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National Association of Federally-Insured Credit Unions

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Office of Financial Technology
Federal Housing Finance Agency
400 7th Street SW, 5th Floor
Washington, DC 20219

RE: Fintech in Housing Finance

Dear Sir or Madam:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the Federal Housing Finance Agency's (FHFA) request for information (RFI) soliciting public input on the role of technology in housing finance. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 133 million consumers with personal and small business financial services products. NAFCU applauds the FHFA for joining other financial regulators in establishing an Office of Financial Technology and facilitating responsible innovation in the housing finance system. NAFCU supports innovation but recommends that the FHFA remain consistent in the integration of financial technology (fintech) for all of its regulated entities and coordinate with the other federal and state financial regulators as appropriate. NAFCU further urges the FHFA to mitigate the risks posed by non-depository fintech lenders in order to protect the safety and soundness of the housing finance system.

General Comments

NAFCU's member credit unions define fintech in the housing finance sector as the integration of technology in the home buying process; this integration can happen at any and all stages from beginning to end. The key factors the FHFA should consider are the benefits and risks of fintech in housing finance as well as all parties' willingness to accept financial innovation, especially underserved low-income borrowers.

The FHFA could facilitate the adoption of responsible financial innovation by working with the National Credit Union Administration (NCUA) and the other federal and state financial regulators to understand the fintech industry, how lenders are using it, and its impact on the government-sponsored enterprises (GSEs). Additionally, the FHFA can continue to allow the GSEs to partner with fintechs to improve their existing suite of tools to address equitable and sustainable access to housing finance. NAFCU appreciates the issuance of this RFI to help the FHFA further understand innovation in the housing finance sector.

NAFCU's members have expressed that risk management becomes a big compliance burden that could have higher costs than benefits. Many of the fintechs that provide technology for different aspects of the mortgage process are new and do not have the maturity that will allow credit unions to perform their vendor due diligence. Credit unions would like to use the products that fintech vendors have to offer and are willing to teach them about the financial services industry if needed.

The use of fintech can have a positive effect on the housing finance system. Fintech has expanded rapidly during the COVID-19 pandemic due to the need for alternatives to face-to-face human interaction. Digital features, speed, and convenience are essential to modern borrowers. Most consumers prefer lower-cost, digital, and internet-based options for many of their consumption needs for other products and services, and this is true in the financial services industry as well. Fintechs can offer their products and services to a wider audience and, in turn, are sometimes able to reach historically underserved populations.

Fintech in Mortgage Origination

Fintechs are changing the entire mortgage process, including how lenders identify potential borrowers, verify data, appraise properties, and verify title, as well as lenders' interactions with each other, borrowers, and regulators. To the extent that any part of the mortgage process is outdated and can benefit from fintech integration, NAFCU supports its innovation and technological advancement. Credit unions work with fintech companies to improve efficiency in the mortgage process and improve member service, when possible. Fintech systems can quickly process large amounts of data, thus introducing speed into the mortgage process. Credit unions' collaboration with fintechs can make processing mortgage loans much faster than traditional methods, which can provide a huge advantage for borrowers who may be racing the clock, especially in times of lower interest rates and competitive housing sales.

Conversely, fintech innovation within housing finance has limits and may not be accepted by all borrowers. Nonbank fintech lenders that are completely digital, with no option for human interaction, are not beneficial to the housing finance system or most borrowers. Fintech is invaluable for certain steps in the mortgage origination process, such as completing an application online or through an app, uploading documents electronically, and automating the risk assessment process. But buying a home is, for most borrowers, the most expensive purchase they will ever make, and is also a complicated process, so higher levels of customer service and human interaction are necessary throughout the process. Additionally, fintechs are notorious for subpar customer service. The Consumer Financial Protection Bureau (CFPB) has expressed in their inquiry into relationship banking and customer service that digitized banking has "deprived consumers of customized advice, responsiveness, and care."[1]

According to a study conducted by Fannie Mae, only 12 percent of borrowers use online-only channels, and most homebuyers prefer the ability to speak with a representative throughout the mortgage process.[2] NAFCU's members have also expressed that they have experienced difficulty

[1] "CFPB Launches Initiative to Improve Customer Service at Big Banks," CFPB (June 14, 2022) https://www.consumerfinance.gov/about-us/newsroom/cfpb-launches-initiative-to-improve-customer-service-at-big-banks/

[2] Tim McCallum and Jenney Shen. "The Pandemic's Impact on Mortgage Digitization and Homebuyer Satisfaction," Fannie Mae (July 15, 2021) https://www.fanniemae.com/research-and-insights/perspectives/pandemics-impact-mortgage-digitization-and-homebuyer-satisfaction.

getting borrowers to willingly adopt fintech in their mortgage process. Borrowers prefer to come in and speak to a loan officer in person or over the phone either from the start of the process or at least at some point throughout.

