VantageScore

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Federal Housing Finance Agency
Office of Budget and Financial Management
400 7th Street, S.W.
Washington, D.C. 20024

ATTN: Request for Input on Agency Strategic Plan for 2015-2019

Dear Madams and/or Sirs:

VantageScore Solutions LLC thanks the Federal Housing Finance Agency ("FHFA") for the opportunity to respond to the Request for Input regarding the Agency's Strategic Plan for 2015-2019. Our comments that follow focus on Performance Goal 2.3: "Expand access to housing finance for qualified financial institutions of all sizes and in all geographic locations and for qualified borrowers." As we will elaborate, a small change in the current GSE loan eligibility guidelines would extend access to the world's most liquid source of mortgage finance to millions of creditworthy borrowers who are excluded today.

We applaud the values statement with which you introduce the 2015-2019 Strategic Plan and recognize that each of the four stated values – respect, excellence, integrity and diversity – complement and strengthen one another. Further, we fully concur with the premise that "a healthy housing market requires liquidity and access across different borrower market segments to provide homeownership opportunities to creditworthy borrowers."

However, very real and significant impediments to the Federal Housing Finance Agency's statutory obligation to foster *competitive* housing finance markets *consistent with the public interest* are found in the legacy underwriting requirements that the GSEs impose upon lenders in their seller-servicer guides. Specifically, the requirement that in order to be eligible for purchase by the GSEs, home mortgage loans must be underwritten using specific, pre-recession score models developed by the Fair Isaac Corporation.[1]

To the extent the situation persists where qualified borrowers are denied access to mortgage financing, particularly when tools and resources are readily available to mitigate the situation, no agency of government is better situated than FHFA to address it. In fact, when Congress created the

[1] Fannie Mae Single Family Selling Guide: "When this term ['credit score'] is used by Fannie Mae, it is referring to the classic FICO score developed by Fair Isaac Corporation," https://www.fanniemae.com/content/guide/sel041514.pdf; Freddie Mac Single-Family Seller/Servicer Guide: "Freddie Mac requires the Seller to use a FICO® score, whenever a usable Credit Score is required," http://www.freddiemac.com/singlefamily/guide (both sites last visited September 9, 2014).

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Federal Housing Finance Agency in 2008 through enactment of the *Housing and Economic Recovery Act* or "HERA" they specifically assigned to the Director of FHFA as one of the Director's *principal duties* the obligation to ensure that:

> *... the operations and activities of each regulated entity foster liquid, efficient, <u>competitive</u>, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate- income families involving a reasonable economic return that may be less than the return earned on other activities); [and that] ... the activities of each regulated entity and the manner in which such regulated entity is operated are <u>consistent with the public interest</u>"*[2] [emphasis added].

The proposed Strategic Plan for 2015-2019 includes among its "Means and Strategies" for achieving Strategic Goal 2 a commitment to "continue to develop a series of studies and reports that analyze various factors impacting access to housing finance for qualified borrowers and financial institutions." VantageScore encourages FHFA to include this among the agency's highest and most immediate priorities. In the post-recession period there have been significant data enhancements, including expansions in the types and granularity of data contained in consumer credit files. Leading post-recession credit models, including but not limited to those built by VantageScore, leverage these data enhancements and behavioral insights to increase predictiveness and score more people. However, the GSEs still will not purchase loans underwritten using these post-recession models, to the detriment of millions of creditworthy borrowers. Instead, they require that lenders use scores derived from pre-recession models, despite the fact that the data samples used for developing the pre-recession models mandated by the GSEs dates from July 1995 to October 2000.[3] The combination of large amounts of more granular data and new scoring technologies since those development periods plus post-recession data that reflects changing consumer debt management habits have resulted in scoring millions more people (goes to inclusiveness and fairness) with far greater accuracy. As a result, these post-recession models are not only more inclusive and fair but also guard against consumers being damaged by inaccurately high scores or being denied access to credit by having inaccurately low scores. Yet midway through the second decade of the 21st century (and continuing through the end of this decade unless the requirement found in the GSEs' seller-servicer guides is changed) lenders who wish to originate a qualified mortgage under the QM rule or who intend on selling their loans to either of the GSEs are required to use scoring models built on data from the last century.

It has been demonstrated that VantageScore's post-recession credit scoring model is able to score 30 - 35 million consumers typically not scored by conventional models, and that more than 10 million of them have scores of 600 or above.[4] From a fair lending perspective, an estimated 9.5 million of the newly scored consumers are African American or Hispanic and 2.7 million of them have a credit score above 600. Yet because of the GSEs' exclusionary underwriting policy

[2] Section 1102 of Public Law 110–289, amending Section 1313 of the *Federal Housing Enterprises Financial Safety and Soundness Act of 1992* (12 U.S.C. 4513).
[3] *The FICO® Score User's Guide*, December, 2013, p. 59.
[4] See <u>http://www.vantagescore.com/pdf/VS30-FactSheet.pdf</u>

mandating use of a single, proprietary scoring brand, these borrowers are denied access to the credit and mortgage markets.

One of the "Means and Strategies" in FHFA's proposed Strategic Plan for 2015-2019 is a commitment to "Promote policies and practices at the regulated entities to provide fair and equal access to finance and financial services for all eligible financial institutions and qualified borrowers." It clearly states that "FHFA is committed to reducing barriers that restrict creditworthy borrowers' access to responsible lending … [and that it] expects the Enterprises to assess whether there are additional opportunities to reach underserved creditworthy borrowers."

As a number of consumer organizations wrote to FHFA last October:

The problem is clear and the solution is simple:

- *The problem is … a regulatory bias that disenfranchises millions of potential well-qualified borrowers.*
- *The solution is to require the GSEs to accept mortgages underwritten with other validated credit scoring models in addition to the single brand currently permitted.*[5]

FHFA has all the necessary authority to require the GSEs to adopt more inclusive underwriting policies[6]; policies that would foster the "liquid, efficient, *competitive*, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families …)" contemplated by the proposed 2015 – 2019 Strategic Plan.

The topic of housing finance reform is a complex one; opening up the GSEs' seller-servicer guidelines to the latest validated credit scoring models would be a rare "win-win" through which millions of creditworthy borrowers could access mainstream mortgage finance and the GSEs, in the spirit of their mission, could reap the rewards of serving them. Conversely, every day the GSEs' policies remain in place requiring lenders to use a dated, pre-recession credit scoring model, millions of creditworthy consumers are needlessly and unfairly denied the opportunity to secure a home mortgage at a fair price

Thank you for the opportunity to comment on this important matter. Please don't hesitate to contact me at (203) 363-2161 or by e-mail at BarrettBurns@vantagescore.com if you have any questions or would like to discuss any of the issues addressed in this letter.

Respectfully yours,

Barrett Burns

[5] Credit Risk Retention comment letter (RIN 2590–AA43) submitted to FHFA on October 30, 2013 by a number of organizations including the Asian Real Estate Association of America, the Consumer Federation of America, the National Association of Hispanic Real Estate Professionals and the Woodstock Institute.

[6] "With the Enterprises operating in conservatorships, FHFA has the authority of the board, management, and shareholders." Request for Input, Section I. Legal Authority for Charging Guarantee Fees, p.1