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RE: FHFA Credit Score RFI

March 23, 2018

Dear Director Watt:

Thank you for the opportunity to provide comments on your December 2017 Request for Input (RFI) regarding government-sponsored enterprises' (GSEs) use of modernized credit scores for mortgage underwriting.

Consumer Action[1] applauds the Federal Housing Finance Agency's (FHFA) decision to consider updating and improving the current credit score model mandated for use by the GSEs.

Consumer Action recommends that FHFA expand its analysis of scoring models to consider options that incorporate alternative data. While a credit score is only one tool used to measure a borrower's risk level when being evaluated for some GSE-qualified mortgages, it is in the best interest of the borrower and the agency to take this step to reduce borrower costs and expand access to credit.

One in ten consumers is "credit invisible" because their traditional credit file is too new, too thin or non-existent, according to the Consumer Financial Protection Bureau (CFPB). Integrating alternative data into the scoring model could help marginal applicants improve their chances of qualifying for a home loan. Estimates are that use of a credit-scoring model infused with alternative data would translate into an increase of *less than* one percent of loan candidates becoming newly eligible for a mortgage. Even if that modest increase were accurate, that result would be a significant outcome for the more than one hundred thousand new homeowners that would be added to the market.

Alternative data
The inclusion of alternative data is particularly valuable for low- and moderate-income consumers and recent immigrants, who often do not fit neatly into the traditional credit box and may not have other opportunities to demonstrate a pattern of responsible financial behavior. According to estimates by Fannie Mae, about five million renters could afford to purchase a home but lack traditional credit scores.

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[1] Consumer Action has been a champion of underrepresented consumers since 1971. A national, non-profit 501(c)3 organization, Consumer Action focuses on financial education that empowers low-to-moderate-income and limited-English-speaking consumers to financially prosper. It also advocates for consumers in the media and before lawmakers and regulators to advance consumer rights and promote industry-wide change, particularly in the fields of credit, banking, housing, privacy, insurance and telecommunications. www.consumer-action.org

Consumer Action endorses the use of rental and telecom payment data as alternative data sources to include in the formula used to calculate a credit score. While we recognize that there are challenges in regularly collecting rental data, we note that the Automated Underwriting System (AUS) employed by the GSEs currently factors in rental payments to its calculations. Telecom payment data is a key source of alternative data used in FICO's XD score, used now for some credit card underwriting.

We would not recommend mandatory inclusion of utility payment data as a viable source of alternative data in a credit score. Mandatory, rather than voluntary, utility reporting could harm struggling households. The miniscule amount of utility reporting in today's credit files tends to be negative data. In states that prohibit utility companies from shutting off the heat in winter months for non-payment, households that delay or extend utility payments would end up with tarnished credit scores, defeating the benefit of using alternative data.

We also distinguish behavioral data from alternative payment data and suggest never allowing behavioral data to be used in calculating credit scores. We define behavioral data as any data collected that is *no*t payment- or credit-related. Behavioral data can include social media habits, online purchases, payday loan usage, marketing and collections data from text messages, education levels, apps downloaded and mobile wallet balances.

In 2017, Consumer Action conducted an online survey[2] asking the public about their perceptions of the use of alternative data to improve access to credit. More than 82 percent of respondents said they support using rent payments to broaden access to credit. The vast majority of respondents commented that they do not believe behavioral data—including social media data, cellphone *usage* data and video viewing information—should be used to gauge creditworthiness. The survey and related articles can be found in the Summer 2017 issue of *Consumer Action News*[3].

Consumer Action suggests that great attention should be given to both corporate and FHFA research, yet to be released, that has studied how inclusion of rental payment data would impact consumer access to mortgages.

It is our understanding that one's credit score plays a far greater role in the cost of a home loan (loan level pricing) and the cost of mortgage insurance, rather than expanding eligibility to a loan. However, when borrowers have to pay more for mortgage insurance and APRs, mortgages become less sustainable over the long term, and may have a disproportionate impact on minority borrowers' ability to maintain the American ideal of homeownership. We support the use of pilots to see if an alternative data model, in fact, actually qualifies more people for homeownership.

Fannie Mae's experimentation with rental data for consumers with no credit score and Freddie Mac's use of "trended data" are two recent signs of evolution in the mortgage underwriting process. If GSE-accepted credit scoring models were updated to include alternative data, the cost of a loan could become more

[2] 2,410 consumers participated in Consumer Action's online survey, April 6-April 21, 2017.

[3] https://www.consumer-action.org/news/articles/alternative_data_and_financial_inclusion_summer_2017

affordable and the revised scoring model could be more predictive, allowing lenders to assess risk more accurately and consider making mortgages more available to a greater number of underrepresented borrowers.

Consumer Action supports the practice of using a credit score as one tool to gauge lending risk in a far more complex and manual evaluation of mortgage underwriting.

We also urge the agency to complete the long overdue decision to update the accepted credit score for mortgage underwriting prior to Director Watt's term expiring, to help continue FHFA's work in creating a strong and vibrant housing market under this director.

Sincerely,

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