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CUNA

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October 13, 2022

Federal Housing Finance Agency
Office of Financial Technology
400 Seventh Street SW
5th Floor
Washington, DC 20219

Re: Request for Information on Fintech in Housing Finance

Dear Director Thompson:

The Credit Union National Association (CUNA) represents America's credit unions and their more than 130 million members. On behalf of our members, we are writing in response to the Federal Housing Finance Agency's (FHFA's) request for information on Fintech in Housing Finance.[1]

Background

As member-owned, not-for-profit financial cooperatives, America's credit unions are at the heart of the Federal Home Loan Banks' (FHLBanks') and government-sponsored enterprises' (GSEs') respective statutory missions. The FHLBanks were chartered in 1932, with a mission "to provide reliable liquidity to member institutions to support housing finance and community investment."[2] In 1934, the Federal Credit Union Act was enacted so federally chartered credit unions could promote thrift among their members and meet the credit needs of low- and moderate-income borrowers who had difficulty getting financing from a traditional bank.[3] Four years later, The Federal National Mortgage Association (Fannie Mae) was created to ensure a robust secondary market existed that would provide liquidity to primary mortgage lenders, even amidst the difficult economic circumstances of the Great Depression.[4]

Today, credit unions derive significant benefits from being a part of the FHLBanks system and from the work of the GSEs. The FHLBanks provide their credit union members with funding and liquidity, allowing them to effectively provide affordable credit to their communities. Similarly in 2019 alone, credit unions originated a record of almost $180 billion in first-lien mortgages, selling

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[1] https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/Fintech-in-Housing-Finance-Request-for-Information.pdf.
[2] *See* FHLBanks' Mission, *available at* https://fhlbanks.com/mission/.
[3] 12 U.S.C. § 1751 et al.
[4] 12 U.S.C. § 1716 et al.

over 35% into the secondary mortgage market.[5] Accordingly, credit unions have a substantial interest in the effective functioning of the FHFA-regulated entities, so they meet their core missions to benefit low- and moderate-income borrowers and communities. FHFA has acted as conservator of Fannie Mae and The Federal Home Loan Mortgage Corporation (Freddie Mac) since the financial crisis of 2008.[6] Acting as conservator, FHFA has worked to facilitate a number of innovations that have benefited housing finance markets as well as consumers and taxpayers. These include the standardization of mortgage-related forms and data, the digitization of this data, and the increased use of e-mortgages and e-closings.[7]

In July 2022, FHFA established an Office of Financial Technology for the purposes of addressing emerging risks and advancing FHFA priorities related to the adoption and deployment of financial technology (fintech) in the housing finance markets by (i) engaging with market participants, industry, nonprofits, consumer groups, and academia to facilitate the sharing of best practices of housing finance fintech and innovation; (ii) supporting the FHFA in developing strategies for its regulated entities to advance housing finance fintech and innovation in a safe and sound, responsible, and equitable manner; (iii) establishing ongoing outreach efforts through the regulated entities, and in doing so, promoting awareness and understanding of housing finance fintech and innovation; (iv) facilitating interagency collaboration with other regulators to enable information sharing and partnership opportunities; and (v) serving as an FHFA resource for innovations, general trends, and emerging risks in housing finance fintech.[8]

In conjunction with its establishment of the Office of Financial Technology, FHFA is soliciting public input on the role of technology in housing finance in order to advance its goals noted above. The agency is seeking to understand the current landscape of potential innovations throughout the mortgage lifecycle and related processes, risks, and opportunities. FHFA is also seeking input on how it can most constructively interact with other stakeholders to facilitate responsible innovation, including the identification of any barriers to or challenges in implementing fintech in the housing finance ecosystem, while also focusing on supporting equity in the housing finance landscape for both homeowners and renters.

CUNA strongly supports the goal of facilitating responsible innovation, and FHFA’s efforts to identify barriers and challenges in implementing fintech in the housing finance ecosystem. With that guiding principle, we offer the following thoughts.

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[5] National Credit Union Administration (NCUA) credit union call report data; CUNA analysis.

[6] Fintech in Housing Request for Information, *available at* https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/Fintech-in-Housing-Finance-Request-for-Information.pdf (July 2022).

[7] *Id.*

[8] FHFA Announces Office of Financial Technology, *available at* https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Office-of-Financial-Technology.aspx (July 2022).

General Comments

A. Credit unions suggestions for areas of focus for Improved Technologies

As consumer-owned financial cooperatives, credit unions support efforts related to new technologies that allow for more consumer-friendly experiences, and enhanced risk management processes. There are several areas highlighted below, related to credit unions, where improved processes could benefit the consumer experience and allow credit unions to more fully serve their members.

