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Letter: Comments on FHFA RFI on Fintech on Housing Finance

October 16, 2022

Federal Housing Finance Agency

Office of Financial Technology

400 7th Street SW, 5th Floor

Washington, DC 20019

On behalf of Finicity, a Mastercard Company ("Finicity"), we appreciate the opportunity to provide feedback on the Federal Housing Finance Agency's (FHFA) initiatives in facilitating responsible innovation by using financial technology (fintech), and to the specific questions presented in the Request for Information (RFI) on Fintech in Housing Finance. Finicity recognizes that there is an opportunity to address many existing challenges to adopt responsible innovation in the current housing finance environment to improve efficiencies, lower costs, and safely and soundly increase access to sustainable credit. The Mastercard, Office of Engagement has spoken about relevant innovation with other government agencies and offices, including the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), and the Federal Deposit Insurance Corporation (FDIC); we look forward to collaborating with the FHFA Office of Financial Technology.

Finicity, a Mastercard Company, sees the potential for many fintech applications throughout the mortgage process. For the purposes of our responses in Attachment A to the questions posed in the RFI, our comments and recommendations focus on the verification process (including assets, income, employment, rent, cash flow) and other opportunities that can be addressed using the Open Banking data provided by Finicity.

Open Banking provides consumers and small businesses more control over their financial accounts and data. Open Banking is playing a key role in empowering consumers and small businesses to further use and benefit from their financial data. From lending to financial management to payments, Open Banking brings digital financial tools to more people, providing small loans and credit for people and businesses who previously couldn't access these services.

Background on Mastercard

Mastercard is a technology company in the global payments industry. Mastercard operates the world's fastest payments processing network, connecting consumers, financial institutions, merchants, governments, and

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businesses in more than 210 countries and territories. Mastercard has been engaged in the Open Banking ecosystem globally. In 2020, Mastercard acquired Finicity Corporation, a leading provider of real-time access to Open Banking data and insights. The acquisition of Finicity strengthens the existing Mastercard Open Banking platform to enable and safeguard a greater choice of financial services, reinforcing the Company's long-standing prioritization of privacy and data protection. The acquisition also reflects Mastercard's commitment to partnerships with key industry stakeholders and commitment to financial institutions and financial technology companies ("fintechs") across the global ecosystem.

The financial services sector has experienced remarkable change over the past several years brought about by shifting demographics and advances in technology. Businesses and consumers seek new financial products and services that are customized to meet their own needs, including products and services that make use of consumer financial account information on a consumer-permissioned basis. Mastercard fully supports innovation that enables financial products and services to keep pace with emerging technologies. However, it is important to ensure that new technology-driven financial products and services provided by data users and data aggregators protect consumers to the same degree as products and services provided by banks.

At its core, Open Banking is about data access and data sharing. There is a growing trend globally to enable Open Banking to boost competition and innovation. Responsible innovation through Open Banking requires a principle-based and flexible approach shaped through industry-wide engagement, while taking local market conditions into account. Maintaining integrity, privacy, and security of consumer data through the processes of Open Banking is a matter of primary importance.

We appreciate the opportunity to share our view on these important issues with the FHFA. We welcome any questions you may have.

Sincerely,
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Title: SVP Open Banking Services

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Attachment A

Responses

A.1 How do primary and secondary mortgage market participants define fintech in the housing finance sector? What key factors should be considered?

Fintech refers to integrating technology into offerings by financial services companies to provide innovative new and improved consumer experiences. An important element of fintech, Open Banking / Finance refers to consumers' and small businesses' giving permission to share their banking, financial and payroll data with other parties, transforming what is otherwise a cumbersome, inconvenient chore into a seamless, integrated process that facilitates access to new financial experiences and choice in banking and payments.

A.2 How could FHFA facilitate adoption of "responsible innovation"?

Finicity holds that consumer transparency is important in the industry and as a consumer reporting agency (CRA) we are prepared to lead in this area. We suggest that FHFA should drive standardization working with teams such as the Mortgage Industry Standards Maintenance Organization (MISMO), Financial Data Exchange (FDX), Mortgage Electronic Registration Systems (MERS), the GSEs and the Mortgage Bankers Association (MBA). FHFA should expedite paths to test and learn about new solutions in the industry and prioritize these solutions based on the impact to the overall market.

A.3 What factors currently inhibit the adoption of fintech and innovation in the primary and secondary housing finance sector? Are there specific challenges related to privacy laws, industry standards, or current practices?

Adoption is inhibited by the lack of clarity of a standard process for innovation and approval for pilots. Fannie Mae and Freddie Mac are innovating separately but both need FHFA approvals. It is challenging to develop market adoptable solutions for clients while adhering to two separate paths to approval and implementation. Innovation for fintechs is a commercial endeavor and it is important that commercial viability for new solutions is supported by FHFA and the GSEs as we partner to improve the mortgage process.

