POINT

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 7th St NW
Washington, DC 20024

October 14, 2022

Dear Director Thompson -

We appreciate the opportunity to submit these comments in response to the Federal Housing Finance Agency's (FHFA) Request for Information on Fintech in Housing Finance. We understand this effort is intended to provide the Agency with a better understanding of the role of financial technology in housing finance and the opportunities for beneficial innovations now and in the future, and we strongly support these efforts and appreciate the opportunity to provide detailed information related to our firm, Point.[1]

Introduction to Point

Founded in 2014, Point makes Home Equity Investments (HEIs), providing homeowners with a lump-sum cash payment today, with no monthly payments, for up to 30 years. In exchange, Point shares in the home's future appreciation up to a predetermined limit. Point has expanded its operations to 21 states (with seven more scheduled this year) and has helped more than 10,000 homeowners access the equity in their homes. We're a 300 plus person (and growing) team, with our headquarters in Palo Alto, California.

Point's HEI is structured as a non-recourse, real estate option purchase agreement. Point provides a homeowner a sum of cash on day one in exchange for a share of the future appreciation or depreciation of the home's value over the following 30 years. There is no interest rate charged on the money provided, and the amount repaid depends entirely on the change in the home's value. Consumers can exit at any time during the term with no penalty, and exits are typically the result of a refinance or the voluntary sale of the home. Since this is an equity sharing arrangement, it is possible for a homeowner to repay Point less than they received if their house has depreciated (with some possibility of Point's return falling to zero in the event of extreme depreciation). As a result of the future-appreciation based structure of Point's HEI, homeowners have no monthly payments or interest obligations.

[1] https://point.com/

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Point HEIs are available to a wider range of homeowners than are served by traditional home equity products because decisioning is based on the future anticipated value of the home and not the credit profile of the homeowner. This level of financial access offered by HEIs greatly benefits homeowners who might otherwise be disqualified from debt products due to strict income and credit score requirements. As a result, HEIs are available to a wider swath of consumers and for many, may be the only way to utilize the equity while remaining in the home.

With almost eight years of operating history at Point, the impact of the financial access brought by HEIs is quantifiable. The average Point customers uses funds from their HEI to reduce their non-mortgage debt by 30 percent; this debt reduction is durable and is observable when the HEI contract is executed, indicating that homeowners' financial wellness can be improved dramatically.[2] Additionally, 75 percent of Point homeowners see a FICO score increase across the lifetime of the investment, with an average increase of over 53 points as measured from origination through exit.[3] Homeowners are provided with further protection through Point's proceeds cap, which establishes the maximum amount Point may be entitled to no matter how much value the home may increase by.

As a recently developed financial product, Point HEIs face a somewhat uncertain regulatory landscape. However, Point has made a strategic decision to proactively engage with both state and federal financial regulators. At the federal level, we've had continuing conversations with the CFPB concerning our product's features and market development, and how HEIs are considered under applicable federal consumer financial law. At the state level, regulatory approaches vary. Some states have reviewed our product and determined that HEIs do not require licensing as a mortgage lender, while others have come to the opposite conclusion.

Fintech and Innovation

The term "fintech" includes a wide range of firms and products that operate wholly differently from one another. Various categories of financial technology include data providers, data and workflow integrators, digital lending interfaces, alternative asset/economy, amongst others. Point, specifically, uses digital engagement, a scalable, harmonized decision engine, and automated workflows to deliver financial solutions to consumers.

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[2] Data is on file with Point.
[3] Data is on file with Point.

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FHFA plays a vital role in ensuring that firms adopt technological solutions in a responsible manner. Toward the goal of facilitating responsible innovation, FHFA could take the following steps:

- Under the duty-to-serve mandate, direct Fannie Mae and Freddie Mac (the GSEs) to allow homebuyers of all income levels to use for-profit fintech-backed 30-year term HEIs as down-payment products behind GSE first mortgages, and to price those first mortgages at levels that are consistent with the terms offered to borrowers using gift funds or their own funds for down-payments. With this small change, homebuyers who do not benefit from intergenerational wealth – often minority and borrowers from lower income households - will have a more equal footing in the purchase market. It will also enable competition by enabling new forms of capital to help borrowers meet their objectives. Piloting this would not expose the GSEs to increased risk because the downpayment capital would be fully paid-for and the borrowers' monthly payments would be lower as a result of the lower loan unpaid principal balance.
- Incorporate shared equity programs into the GSE loss mitigation waterfall so that homeowners facing mortgage delinquency can be offered HEIs. This will give homeowners substantially more flexibility than current offerings, allowing them to address both debt and non-debt capital during times of financial strain.
- Establish a formal sandbox program for GSE credit experimentation with financial technology companies offering financial access innovations. Point strongly believes that responsible financial innovation should be accompanied with empirical evidence of the soundness of novel approaches, and a monitored sandbox approach would offer a forum for building and tracking results over time. Moreover, the GSEs' reach and pricing levers would provide meaningful, real-time transparency into the value proposition and effectiveness of participating programs. This would afford deeper discovery than is possible without their participation, while ensuring that participants operated within a standard set of principles and rules.
- Allow the Federal Home Loan Bank (FHLB) to include HEI assets or first-liens originated with a subordinate HEI to be financed under one of the existing FHLB programs.