- Title Reports - As you know, a title report is a document containing the key legal details and history of a piece of property found during a title search.[9] A title report contains many important details on the property such as: who legally owns the property, whether there are any liens or encumbrances, any past disputes regarding ownership, and the legal description of the property.[10] Thus, they are critical to any lender's process for vetting a property as part of its due diligence efforts and appropriately understanding related risks thereof prior to extending a mortgage to a potential home buyer. However, unless a credit union employs optical character recognition technology,[11] which is often too expensive for some smaller credit unions, it has to transfer information manually in Portable Document Format (PDF) form with title reports. This is a financially and administratively burdensome process that can and should be improved upon. Thus, CUNA urges FHFA to consider requiring the GSEs to require electronic title data. This requirement would reduce costs and make the process quicker and more efficient for all financial institutions, particularly smaller financial institutions serving rural and underserved communities, and in doing so materially further the FHFA's statutory mission.

- GSE Driven Change - Due to the centrality of their role, the GSEs can help drive positive changes to advance their statutory mission. GSE driven technology change can benefit lenders, particularly those smaller lenders with less negotiating power but often serve rural and underserved communities. For example, the GSEs underwriting process now requires credit reporting agencies to include trended credit data improving access to automated credit decisioning systems. Another example is that in 2014 the GSEs began requiring XML files on appraisals for their collateral profiles. This has improved technological adoption across the system. CUNA urges FHFA to consider using the GSEs as a vehicle to prompt needed technological-related changes that benefit both consumers and lenders.

- Streamlining Asset and Financial Verification Vendors - FHFA's Office of Financial Technology could also work on how it can overcome trust barriers with American

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[9] Cornell Law School Legal Information Institute, *available at* https://www.law.cornell.edu/wex/title_report (Nov. 2021).
[10] *Id.*
[11] *See* Karez Hamad and Mehmet Kaya, A Detailed Analysis of Optical Character Recognition Technology, *available at* https://dergipark.org.tr/en/pub/ijamec/issue/25619/270374 (2016).

consumers. For example, if the GSEs use an approved list of providers of asset and financial verification vendors, which employ automatic aggregation tools, consumers could save time and have fewer concerns with login credentials for their financial accounts. Consumers are often hesitant when there are repeated requests for bank statements or PDFs. CUNA recommends that FHFA consider how to streamline this process by balancing the need for vendors to help collect this information with consumer concerns and preferences about how to share their information.

- Aligning Systems under FHFA and Federal Housing Administration/the Government National Mortgage Association (or Ginnie Mae) - Credit unions also strongly believe there should be an effort to try to align the systems of these entities. Having multiple, complex systems increase barriers from a financial and administrative perspective for entry of smaller credit unions or those participating in multiple federal and/or state programs. CUNA applauds certain recent steps taken by FHFA and other federal and/or state entities to align the requirements and overall mechanics between various federal programs. For example, the unified Mortgage-Backed Security platform is a step in the right direction, but the goal to improve efficiency, effectiveness and access would be a unified system for all government support programs that allow credit unions to identify the best loan program for an individual borrower. In addition, FHFA's June 2022 release of equitable housing plans for Fannie Mae and Freddie Mac reflect an effort to align interests, goals, and compliance requirements thereof for the purposes of maximizing the benefits afforded by such programs while also minimizing administrative and financial burden on the part of consumers and beneficiaries.[12] Further, having more uniform systems would also help with employee recruiting for credit unions, since a more uniform system would make it easier to train and hire new entrants into this type of work.

- Using Technology to Identify and Waive Unnecessary Requirements - FHFA should consider whether some requirements can be waived if they prevent a lower risk-basis or do not make sense for a certain situation. For example, in a purchase transaction, loans usually close in 30 days or less. Verifying employment within 10 days of closing is often expensive and burdensome for these loans, and usually is not necessary in such a short timeframe. It also could present accuracy problems since it may take up to 90 days to close, and an employment status could again change within such time period. These types of requirements should be reviewed on a risk and need basis, subject to the facts of a particular situation. CUNA urges FHFA to consider how new technology could be utilized in an approval process that allows unnecessary requirements to be identified and waived in a manner that mitigates risk while simultaneously makes a transaction more efficient for all stakeholders.

[12] FHFA Announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mac, *available at* https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Equitable-Housing-Finance-Plans--for-Fannie-Mae-and-Freddie-Mac.aspx (June 2022).

- Appraisals - GSEs offer property inspection waivers by leveraging internal Audio Visual Management (AVM) Solutions. One of the criterion GSEs consider is whether an applicable home is currently in a portfolio, which typically is the case in connection with a refinancing transaction. It would be helpful for all stakeholders in such a transaction to remove this portfolio requirement. By eliminating such portfolio requirement, GSEs can still leverage the AVMs in their system, which would reduce redundancies, appraisal bottlenecks, and related costs. This would also allow for more loans to be made and held in portfolio(s) with the potential for future sale(s) to a GSE, thereby allowing more flexibility for credit unions.