Unlike the process for other loans, when an online mortgage application is submitted, a loan officer then takes over and ensures that the process is completed successfully. The majority of borrowers want that part of the process to remain manual as there is a strong preference to have a representative to reach out to when they have questions and/or need advice regarding such a large, complex, and infrequent purchase.

Additionally, interest rates for mortgages originated by nonbank fintechs are, on average, 14 to 16 basis points higher than rates charged by traditional financial institutions.[3] This is particularly problematic because the unbanked and underserved populations are cost and time-burdened the most due to historical and ongoing structural and systemic barriers. So, while fintech lenders may be serving more of these populations, they are doing so at higher interest rates and taking advantage of these structural and systemic barriers to entice borrowers to purchase a loan instead of relying on their community financial institution, which is subject to more stringent regulation and oversight, offers a safer and more reliable source for financial services, and provides tailored, relationship-based, community-focused customer service.

Risks of Fintech in Housing Finance

This emergence of fintech in the housing finance system presents a plethora of new opportunities. However, it can also present new risks and threats to the safety and soundness of the housing finance system, as entities that can be unregulated or underregulated emerge. Fintech non-depository mortgage lenders play an important part in the housing finance system, especially in helping low- and moderate-income individuals obtain mortgage credit. More than 66 percent of mortgages are originated by fintech and nonbank lenders.[4] The amount of online non-depository mortgage lenders has quadrupled over the past six years. But fintechs can pose systemic risks to the housing finance system in general because they are not subject to the prudential oversight of a federal regulator and varying state supervisory standards may not provide for adequate safety and soundness supervision.[5]

Historically, innovation and rapid growth have at times been associated with increased risks to the safety and soundness of financial institutions and, in this case, the housing finance system. Relatively little is known about the effects of fintech on the performance of the housing finance system or the well-being of consumers due to the newness of these fintech companies. Unlike credit unions and traditional banks, large and complex fintech mortgage lenders are not subject to

[3] Jung Choi, Karan Kaul, and Laurie Goodman. "FinTech Innovation in the Home Purchase and Financing Market," Urban Institute, (July 2019) https://www.urban.org/research/publication/fintech-innovationhome-purchase-and-financing-market.
[4] "The Impact of Fintech on Mortgage Lenders," GetSmarter (April 22, 2022) https://www.getsmarter.com/blog/market-trends/the-impact-of-fintech-on-mortgage-lenders/
[5] "Nonbank Mortgage Servicer Prudential Standards," CSBS (July 26, 2021) https://www.csbs.org/nonbank-mortgage-servicer-prudential-standards

uniform stress testing at the federal level, so it is unknown how these entities might fair in a severe economic downturn. Given uncertainty surrounding the current economic environment, adopting measures to better assess the resiliency of the fintech lenders should be a priority and would help promote financial stability in the long term.

Fintech in housing finance can also create data security concerns with consumer financial data. Data security is now more important than ever, as both borrowers and financial institutions are targets of cyber-attacks and data thieves. Because the integration of various data and computing resources is a key feature of fintech, cyber risks can be harder to manage in a complex software environment and the Cybersecurity and Infrastructure Security Agency has warned that software interconnection can expose firms (including those in the financial sector) to supply chain attacks.[6]

While certain nonbank lenders may be subject to the Federal Trade Commission's (FTC) Safeguards Rule, the FTC lacks examination authority and reliance on enforcement actions will only identify weaknesses in cybersecurity or compromise events once they have occurred and potentially caused consumer harm. Unfortunately, security breaches are becoming more common as innovation through fintech grows in popularity. Accordingly, it is critically important that nondepository fintech lenders undergo the same regular cybersecurity examinations that have long been part of the prudential supervision of credit unions and banks.

Conclusion

NAFCU and its members appreciate the opportunity to comment on this RFI and applaud the FHFA for facilitating responsible innovation in the housing finance system. NAFCU supports innovation but recommends that the FHFA remain consistent in the integration of fintech for all of its regulated entities. NAFCU further urges the FHFA to mitigate the risks posed by non-depository fintech lenders in order to protect the safety and soundness of the housing finance system. If you have any questions or concerns, please do not hesitate to contact me at (703) 842-2268 or amoore@nafcu.org.

Sincerely,

Aminah M. Moore
Senior Regulatory Affairs Counsel

[6] "Defending Against Software Supply Chain Attacks" Cybersecurity and Infrastructure Security Agency (April 2021)
https://www.cisa.gov/sites/default/files/publications/defending_against_software_supply_chain_attacks_508_1.pdf