



Barrett Burns President & CEO barrettburns@vantagescore.com

September 2, 2014

Federal Housing Finance Agency
Office of Policy Analysis and Research
400 7th Street, S.W. – Ninth Floor
Washington, D.C. 20024

ATTN: Request for Input on Fannie Mae and Freddie Mac Guarantee Fees

Dear Madams and/or Sirs:

VantageScore Solutions LLC thanks the Federal Housing Finance Agency (“FHFA”) for the opportunity to respond to the Request for Input regarding the guarantee fees (“g-fees”) Fannie Mae and Freddie Mac charge lenders. We welcome the opportunity to respond not only because three of the questions specifically reference credit scores, but in particular to respond to the very important first question that asks: “Are there factors other than those described ... that FHFA and the Enterprises should consider in setting g-fees?” As we’ll elaborate, current loan eligibility guidelines require that originators use outdated credit scoring models to underwrite loans; as a direct consequence, g-fees are set based upon a distorted view of credit risk and millions of creditworthy borrowers are excluded from the market.

VantageScore Solutions was formed by the three national credit reporting companies (Equifax, Experian, and TransUnion) in 2006 in order to provide choice and competition in the consumer credit scoring marketplace and to do so while providing a highly predictive credit score based on the latest analytic methodologies. Two years after VantageScore was formed, the Federal Housing Finance Agency was created through enactment of the *Housing and Economic Recovery Act of 2008* or “HERA.”¹ HERA specified that, among other things, the “principal duties” of the FHFA Director are to ensure that:

... the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate- income families involving a reasonable economic return that may be less than the return earned on other activities); [and that] ... the activities of each regulated entity and the manner in which such regulated entity is operated are consistent with the public interest”² [emphasis added].

¹ Public Law 110–289, enacted into law July 30, 2008.

² Section 1102 of Public Law 110–289, amending Section 1313 of the *Federal Housing Enterprises Financial Safety and Soundness Act of 1992* (12 U.S.C. 4513).



Today, 7 of the top 10 financial institutions, 8 of the top 10 credit card issuers, and 6 of the top 10 auto lenders use VantageScore. Of particular relevance to FHFA and its consideration of matters related to g-fees, each of the top 5 mortgage lenders also use VantageScore, although not for underwriting loans at origination. Mortgage lenders do not use VantageScore in underwriting loans because they are precluded from doing so by the GSEs. Both Fannie Mae's *Single Family Selling Guide* and Freddie Mac's *Single-Family Seller/Services Guide* require that originators underwrite single-family mortgage loans using pre-recession, 2004-era FICO score models. Otherwise, the mortgage loans originated by those lenders would be ineligible for purchase by either of the GSEs.

There have been significant data enhancements, including expansions in the types and granularity of data contained in consumer credit files. Further, it is recognized that consumers have substantially changed their debt management behaviors following the recession. Leading post-recession credit models, including but not limited to those built by VantageScore, leverage these data enhancements and behavioral insights to increase predictiveness and score more people. However, the GSEs still will not purchase loans underwritten using these post-recession models and continue to price g-fees based on older ones.

It has been demonstrated that VantageScore's post-recession credit scoring model is able to score a total of 30 - 35 million consumers typically not scored by conventional models, and that more than 10 million of them have scores of 600 or above.³ From a fair lending perspective, an estimated 9.5 million of the newly scored consumers are African American or Hispanic and 2.7 million of them have a credit score above 600. Yet because of the GSEs' exclusionary underwriting policy mandating use of a single, proprietary scoring brand, these borrowers are denied access to the credit and mortgage markets. Note that the policy that excludes them was not put in place by Congress or FHFA, but by the GSEs themselves. As a result, the "competitive ... national housing finance market[s]" HERA envisioned and the goal of operating a system of GSEs marked by activities "consistent with the public interest" continues to be frustrated. However, FHFA clearly has the authority to change that policy since, as stated in the Request for Input: "With the Enterprises operating in conservatorships, FHFA has the authority of the board, management, and shareholders."⁴

The Request for Input asked whether the Enterprises should charge higher g-fees on low credit score/high LTV loans if it causes these loans to be insured/secured through FHA/Ginnie Mae rather than through the Enterprises; on high credit score/low LTV loans if it causes these loans to be insured/secured through PLS or held on depository balance sheets, rather than guaranteed by the Enterprises; and, whether the ranges of credit score and LTV cells in the proposed credit score/LTV grids used to set upfront delivery-fees and loan level pricing adjustments are appropriate or should they be adjusted. VantageScore believes that before those questions can be properly answered, it is essential that FHFA put in place a mechanism to ensure

³ See <http://www.vantagescore.com/pdf/VS30-FactSheet.pdf>

⁴ *Request for Input*, Section I. *Legal Authority for Charging Guarantee Fees*, p.1



that loans are underwritten in the primary market, and priced in the secondary market, based upon contemporary credit scores. Such action would be a giant step forward to achieving the “competitive and resilient national housing finance markets” contemplated by the law that created the Federal Housing Finance Agency: *The Housing and Economic Recovery Act of 2008*.

As Treasury Under Secretary for Domestic Finance Mary Miller said in remarks at the National Housing Conference Annual Policy Symposium earlier this year: “This status quo, where Americans bear a significant amount of the risk in the housing market in exchange for *a system that does not serve all credit-worthy borrowers*, is not acceptable.”⁵ [emphasis added]

Thank you for the opportunity to comment on this important matter. Please don't hesitate to contact me at (203) 363-2161 or by e-mail at BarrettBurns@vantagescore.com if you have any questions or would like to discuss further.

Respectfully yours,

A handwritten signature in black ink that reads "Barrett Burns". The signature is written in a cursive style with a horizontal line at the end.

⁵ Remarks of Under Secretary Miller at the National Housing Conference Annual Policy Symposium, June 13, 2014, available at <http://www.treasury.gov/press-center/press-releases/Pages/jl2427.aspx>