Beyond the ways FHFA can facilitate responsible innovation, there are a number of challenges that fintech firms face in the housing sector. Specifically, regulatory uncertainty, a patchwork state-by-state regulatory framework, and uneven application of industry standards/best practices by some market participants stymie clarity, while existing GSE credit policies do not support the origination of for-profit shared equity seconds alongside conventional purchase loans.

Fintech Opportunities

Financial technology firms and products have great potential to positively impact the housing finance sector. Point provides homeowners with the ability to access the equity in their largest asset through an HEI. Additionally, as previously mentioned, participants in Point's product have been shown to improve their FICO score by an average of 53 points due to paying down debts and making appropriate investments following participation in the HEI product. Additionally, Point is in the process of establishing a new home equity investment product, Shared Equity Enhanced Downpayment (SEED), specifically targeting home buyers. SEED would allow eligible homebuyers access to up to 15 percent of the down payment on a new home in exchange for sharing in a percentage of the long term increase or decrease in equity. This product will further benefit customers by enabling earlier homeownership, especially for first-time and first-generation homebuyers and increasing the number of paths to wealth building through homeownership.

Fintech firms and technologies could further improve efficiency, reduce costs, and facilitate better homeowner experiences through the accelerated adoption of automated valuation models (AVMs), where appropriate. FHFA and GSE's can support these efforts by sharing available data on commercial AVM accuracy relative to internal tools, and releasing GSE scorecards on commercial AVM performance compared to ultimate appraisal results.

There are a number of regulatory and policy barriers that pose challenges to fintech firms and their ability to provide responsible housing finance solutions. As noted above, Point navigates an ecosystem that lacks regulatory certainty and consistency at both the state and federal levels. Furthermore, despite Point making every effort to adopt appropriate industry standards and best practices, this effort is far from industry-wide and can lead to a competitive disadvantage for firms seeking to behave responsibly. Finally, Point and other fintech firms face challenges with regard to appraisal bias. Existing biases cloud the deployment of tech tools, especially when they are not designed as a vendor solution in the GSE system, which effectively penalizes proprietary development due to the difficulty as a non-Seller or vendor to get agency validation or feedback.

Equitable Access to Mortgage Credit

Financial technology firms have the opportunity to provide resources that are outside the traditional mortgage finance structure and aid in filling gaps in access to home ownership. Point already provides access to home equity to a larger segment of homeowners than traditional products, and as described above our homeowners have used our HEI funding to improve their financial condition and future credit eligibility, reducing future borrowing costs. Additionally, Point's SEED product, discussed above, will allow customers to reduce their overall mortgage, avoid private mortgage insurance payments, make a competitive home offer, save more for repairs and upgrades, and buy a home sooner or in a more expensive market.

In addition to providing tools to expand access to homeownership, fintech firms like Point have established techniques that better facilitate compliance with fair lending laws. For example, programmatic decision-making and moving away from discretionary pricing models has allowed Point to establish a more standardized approach towards fair lending compliance. Enhanced certainty around the accuracy of decisions focuses the risk on front-end engineering design and overall underwriting and pricing guidelines. The continued expansion of technology to analyze portfolio performance against publicly available data offers fintechs an opportunity to determine how their policies are performing compared against peer data and also potentially better address underserved populations.

Understanding algorithmic decision-making requires knowledge of what the decisioning policy says and what the underwriting system is performing against. Similar to how traditional fair lending reviews focus on policy, underwriting guidelines, and exceptions, fintech oversight requires treating the underlying code as the underwriter. Depending on the scope of automation, this would involve mapping out the universe of inputs and what the origination system is looking at in order to see if information is being considered accurately. While the underlying code can be relied on to perform the same task consistently, it also means that if an assumption is wrong, unintended consequences could occur. This puts the focus of compliance oversight on understanding not just the end decision but what was considered. While the system could enter a value correctly, if the underlying assumptions when reviewing the documentation are inaccurate, the end result will likely be as well.

