**Director Sandra Thompson**

**Federal Housing Finance Agency**

400 7th St. SW

Washington, D.C. 20219

RE: Fintech in Housing Finance

September 19, 2022

Director Thompson,

On behalf of Calque, thank you for the opportunity to provide comments on the role of financial technology (fintech) in the housing finance space. We want to show the Federal Housing Finance Agency (FHFA) the benefits of fintech and how it can open access to credit, as well as identify potential risks. When it comes to the risks involved in fintech, the proper processes and checks in place can help mitigate these risks while improving the banking experience for industry participants and consumers.

Calque launched in 2021 to empower homeowners to use the equity in their current home to buy their next home with a product referred to as The Trade-In Mortgage. This allows a homebuyer to make a non-contingent offer that is as good as cash on a new home. We partner with two established mortgage banks and a community bank in select markets to allow homeowners to make their new home purchase. This comes as buyers face more challenges in today’s market such as rising interest rates and limited housing supply.

As speculators making cash offers have entered the market, many consumers have found themselves unable to compete. This is particularly true of low- and middle-income borrowers who are often forced to make contingent offers, because they do not have the income to cover both mortgages within their debt-to-income ratios.

In the housing market, Fintech options such as Calque can significantly assist consumers in their efforts to secure financing and help low- and middle-income families compete. Fintech can help spur more originations in the housing ecosystem, open access to credit, shorten the time it takes to take out a mortgage on a home, reduce errors and more. Fintech can also improve the secondary mortgage market as it improves processes for mortgage servicers. Using new innovations, the mortgage industry has an opportunity to allow consumers greater access to underwriting even as they reduce the risk involved with the greater usage of technology. Calque partners with established lenders in order to operate within the compliance boundaries established to protect these consumers, unlike many alternative lending solutions cropping up in the property-tech space, some of which charge excessive and misleading fees in the form of lease or repair expenses.

**Fintech access to underwriting**

In addition to potential efficiency gains, the application of fintech to mortgage underwriting may improve access to credit for underserved markets or populations through, for example, the incorporation of cash flow insights and rental payment data to better predict an applicant’s credit behavior. In addition, new techniques can be applied to fair lending testing to identify less discriminatory alternatives and ensure that proxies for protected class status are not included within a model. However, the complex and opaque nature of artificial intelligence (AI) and machine learning models has raised concerns that they may perpetuate or worsen access to mortgage credit.

But On October 13, 2021, the National Housing Conference hosted a virtual “Tech & Housing” symposium, with [one panel examining](https://www.huduser.gov/portal/pdredge/pdr-edge-featd-article-110921.html) how AI and machine learning might help make access to mortgages more equitable without adding risk to the overall housing finance system. One panelist noted that AI has the potential to provide credit scores for 37 million Americans who currently are not scorable; of those, up to 13 million could have a credit score of 620 or higher, meaning that, with some effort, they could soon be considered eligible for mortgages.

Tests run using AI models have shown that they pose much less risk than legacy models, with more fair outcomes for borrowers. AI models are also transparent, not covered in proprietary secrecy or black box model lending.

And by reducing the risk involved in a real estate transaction, fintech companies can reduce the cost of underwriting a loan. This will, in turn, reduce the fees for consumers and allow more potential homebuyers access to the housing market.

**Fintech risks identified**

A variety of risks have been identified with rapid innovation generally and with specific technologies associated with fintech. Historically, innovation and rapid growth have, at times, been associated with increased risks to the safety and soundness of financial institutions and to financial system stability. The financial crisis of 2008 offers one example. That crisis occurred after a period of significant private sector innovations, including the development of complex securitized products backed by subprime mortgage collateral credit models that predicted credit risk and probability of default.

Now, as the mortgage industry moves forward with innovation, transparency will be critical to reducing risk and ensuring consumers are offered a choice in their financial future.

Consumers need to know what they are paying, whether for a fintech or property tech (proptech) solution. There is a spectrum between fintech and proptech, but these solutions must be made clear to consumers and the fees carefully explained. Creating a more defined line between fintech and proptech can help the FHFA determine where to add more regulations. For example, overregulating one sector that is a better solution for consumers and the housing sector while leaving the other unregulated can leave the existing infrastructure at a disadvantage and create higher levels of risk.

