October 31, 2022

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Deputy Director
Division of Conservatorship Oversight and Readiness
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

VIA ELECTRONIC SUBMISSION

RE: Fintech in Housing Finance Request for Information

Deputy Director Cave:

Truework respectfully submits this letter in response to the Federal Housing Finance Agency's ("FHFA") Fintech in Housing Finance Request for Information regarding responsible innovation and the role of technology in housing finance. Truework appreciates the opportunity to respond to the FHFA's request, providing insight into specific technology developments that provide homebuyers with **more inclusive, faster, more affordable and more secure access to home financing**.

Truework's innovative employment and income data platform is a leading example of how technology developments are providing these kinds of material benefits to homebuyers today, supporting acceleration of responsible growth of home ownership in the United States. In order to further foster these kinds of pro-homebuyer, pro-competitive innovations, we encourage the FHFA to pursue regulatory policies that promote: (1) **open access** of consumer financial data at **consumer consent**, (2) provision of data **from original sources through regulated and accountable intermediaries**, (3) **reduced data retention** by those intermediaries, (4) increased availability of **instant data** sources, and (5) use of secure modern application program interfaces ("**APIs**") for the sharing of data. Truework's platform has been built on these foundational principles, as have many other competitive innovations that benefit homebuyers.

Founded in 2017, Truework provides employment and income verification services via a secure digital-first network of HR departments, employee-management platforms, payroll providers, and other consumer-driven methods of providing accurate employment and income

data. Truework provides this data solely pursuant to consumer consent, operating as a **Consumer Reporting Agency** pursuant to the Fair Credit Reporting Act. In effect, the network managed and secured by Truework - very much a modern data platform (not a centralized database like those held by incumbent bureaus) - functions *itself* as a Consumer Reporting Agency, open for access to all legitimate and verified mortgage providers and other intermediaries seeking to verify a homebuyer pursuant to that homebuyer's informed consent. While directly regulated, this open architecture avoids regulatory capture by any particular participant and creates positive network effects for homebuyers, lenders and capital providers alike. These network effects create significant efficiencies, including reduced cost, increased speed, and more accurate credit assessment, that benefit all homeowners seeking home financing.

Truework is a modern interpretation of what a "credit bureau" can be in a world of hundreds of highly distributed - and personally sensitive - data points. Truework is a regulated (and thus accountable) intermediary that assembles and provides secure *visibility* (as opposed to access or control) to this information, but does not itself hold that information like a traditional credit bureau. Truework has instead built a trusted and seamless integration of distributed resources (original sources of data that store records securely) from which it can instantaneously verify income and/or employment data when requested and consented to by the consumer. Truework's platform is inherently more secure than traditional credit bureaus that hold "honey pots" of data duplicated from original sources. Truework's platform also allows **more homebuyers to purchase their homes faster with the best rates possible** precisely because of this on-demand distributed network of integrations, multiple means of verification and accuracy of real-time data. This is a prime example of how technology can improve outcomes for creditworthy homebuyers.

Over the past 5+ years in building our business we've seen the **availability of employment and income data** dramatically increase. The usage of cloud-based employee-management and payroll platforms has significantly increased, particularly by small and medium sized-businesses. Expansion of employee-management platforms has made employment and income data more readily available than ever before, enabling more consumer-led data use cases while maintaining consumer consent. These platforms are being built on the leading method of modern, secure data-sharing – the API. APIs allow different, otherwise non-interoperable, software programs to easily communicate and share standardized data through universally accessible – yet secured – interconnection points.

Payroll data is an example of a larger **ecosystem of consumer information** that is moving beyond formerly siloed, non-integrated, proprietary data systems, to a more accessible and integrated world. Easy to access, yet secure APIs are the pathways on which this ecosystem is being built. This ecosystem is predicated on functional interoperability and data accessibility between different software systems, a core principle that drives modern computing

and digital commerce more broadly. A wide array of API-based businesses have developed, wherein any business can easily incorporate these services via API into their main platform.[1] This is particularly prominent within the human resources function, with the rapid rise of employee-management platforms using third-party APIs to incorporate a wide variety of functions, including payroll, taxes, training, recruiting, verification, and benefits. Proliferation of easily accessible API-based services has also dramatically democratized consumers' access to their own financial data. This has lowered entry costs for new businesses offering a wider array of financial products and services to consumers, while at the same time increasing data security.

Specific to home purchase and financing, the increased availability of real-time, accurate, and secure employment and income data – via API and otherwise – is providing **benefits for homebuyers** in a number of material ways. Truework's regulated data platform is providing these benefits on a real-time basis today, with Truework itself gaining a unique view into how these benefits are building a more robust foundation for homeownership in the United States. The FHFA has the opportunity to catalyze these benefits by more formally supporting this technology in the standards it sets out for the entities it oversees, which will provide **material value** in a number of areas in which the FHFA is seeking input pursuant to this RFI, including (a) **the ecosystem in which residential mortgages are originated**, (b) **the secondary market for mortgages**, and (c) **improvements in compliance and regulatory activities**:

1. Improved Homebuyer Access: Consumer-permissioned access to payroll accounts, improved APIs, and smart document upload parsing all have led to 1099 and "gig" workers being able to better demonstrate their ability to repay. Truework is a leading provider of verification for 1099 and gig-economy workers in the United States. These workers are currently underserved by legacy verification providers, yet between 20% and 30% of US workers rely on gig-economy employment as a primary or secondary source of income. A significant portion of gig workers are young (34%), but gig employment is also a valuable source of income for older generations, with close to 11% of gig economy workers aged 55 and above. Minorities are strongly represented in the gig economy. Close to one-third of the US Hispanic population (31%) and 27% of the African-American population are currently employed by these services. Further, over half of African-American gig workers (55%) cite their gig job as their primary source of income. In recognition of these underserved communities, Truework has continued investments to deepen partnerships with key partners that employ these workers: DoorDash's official help center article on Employment and Income verification directly lists Truework as their partner for these services.