Point is able to identify and reduce the risk of discrimination through a variety of techniques. In general, understanding the risk you are trying to address with an underwriting policy is key to reducing risk in algorithmic decisioning. Any exclusionary criteria should be supported by evidence-based rationale that focuses on achieving a desired result. For instance, if default risk is a driver of pricing, there should be defensible inputs designed to achieve that goal. If underwriting criteria is not indicative of enhanced risk, should it be considered the same as criteria that is shown to be a more accurate barometer of risk? In Point's business model, this can be observed in putting more focus on underwriting the home, as opposed to the person. While the two cannot be completely separated, Point can serve an expanded base of customers by focusing on measures that more neutrally look at home values as opposed to traditional underwriting criteria such as income, debt, and credit score. While these items are, in some cases, not ignored by Point, they are greatly reduced in the overall impact on the decision to extend an offer. In doing this, we offer a compelling option not currently available to homeowners who may not be well-served in current market conditions.

The results can be observed through monitoring of census tract data and publicly available peer data that highlights lending results across various mortgage products. Understanding not just where your applications are coming from, but whether they are also funding at similar rates across populations will provide meaningful information as it pertains to expanding credit availability.

Identifying and Mitigating Fintech Risk

Like any business regulated at the state level, fintech businesses may pose risks to their customers and counterparties if they do not operate responsibly. Fintechs do not inherently present more or less risk. However, the scale with which digitally-enabled businesses engage with customers, and the speed with which they can deploy updates, shift many of the risks from operational oversight to up-front design and deployment decisions.

While many fintech lenders are "asset light" compared with banks, many service the products they originate - ensuring continuity in customer service as well as a financial tie to the quality of the process and product used for that customer. After funding, Point provides customers with quarterly statements that updates the effective cost of Point, under various scenarios of appreciation and expected exit term. Additionally, the firm provides customers with access to free credit counseling and financial health programs through a partnership with Balance and continued access to Point representatives to address any questions or concerns.

Many fintech vendors (i.e., non-lenders) embed themselves in complex points in the origination value chain - indeed, this complexity and nuance often forms the basis of their business model. However, these are often places requiring integrations with other parties - creating complexity in that the adoption of a new tool can increase the number of outside parties that receive or have access to critical data in the origination process. The increase in the number of parties exposed to the data creates additional opportunities for cyber attacks.

Companies with proprietary solutions may be less vulnerable due to reduced complexity. However, they may also miss out on the opportunity to benefit from engagement with the agency teams or validation compared against the agency's standards or best practices. For instance, the agencies' inability to purchase loans originated with down payments provided by for-profit shared appreciation providers eliminates the possibility to test prepayment and credit experiences in real world scenarios, resulting in a catch-22 that inhibits broader adoption and consumer choice.

Non-banks are often more reliant on third-party liquidity than banks, often in unmatched durations. This can create counterparty risk. However, the providers of this liquidity are almost always supervised themselves and are deploying standardized products to clients they have subjected to due diligence. Moreover, companies like Point have identified various business strategies that allow us to operate with far less exposure to market fluctuations than typical non-bank companies. This innovation in particular has shielded Point from capital markets stresses, ensuring we are not put in a position to degrade origination quality or execution against our risk policies. These innovations should be taken into account when considering the value of non-bank platforms - especially where counterparty uncertainty factors into the decision to approve or decline a particular policy change or program for agency purchase.

As a fintech company dedicated to improving financial access, Point recognizes that consumers have entrusted the company with their personal information and is committed to protecting their data. That is why Point does not sell personal data and diligently maintains a privacy and security policy and program. Since there is no single federal framework that regulates consumer data, Point incorporates its obligations under Gramm-Leach-Bliley Act and the Fair Credit Reporting Act together with applicable state-specific privacy laws into its privacy and security practices. Point informs consumers about the information we collect, the purposes for which we use them, and consumers' respective privacy rights in its privacy policy. Point also works closely with privacy counsel from top law firms to ensure the company continues to uphold best practices and stay compliant with the growing patchwork of state-specific privacy laws that govern the collection and use of personal data.

Stakeholder Engagement

Stakeholder engagement is vital to ensuring effective collaboration and communication between the FHFA, traditional housing finance firms, and fintech firms. Inclusion of fintech firms in stakeholder events and FHFA advisory committees would be a great step toward effective stakeholder engagement and Point is eager for the opportunity to contribute in any way to these efforts.

FHFA engagement with financial technology firms through "tech sprints" would further allow open discussion on topics facing the industry overall. Point suggests hosting discussions related to home purchase lifecycles, with a focus on how fintech products can improve those paths, and increased competition within the market. The finalists of these events could be offered context-related access to agency data, feedback from agency SMEs, or offer limited-use approvals to secure contracts with approved seller-servicers.

Conclusion

Point appreciates the opportunity to submit these comments. We look forward to serving as an ongoing resource on this important and complex topic. Please do not hesitate to reach out to our Associate General Counsel Matthew Windsor at mwindsor@point.com if you have any questions. Thank you for your time and consideration of this matter.

Sincerely,

/s/ Matthew Windsor

Matthew Windsor