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B.1 What kind of fintech activities have the greatest potential to positively impact the housing finance sector? Describe several situations in which a product or service has been or could be used, the factors considered in determining importance, and associated impacts.

Streamlining the borrower experience would most positively impact the housing finance sector. Utilization of Open Banking data eliminates the need for paper documentation and cuts loan processing times by up to 14 days (Freddie Mac study Dec 2020). This streamlined underwriting produces significant efficiency in the ability to close a loan faster. There are several areas we think are opportunities for positive impacts. Conducting readiness assessments and consumer education around preparing to purchase would introduce a streamlined approval process. During the approval we should simplify the process for borrowers to confirm current income and provide the most recent employment information possible. The ability to monitor ongoing financial health through Open Banking/finance data would support consumer education during servicing.

B.2 What are the typical time requirements of each process within the mortgage lifecycle? What are the "critical path" activities that drive the mortgage timeline and borrower expense? How could fintech be applied to improve efficiency, reduce costs, reduce time requirements, or facilitate equitable outcomes for borrowers?

Finicity's expertise is related to borrower underwriting and verifications. There are other areas of the mortgage process including appraisals, closing, etc., that might also benefit from fintech engagement. Implementing digital verifications can shorten the loan origination timeline by up to 14 days, (Freddie Mac study Dec 2020). A Forbes Insights survey from 2020 estimated, the average cost to originate a loan at $213 per day. This equates to $2500+ savings through digital verifications.

B.3 What are the typical drivers of repetitive requests to borrowers or reevaluation of underwriting information by the lender in the mortgage process, and what opportunities exist to automate processes?

Delays in loan closing, including delays due to selection of a property, may require borrowers to send updated information. Borrower permissioning of Open Banking/finance data facilitates automated updates without requiring additional borrower interaction. Automated review of information allows for a quick turnaround of decisions, including clarity of any additional information that may be needed. Utilizing pre check integrations can cut days or weeks from the process by eliminating requests for further information from the borrower.

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B.4 What are the existing data challenges that most prevent data-driven decision-making in the mortgage lifecycle?

Standardization and access to Open Banking data are the biggest challenges. Currently, the availability of data is controlled by the data source and some financial institutions have as little as 90 days available. Consistency of data across all verification data sources is also weak. Industry standards for payroll data would help support and encourage new fintech solutions. With all Open Banking data access it is critically important that borrowers have the ability to securely permission access to the data and that they have clear transparency about what has been permissioned and the ability to revoke access when needed.

B.5 What are the existing regulatory and policy barriers to adopting and implementing fintech within the mortgage lifecycle?

Finicity encourages FHFA to examine overlapping or repetitive requirements for compliance audits, and to establish clear guidelines to promote transparency, monitoring, and governance. Barriers include the availability and consistency of data, as addressed above. It is also a challenge that there is a lack of clarity of borrower protections and security. Having increased consistency across fintech providers would help reduce the friction of regulatory reviews and approvals.

C.1 What new fintech tools and techniques are emerging that could further equitable access to mortgage credit and sustainable homeownership? Which offer the most promise? What risks do the new technologies present?

Open Banking data provides advantages in determining credit readiness and ability to repay for borrowers who don't meet traditional credit file guidelines. This includes immigrants and underbanked individuals. Using rent identification, cash flow analysis and similar solutions helps all borrowers, regardless of their access to traditional credit.

C.3 Are there effective ways to identify and reduce the risk of discrimination, whether during development, validation, revision, and/or use fintech models or algorithms? Please provide examples if available.

Finicity believes that algorithms used in fintech should use clear, bias tested standards.

F.1 What forms of stakeholder engagement are most effective in facilitating open, timely, and continuous discussion on the challenges and opportunities presented by the application of fintech to housing finance?

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The initial FHFA listening session online was helpful as an introduction. Finicity recommends holding a quarterly collaboration meeting, with specific teams and follow ups similar to the framework used by the Financial Data Exchange (FDX). Finicity also encourages FHFA to participate in standards bodies including MISMO and FDX.

F.2 What are some topics for a housing finance-focused "tech sprint" and how could FHFA encourage participation?

Finicity believes that tech sprints to address broad problems encouraging cross partner collaboration would be an excellent approach to promote innovation in fintech. It is important to secure participation from a wide range of technology partners in the industry. Participation could be encouraged through a prize for the top solution(s) of the sprint(s). Ideas for awards include but are not limited to financial awards, industry recognition, and/or fast track approval process for new solutions. An example sprint topic is exploration of additional deep integrations, including prechecks and aligned messaging, to allow for dynamic workflow changes delivered to lenders and borrowers in real time.