Heartland
Credit Union Association

October 16, 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:

On behalf of the 2.2 million credit union members we represent, the Heartland Credit Union Association (HCUA) appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA's) request for information on Fintech in Housing Finance.

Credit unions exist only to serve their members and are at the heart of the missions of the Federal Home Loan Bank (FHLBank) and government-sponsored enterprise (GSE.) 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. Credit unions are not-for-profit financial cooperatives with a statutory mission to promote thrift and provide access to credit to its members.

The 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.

In conjunction with its establishment of the Office of Financial Technology, FHFA is soliciting public input on the role of technology in housing finance to advance its goals noted above. The agency seeks 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 identifying 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.

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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. Below are areas where improved processes could benefit the consumer experience and enable credit unions to serve their members better.

- Title reports are critical to any lender's process for vetting a property as part of its due diligence efforts and appropriately understanding related risks before extending a mortgage to a potential home buyer. Unless a credit union uses optical character recognition technology, which is often too expensive for some smaller credit unions, it must transfer information manually in Portable Document Format (PDF) form with title reports. This financially and administratively burdensome process can and should be improved. HCUA 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.

- A credit union will have barriers in adopting and adjusting to fintech. Our credit unions would like to see the allowance for experimentation and beta testing and even have the appropriate agencies grant funds to smaller financial institutions to assist with their innovation. The FHFA should consider facilitating fintech by allowing the freedom for all documents within a transaction to be signed electronically or by biometric acknowledgment, e-Notary and e-signatures for all documents, and the automatization of all practical aspects of FTEs. The most significant risk to which a credit union is exposed includes borrower identification, information security and privacy, the stability of the fintech, and the price of admission to partner with a fintech organization.

- The FHFA should use technology to identify and waive unnecessary requirements if the requirements prevent a lower risk-basis or do not make sense for a particular situation. For example, loans usually close in 30 days or less in a purchase transaction. Verifying employment within ten days of closing is often expensive and burdensome for these loans and usually is not necessary for such a short timeframe. It also could present accuracy problems since it may take up to 90 days to close, and employment status could again change within the time period. These requirements should be reviewed on a risk and need basis, subject to the facts of a particular situation. HCUA 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 making a transaction more efficient for all stakeholders

- Many credit unions have a lot of information about consumers, such as employment status, assets, income verification in the form of pay stubs, and records of direct deposits, account balances, loans, investments, etc. Currently, many credit unions do not have the technological capacity to leverage this information 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 but also for consumers.

- HCUA believes increased use of technology and data to conduct valuations would greatly benefit consumers and reduce reliance on subjective judgments by individuals. 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. Bias-free technology concerning valuations and other critical aspects of ultimately acquiring a home should be an essential feature of equitable housing plans. HCUA urges the FHFA to work with credit unions to consider where technological advancements can be made in this area.

As always, we appreciate the opportunity to review this issue. We will be happy to respond to any questions regarding these comments.

Sincerely,

Lisa Althoff-Simmons
Interim CEO