Some fintech and proptech companies, once they draw in consumers, claim to offer several options or paths for a consumer looking to buy or sell their home, but then heavily guide these consumers toward one option. But with added transparency, consumers can view a full range of products available to them, enabling them to make the choice that best fits them. Fair lending laws and guidelines must be better enforced. Some options that could be implemented through solutions that put the power of choice in the consumers' hands include:

* Higher levels of transparency surrounding products and paths available to the homebuyer
* Steering away from offering one single product as the only and/or best solution for homebuyers
* HUD counseling worked into the process for new homebuyers

**Unintended consequences**

The housing system as it is now can be a hindrance for those who are looking to buy a home but do not meet the mold of a traditional homebuyer. Although the system was set up for a one-size-fits-all homebuying experience, many homebuyers struggle under the current guidelines. For example, non-traditional forms of financing are [on the rise](https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/04/millions-of-americans-have-used-risky-financing-arrangements-to-buy-homes) in recent months, such as risky borrowing where payments are made directly to the seller instead of to a lender for low-income borrowers, according to the Pew Charitable Trusts. The study also stated that it is difficult for homebuyers to find financing for mortgages for amounts below $150,000.

Unintended consequences can even come from systems that are set up to help improve access to mortgages for low- and middle-income borrowers. When Fannie Mae and Freddie Mac began backing mortgages and the qualified mortgage (QM) became the standard, the government-sponsored enterprises (GSE) also had to put checks in place to protect their business model and ultimately, the American taxpayer. In doing so, they set up the 20% down payment standard. And low- and middle-income borrowers that can’t afford this down payment are left paying 50 basis points to a full percentage point more per year as they work up towards the 20% equity mark. This then has the opposite effect as low- and middle-income borrowers are priced out of the housing market and investors are able to outbid them for properties.

However, there are ways to improve the current system and open access to credit while keeping the housing market safe for potential buyers and the American taxpayer. For example, opening access to credit and the use of alternative credit can help pave the way for more Americans to enter the home buying market.

**Credit modeling**

The use of credit scores has become a debated topic in the housing industry when it comes to improving access to credit. Mortgage lenders generally use credit scores to determine how risky it is to lend to a potential borrower. But for the [45 million Americans](https://www.gao.gov/products/gao-22-104380) who don’t have a credit score or for those with a thin credit file, the use of alternative data could be a gamechanger.

Many lenders have begun partnering with fintech providers to gain access to data such as rental payment history, bill history and other payments. A wider acceptance of this data could help increase access to credit for those with little or no credit data, making homeownership an option for many more borrowers. Between 2016 to 2020, less than 0.1% of mortgage loans purchased by Fannie Mae and Freddie Mac used alternative data in their underwriting, according to a study from the U.S. Government Accountability Office.

Late in 2021, Fannie Mae began allowing rental payments in its underwriting system, while the Consumer Financial Protection Bureau (CFPB) issued rules that could help facilitate the use of alternative data in December 2020. These actions, and more like it, could continue to push the use of alternative data forward and encourage mortgage lenders to partner with fintech companies to open access to credit for homebuyers that don’t fit the traditional molds of today’s market.

**The Trade-In Mortgage can reduce both default and prepayment risk in the system**

As property values have risen, many borrowers, particularly low- and middle-income borrowers, have found that they cannot afford what would normally be their next home. For example, a couple that purchased a two-bedroom home eight years ago and now has a family of five may not be able to afford the mortgage payments on both their current home and a four-bedroom home, so they purchase a three-bedroom home as a patch and move to a four-bedroom home later.

Buyers that use The Trade-In Mortgage are likely to create less movement within the mortgage industry because the duration risk is significantly lower for these buyers. Although prepayments tend to rise, especially in a falling interest rate environment, The Trade-In Mortgage is more likely to enable borrowers to move in to their “forever home” in fewer stages; this cuts down on transaction expenses, helps consumers build wealth faster and reduces prepayment risk. Additionally, these mortgages may be less costly for consumers, as they are able to put down larger down payments, eliminating mortgage insurance that pushes payments higher. Further, there is lower risk of default, because the buyer has a higher equity stake in the home, and the buyer may also have lower monthly payments.

The usage of fintech reduces the cost of mortgage lending and cuts down on processes such as lengthy loan processing, capacity constraints, and more. And for The Trade-In Mortgage, costs are reduced when only one transaction must be made to complete the sale of the home, rather than the two required by some companies. Once the transactions are condensed, consumers pay less fees and use more of their funds to invest into their home, making a prepayment less likely.

**Conclusion**

Fintech, when put in the right hands, can unlock potential within the housing market – from opening access to credit to charging consumers less money and even evening the playing field for low- and middle-income borrowers. As with any innovation, there are risks involved including lending risks and the risk of unintended consequences. But through proper planning and evaluation, these risks can be mitigated. The Trade-In Mortgage make sense for consumers and can help families compete in housing markets with limited inventory. Through innovation, the process of buying a home can be seamless, efficient and cost less than how mortgages are originated today.

Thank you again for allowing us with the opportunity to provide these comments, and we look forward to working with the FHFA on any future innovation decisions.

Sincerely,

The Calque team