January 2, 2018

The Honorable Mel Watt
Director, Federal Housing Finance Agency
4000 7th Street, SW Ninth Floor
Washington, DC 20024

Re: Credit Score-Request for Input

Dear Director Watt:

Thank you for the opportunity to submit input regarding the Federal Housing Finance Agency's (FHFA) proposal concerning updating the Enterprises' credit score requirement.

Credit Builders Alliance (CBA) is a nonprofit that serves as a unique and vital bridge between our 500 nonprofit members and the major credit reporting agencies (CRAs). Through this support, CBA helps people who are outside the financial mainstream build credit to achieve their goals and enjoy financial security for themselves and their families. Our core services, CBA Reporter and CBA Access, provide nonprofits with both the ability and critical technical assistance to report loan data to the CRAs and to pull low-cost client credit reports for the purposes of financial education, outcome tracking and underwriting.

The input submitted below addresses FHFA's request for input on updating the current Enterprise credit score requirement—Classic FICO standard. First, CBA applauds and thanks FHFA for its recognition of the need to update a credit score version that is outdated in its predictability. Since the Classic FICO was launched, many newer versions of FICO in addition to VantageScore have been introduced into the marketplace. With each subsequent version, enhancements have resulted in greater predictability of consumer risk. Helping the Enterprises to make wise and informed decisions regarding consumer risk is a prudent use of taxpayers' dollars.

I. FHFA has a clearly laid out mission that includes the duty to reach underserved communities in addition to protecting the taxpayers from risk.

CBA recognizes that FHFA has both a duty to ensure that underserved communities[1] have access to the mortgage market, and obligations to ensure the safety and soundness of the GSEs. CBA believes that the newer credit score models result in the ability to score more individuals—effectively lowering the number of "credit invisibles" (those who have no credit history). The newer models include data that the Classic FICO does not. By increasing the number of

[1] Housing and Economic Recovery Act of 2008, P. Law 110-289, Section 1229(a)(1)
" Duty to Serve Underserved Markets-
(1) Duty—To increase the liquidity of mortgage investments and improve the distribution of investment capital available for mortgage financing for underserved markets, each enterprise shall provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages for very low-, low-, and moderate-income families….."

tradelines that are included on a credit report, it also increases the percentage of consumers who would otherwise be unscored. Underserved communities are among the highest percentage of consumers who have low or non-existent credit profiles. According to the Consumer Financial Protection Bureau (CFPB):

- Consumers in low-income neighborhoods are more likely to be credit invisible or to have an unscored record
- Black and Hispanic consumers are almost twice as likely to have limited credit records

CBA believes that the underserved will be greater served by the discontinuation of an outdated credit score model.

II. CBA Encourages FHFA to Consider Alternative Credit Scores.

CBA's Board of Directors adopted a public position on alternative data in 2017:

CBA supports traditional and nontraditional credit building strategies that promote safe and responsible credit building opportunities for low- and moderate-income individuals and small businesses. CBA is committed to supporting alternative credit data furnishers/ sources (such as rent reporting) as they prove predictive and applicable to our credit-building mission and to the extent that they:

- *promote accurate data furnishing that is sustainable;*
- *promote the inclusion of positive and negative payment data on credit reports, as appropriate; and are responsible and consumer friendly.*

CBA believes that removing the requirement to use the Classic FICO Score and allowing for newer credit score models to take its place will be fully in-line with our public position. Furthermore, CBA's experience as a catalyst for Rent Reporting for Credit Building across the affordable and public housing sector has given us proof of the value of allowing additional data (i.e. rental tradeline) to be included into a credit score.

As a result of CBA's Pilot with eight (8) affordable housing providers, in 2015 CBA concluded:

- Rent reporting is perceived by renters as a good opportunity for credit building. 97% of residents who responded to a Pilot survey stated that paying rent on time is a good way for them to build their credit.
- Rent reporting offers a significantly impactful credit building opportunity to residents living in affordable housing. After isolating the impact of the inclusion of the rental payment history on participants' credit scores we found:

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  - All (100%) of residents in the Pilot who initially had no credit score[2] had either a high nonprime or prime score with the inclusion of their rental payment history.
  - A large majority (79%) of Pilot participants experienced an increase in credit score with an average increase of 23 points.
- Rent reporting in combination with financial coaching can incentivize residents to increase their rates of on-time rent payment.

III. FHFA's Proposal Should Consider Multiple Credit Score Versions.

CBA is familiar with the multitude of credit score models that exist in today's marketplace. Leaders in the market such as FICO and VantageScore are at the cutting edge of scores that are predictable and include alternative data into their calculations. CBA believes that allowing flexibility for the Enterprises to use a short list of approved credit scores—or better yet, to develop standards for the use of any credit score that meets a set of criteria set by FHFA in order to responsibly accommodate new scores as they come onto the market—would be more efficacious and sustainable in the long-term.

The credit score models ultimately selected should be the most updated versions however, such as FICO 9 and VantageScore 4.0. Using older versions undercuts the desire to score more underserved populations. Having a selection between several credit score models would allow for greater flexibility and adaptability for the Enterprises. This would also encourage greater competition in the marketplace, which usually results in favorable outcomes for the consumer.

Conclusion

CBA applauds the efforts of FHFA to broaden access to the housing marketplace for more consumers. In a society where almost 20 percent of the population has "unscored" credit records or are "credit invisible," according to the CFPB, improving access is a laudable goal.

We thank FHFA once again for the opportunity to submit input on this very critical subject.

Sincerely,

Dara Duguay

Dara Duguay
Executive Director, Credit Builder Alliance

[2] VantageScore 3.0