- Automating Processes - Currently many credit unions have a tremendous amount of information about consumers, such as employment status, assets, and income verification in the form of pay stubs, and records of direct deposits, account balances, loans, investments, etc. Currently, the majority of credit unions do not have sufficient technological capacity to leverage this information in order to avoid making separate verification requests. If this information could be automatically leveraged to offer verification and identification of opportunities in a streamlined process, for example by waiving appraisals or employment verification, this would make loans faster, cheaper, and less risky. The efficiencies resulting from streamlining such processes would be beneficial not only for credit unions and other similarly situated entities, but also consumers and beneficiaries of such loans.

- Valuations - CUNA believes increased use of technology and data to conduct valuations would greatly benefit consumers and reduce reliance on subjective judgments by individuals. In particular, the secondary market's dedication to an antiquated model of in-person appraisals will likely help perpetuate the appraisal industry's inefficient and disadvantageous approach to the detriment of people of color, people in rural areas and low- and moderate-income consumers. Focusing on permitting greater use of bias-free artificial intelligence, virtual video communications, and other technologies could make appraisals less costly, timelier, and more equitable for all. As noted above, in June 2022, FHFA released its equitable housing finance plans for Fannie Mae and Freddie Mac, which plans sought to address homeownership disparities among communities of color, rural communities and other underserved communities, among other initiatives.[13] The use of bias-free technology with respect to valuations and other key aspects of the process of ultimately acquiring a home should be an important feature of such equitable housing plans going forward. Accordingly, CUNA urges the FHFA to work with credit unions to consider where technological advancements can be made in this area.

[13] FHFA Announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mac, *available at* https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Equitable-Housing-Finance-Plans--for-Fannie-Mae-and-Freddie-Mac.aspx (June 2022).

B. Less Regulated Fintech Lenders Can Pose Risks to Consumers

While credit unions support innovation and believe improved technology benefits all stakeholders in the housing ecosystem, including, but not limited to, consumers, CUNA also asks FHFA to be mindful about some of the risks that come with allowing less regulated, or in certain cases, unregulated fintech lenders to participate in the marketplace. Credit unions and other lenders that are federally insured financial institutions regularly examined by financial regulators have important layers of protection for consumers, even when experimenting with new technology. Fintech solutions and systems should be leveraged by well managed financial institutions to ensure that the American housing finance system remains strong in all market cycles, particularly during times of market distress. However, many fintech entities are relatively new players in the marketplace, and often make unsubstantiated claims about their lack of risk and losses. Notably, these firms did not exist prior to 2008, and have enjoyed a tenure during recent times with lower interest rates and rising real estate values. It is not at all clear that the loans made by these firms are as low risk as claimed, and until these systems are tested by a recession or other times of market distress, they should be scrutinized by federal and/or state regulators to ensure the products they are offering to consumers are subject to appropriate risk-mitigation measures and have been disclosed and/or advertised to consumers in the marketplace in an accurate non-fraudulent manner.

Fintech firms, given their less-regulated nature, often target, and ultimately pull in, consumers for easy-to-qualify loans from across the country. This typically leaves a void for certain atypical loans or borrowers thereof, including borrowers who are credit invisible or have seasonal or sporadic income, which void is ultimately addressed by community financial institutions such as credit unions. Credit unions exist to assist these members and are committed to ensuring their financial well-being. Still, this evolution of the market decreases the economies of scale, margins, and balancing of risk that community financial institutions are able to accomplish. This is a particular issue for credit unions because they may be serving limited classes of membership. In combination with a lack of regulatory parity and oversight, credit unions' ability to serve members most in need of financial education and support is in danger of becoming limited. Fintech firms must not be permitted to abandon underserved customers, inject risk into the system, and following a potential economic downturn, collapse and ultimately leave community financial institutions and American taxpayers to clean up the mess. Given the foregoing, CUNA urges FHFA to consider additional means of responsible and measured oversight over fintech firms to ensure they are complying with strict risk-mitigation standards, among other key safeguards designed to protect consumers and the housing finance system as a whole.

C. FHLBanks Could be More Effective with Technical Upgrades

FHLBanks would be more effective with updated systems and newer technology. Some credit unions report that FHLBanks application programming interface is difficult to use. They also report that offerings vary across the system, which can create complexity. For example, some accept eNotes, others do not. Credit unions also report that FHLBanks' Mortgage Partnership Finance Program delivery and reporting systems could be more technologically friendly. CUNA recognizes that the FHLBanks have introduced recent upgrades in recent months and/or years, including, but not limited to, permitting members to pledge collateral for purposes of receiving advances or liquidity via eNotes, electronic signatures and paperwork, among other initiatives. Accordingly, we encourage FHFA to consider additional broad-based technological upgrades to address the foregoing concerns as well as additional features that would benefit from further investments in technology.

Conclusion

As the Office of Financial Technology undertakes its examination of the current landscape of the marketplace, CUNA stands ready to work with FHFA to provide any additional details or information about our suggestions on behalf of America's credit unions. Thank you for this opportunity to comment on this request for information. If you have questions or if we can be of any assistance, please do not hesitate to contact me at (202) 503-7184 or esullivan@cuna.coop.

Sincerely,

E Sullivan

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