delinquent in the future. Because of this common design feature, it's conceivable that one credit score better predicts mortgage payment performance than the other credit score for a particular mortgage product (e.g., one is better for ARMs and another may be better for 15-year fixed mortgages).
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).*
Answer A2.2	TransUnion's delivery platform is nimble enough to deliver multiple scores with the same amount of ease and response time as delivering a single score. Anytime a major change is embarked upon, adjustments will need to be made. Regardless of the option, all stakeholders will have to expend some level of effort to adapt since the industry will be making a change from its current Classic FICO score requirement.
Question A2.5	*Could using any of the multiple credit score options affect the way investors view, and therefore price, Enterprise securities? Could any of the multiple credit score options reduce liquidity in the TBA market and/or increase the volume to the specified market? Are there any unique considerations among the multiple score options (options 2-4) in evaluating their impact on MBS liquidity and/or demand for credit risk transfer transactions?*
Answer A2.5	The mere fact that the mortgage industry is proposing to move away from Classic FICO as the single mandated score will require investors to view Enterprise securities differently. The use of multiple credit scores may actually positively affect the way in which investors view, and therefore price, Enterprise securities from a prepayment risk

	perspective. Having more data for consideration in the predictive model building process is always a good idea. An additional data point such as another credit score could give investors the opportunity to boost the model's accuracy in predicting prepayment risk, and therefore price Enterprise securities more accurately. The use of multiple credit scores should also benefit investors when valuating credit risk transfer (CRT) securities. Since CRTs are in a first loss position with respect to credit risk and credit scores were precisely intended to predict credit risk, more data in the form of multiple credit scores should only help investors drive better valuation decisions. Again, having more data for consideration in the predictive model building process can potentially boost a model's predictive accuracy. It's also quite possible that a CRT is collateralized by a particular pool of mortgages that one credit score better predicts mortgage credit risk for than the other. In sum, multiple credit scores (or simply more credit information) should help drive liquidity and demand for CRTs since investors will be able to model credit risk with more confidence.
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?*
Answer A2.7	TransUnion believes that the multiple credit score options will positively benefit consumers more so than the single score option. As referenced earlier, we've observed this with many non-mortgage lending customers using a multiple credit score strategy for decisioning such as a dual score matrix. They see it as an inexpensive way to reduce risk and reach more borrowers. These practices align with our belief that more information drives better decisions. Confusion in the credit scoring market exists simply because the dominant player in the market wants to create confusion. FICO has embarked on a campaign of fear, uncertainty and doubt about any competitor to its position as the sole score used in mortgage origination. This has included regularly publicly characterizing competing scores as 'Fako' scores as well as promoting the <u>need</u> for them to be the sole credit score provider with a full-page ad in the *Wall Street Journal* (December 12, 2017) and letters to lenders and others (in these letters FICO blatantly states that it was "launching a campaign to counter" competing scoring products). For this purpose FICO also affiliated with alleged 'independent experts' to author 'op ed' pieces that were published in *American Banker* and *National Mortgage News*. Once the publisher of those publications learned of the FICO affiliation they were removed from circulation.[2]

[2] See: https://www.nationalmortgagenews.com/opinion/credit-score-alternatives-will-water-down-mortgage-underwriting; https://www.nationalmortgagenews.com/opinion/fhfa-should-resist-calls-to-weaken-mortgage-standards; https://www.americanbanker.com/opinion/fhfa-should-resist-calls-to-weaken-mortgage-standards.

	Under current federal law all consumers already are entitled to the disclosure of their credit scores by mortgage lenders (see 15 U.S.C. §1681g(g)). The creation of educational pamphlets that mortgage lenders can provide, as well as website factual information that could be placed under FAQ's of CRAs, lenders, governmental agencies and consumer credit education associations, can advance consumer education so that consumers are not being misled to believe that they have only one 'true score'. TransUnion would welcome the opportunity to assist FHFA or the Enterprises in crafting unbiased and factual information for these purposes. TransUnion believes that transparency in mortgage lending is a good result.
Question A2.10	*How would you approach evaluating when the benefits of new or multiple credit scores sufficiently exceed the costs and potential risks associated with making such a change?*
Answer A2.10	TransUnion views any change that considers more consumer information included in the mortgage origination process to be a long term benefit to the housing system that would result in immeasurable benefits - such as achieving homeownership. On the cost side, we view more consumer information to be an inexpensive way to manage a large risk and reach more consumers. We believe that data and analysis of that data is inexpensive, while risk and lost opportunity are not. The benefit of broadening access and better assessing risk likely outweighs the cost of new or multiple scores.