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[1] https://notboring.substack.com/p/apis-all-the-way-down

2. <u>Increased Accuracy of Creditworthiness Assessment</u>: When more complete income data is combined with real-time and historical cash flow data, the resulting data set may provide a more accurate picture[2] of a consumer's ability to repay than mere static credit scores (even if those scores are enhanced with alternative data). This information can provide underwriters a fuller picture of a borrower's cash management, which may be a better predictor of having the ability to repay versus traditional credit scores.

3. <u>Improved Homebuyer Competitiveness</u>: Because a more complete set of employment and income data is available on an instantaneous basis, we are seeing a proliferation of mortgage "instant" pre-approval products. These products in turn allow a more inclusive scope of creditworthy borrowers to be competitive in bidding for houses. This is especially important for prospective homebuyers in the current credit and interest-rate constrained environment.

4. <u>Improved Consumer Protection</u>: Truework's product is just one example of how improvements in technology can provide greater transparency and consumer protections for borrowers. Truework's consumer-driven product receives exceptionally high customer satisfaction (CSAT) scores from borrowers (90%+ average). It also receives praise from lenders (increasing their conversion rates) and employers (protecting employee data security and privacy). The product is attractive to lenders because it is consumer-friendly and helps them approve borrowers more quickly without making tradeoffs on accuracy, privacy or consent. Employers like how it protects their employees' sensitive information and enhances the employee experience.

5. <u>Reduced Loan Costs and Improved Scalability</u>: Streamlined availability of accurate employment and income data reduces not just the cost of verification itself (wherein such cost reduction is passed on to the borrower), but more widely reduces stress on the underwriting process more broadly by removing verification from a critical path. This reduced stress (which shows up in faster loan cycle times, data standardization, reduced manual processes and reduced headcount) improves the overall scalability of qualified loans, which in turn further lowers overall costs to the borrower. These cost reductions also allow more lenders to compete for borrowers, which further lowers borrowing costs for creditworthy homebuyers.

6. <u>More Accurate Loan Pricing</u>: The increased accuracy in assessing creditworthiness afforded by more inclusive income (and cash flow) data should result in more accurate loan pricing. More accurate loan pricing should then create more efficient secondary markets, which in turn should further lower loan prices for every creditworthy homebuyer. As evaluation of creditworthiness becomes more personalized via this data set and

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[2] https://finreglab.org/fact-sheet-cash-flow-data-in-credit-underwriting/

others (i.e., less indexed to broad credit scores and tiers) and more directly related to individual-specific data points (particularly when taken in context of homebuyer specific LTV), we expect to see loan pricing better align with actual loan default rates.[3] This alignment should result in better distribution of real risk within mortgage backed security portfolios, which in turn should bring more liquidity (and better pricing) to home financing markets.

7. <u>Improved Fair Lending Compliance</u>: Consistent with the increased accuracy of creditworthiness assessment that this data set should provide, credit decisions made on the basis of more complete income (and cash flow) data may prove to be more fair and less prone to disparate impacts.

8. <u>More Trusted Data Sources</u>: There are now a wider array of trusted on-demand sources of accurate employment and income data. Many of these sources are available from CRAs such as Truework. As these methods of verification become more adopted by industry, there are opportunities for the FHFA to accelerate the benefits described above (and others) by making these sources eligible for inclusion in programs like Fannie Mae's Day 1 Certainty (D1C) and Freddie Mac's Asset and Income Modeler (AIM). Such regulatory engagement could dramatically increase benefits and improve outcomes for creditworthy homebuyers.

Each of the benefits outlined above derives from modern notions of how sensitive consumer financial data can be shared in a manner that provides both economic benefit and increased privacy/security for consumers: (1) open access, but only at consumer consent, (2) provision from original sources through regulated and accountable intermediaries, (3) reduced data retention by those intermediaries, (4) increased use of instant data sources, and (5) use of secure modern APIs. Similar to companies like Truework that are building products for a marketplace that is increasingly demanding these features as table stakes, the FHFA should adopt these as foundational regulatory principles to further encourage development of responsible innovations that accrue benefits to homebuyers.

Technology guided by regulatory clarity is an incredibly powerful agent of positive change for consumers. Recent improvements in the secure availability of accurate employment and income data – and how that data is being brought to the marketplace in a responsible manner – present a host of emerging benefits to homebuyers. The FHFA has the opportunity to enhance these benefits with regulatory engagement, supporting these advancements by

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3 See e.g., https://bfi.uchicago.edu/wp-content/uploads/BFI_WP_2020100.pdf, https://www.urban.org/sites/default/files/publication/39566/2000092-Loss-Severity-on-Residential-Mortgages.pdf, https://www.urban.org/sites/default/files/publication/65901/2000375-The-Rebirth-of-Securitization.pdf, https://www.guggenheiminvestments.com/perspectives/portfolio-strategy/asset-backed-securities-abs.

providing incentives for industry participants to further integrate these responsible technology improvements in their processes and products. We look forward to discussing these opportunities with the FHFA as it moves forward with its innovation initiatives.

Sincerely,

Ryan Sandler,
Co-Founder & CEO
Truework