II. Modifying the Required Number of Merged Credit Reports

Questions on Merged Credit Reports	
Question 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.*
Answer B1	As one of the 3 national Bureaus, TransUnion has a good view into lenders using single, two-file and tri-merge credit reports across their lines of business. As experts in the consumer credit report field, we strongly believe that the risk mitigation benefits that tri-merge credit report provides is more beneficial to the economic safety and soundness of the US economy and housing market than a single or bi-merge report in the context of mortgage origination. While each bureau is continually improving its reports and processes, the bureaus are also competing and constantly adapting to the current lending environment. Contrary to popular belief, there can be differences on a consumer's credit report across the three national credit bureaus. As learned in the housing market crisis of 2008, mortgage industry originators and risk holders are not always the same party and their interests may not be completely aligned. When they are the same, however, we observe behavior supporting the principle that those who hold risk seek the highest level of integrity and data. For example, it is normal course that mortgage lenders who do not need to pull a tri-merge credit report for their private products, like first lien jumbo or portfolio loans, voluntarily pull a tri-merge credit report.
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 borrowers and your business? What could be the benefits or disadvantages to the credit reporting industry and the mortgage industry in general?*
Answer B2	We believe abandoning the tri-merge requirement and allowing mortgage origination based on a single or dual credit report is a step in the wrong direction for the United States economy and the industry. The minimal cost of a consumer's tri-merged credit report for mortgage lending (we estimate $5-8) is not a significant contributing cost to mortgage finance. The benefits afforded by the amount of data provided and well-rounded view of consumer credit risk enabled through the tri-merge requirement is well worth the few dollars, particularly when considered in context of other costs and the overall loan size. The perceived flexibility in moving away from the tri-merge credit report requirement could adversely affect borrowers in multiple ways, specifically: *a.* **Unfairly reduced eligibility** – consumers that stand to benefit from having all three Bureau reports pulled could lose access to mortgage financing. *b.* **Unfairly increased pricing** – increased *perceived* risk at the consumer and aggregate level could result in investors compensating for that increased risk by pricing loans higher. These higher loan prices could appear in the form of

	interest rate pricing (set by lenders or adjustments to the LLPA matrix), or in the form of fees passed on from lenders to borrowers due to increased fees (e.g, G-fees). *c.* **More consumer foreclosures –** borrower's credit information that may have been picked up in the tri-merge report but is missed when pulling just two or one report will increase risk in the housing finance system, ultimately leading to more foreclosures. For lenders and servicers, we believe there is a non-trivial cost of change from a tri-bureau model that would be incurred. Investments in IT solutions to allow for flexibility, as well as operational and policy changes for industry workers are all real costs. It should be expected that in the near term these costs would be folded into the fees charged to consumers, for example, loan origination fees, effectively increasing costs to borrowers.
Question 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?*
Answer B5	The housing and mortgage lending market in the United States is very influenced by economic factors. For example, in an environment where interest rates are expected to increase mortgage origination is generally impacted and competition by originators for borrowers intensifies. Because of the significant influence of macro-economic factors on this industry we believe the risk of gaming is very high in order for an institution to maintain expected origination volumes. The Enterprises could attempt to prevent lenders from gaming by adding regulation and fines. However, the cost and effectiveness of such oversight by the government, Enterprise policy changes, operational changes and compliance by lenders will likely far outweigh the nominal cost of the additional credit data to make a sound risk decision and may not prevent bad actors from inflicting significant harm into the United States mortgage lending market.
Question B6	*What issues would this flexibility create if other mortgage participants (investors, insurers, guarantors) continued to require credit data from all three CRAs?*
Answer B6	The mortgage industry is among the most complex lending industry in the United States. Stakeholders including borrowers, lenders, and investors all rely on *reliable, consistent, timely and complete information.* There are many stakeholders that rely on the data and distribution infrastructure, and timing (i.e., at origination) currently in place with the tri-merge credit report. The perceived flexibility gained by moving away from the origination tri-merge requirement could have significant negative consequences for several stakeholders in home financing: a. **Brokers –** incentive and pressure to game the system that could lead to unintended consequences in the mortgage industry and to the US economy b. **Investors** – challenges in pricing risk, for which investors could compensate by increasing borrower interest rates and/or discounting bids on mortgage securities creating increased costs to consumers c. **Mortgage Insurers –** challenges in pricing risk due to less data, which could result in less choice (i.e. MI not offered) and worse pricing for consumers

	d. **Servicers** – challenges in valuing and onboarding MSRs if tri-merge credit information is not available in the origination loan tape. Further, added costs and time for end investors to evaluate and price loans and mortgage servicing rights, as they have risk and valuation models predicated on borrower credit information from all Bureaus at time of origination.
Question 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?*
Answer B7	The cost of credit data is an extremely low component in a total mortgage transaction. This is true in absolute dollars, relative to other transaction costs, and as a percentage of loan amount. Based on our knowledge of credit data pricing, we estimate of the price Resellers charge mortgage lenders for a borrower's tri-merged credit report is $5-8. If the Enterprises explicitly increased pricing to account for the additional risk, the price increase would almost certainly outweigh the potential borrower cost savings of just a few dollars. Increasing pricing would hurt consumers seeking homeownership, which conflicts with Agency Scorecard goals and Enterprise missions. Increasing pricing for borrowers while taking important data away would not help in fostering liquid, efficient, competitive, and resilient national housing finance markets, or providing access to affordable mortgage financing in all markets at all times.