

March 26, 2018

VIA ELECTRONIC SUBMISSION

Director Mel Watt  
Federal Housing Finance Agency  
Constitution Center  
400 7<sup>th</sup> Street, SW  
Washington, DC 20219

**Re: Credit Score Request for Input**

Dear Director Watt:

The Electronic Transactions Association (“ETA”) submits these comments in response to the Federal Housing Finance Agency (“FHFA”) request for information (“RFI”) about Credit Score Request for Input. While mortgages are not normally within the scope of issues that ETA comments, the rise of the use of alternative data in lending and this RFI presents an appropriate platform for ETA to provide some comments on the use of alternative data generally. While our comments below present our thoughts on the use of alternative data in credit decisions, ETA does not have a specific preference for the four options presented regarding the replacement of the classic FICO credit score model for Government Sponsored Enterprises.

ETA is the leading trade association for the payments industry, representing over 500 companies that offer electronic transaction processing products and services. ETA’s members include financial institutions, mobile payment service providers, mobile wallet providers and non-bank online lenders that make commercial loans, primarily to small businesses, either directly or in partnership with other lenders. ETA member companies are creating innovative offerings in financial services, revolutionizing the way commerce is conducted with safe, convenient and rewarding payment solutions and lending alternatives. Additionally, ETA member companies are using alternative data and alternative modeling techniques to provide access to credit for consumers and businesses traditionally underserved using only traditional methods.

**GENERAL COMMENTS**

Over the past decade, financial institutions and financial technology companies have transformed the financial landscape through the introduction of new technologies that expand financial offerings for borrowers, lower costs, improve financial and risk management, and increase transaction security. The unprecedented recent advances in technology and the use of both traditional data and alternative data, including efforts to digitize data that previously required time- and labor-intensive manual reviews, continues to show great benefits for underserved consumers,

as well as the broader economy. Advanced data analytics can be used to effectively match products and services to consumers and create opportunities for traditionally underserved communities.<sup>1</sup>

Considering the tangible benefits of such technological advancements, ETA urges policymakers to remain thoughtful and forward-thinking in how to best support industry's on-going efforts to provide opportunities for all consumers and small businesses to access and benefit from innovative financial products and services. Efforts by policymakers to discuss uses for alternative data should be done collaboratively with industry participants and with careful consideration.

ETA and its members support an inclusive financial system that provides high quality, secure, and affordable financial services for the broadest possible set of consumers and small businesses. ETA member companies touch, enrich, and improve the lives of underserved communities while making the global flow of commerce possible. ETA encourages policymakers to support these goals through policies that support innovation and the use of technology in financial products and services.

### *Alternative Data*

Use of alternative data and modeling techniques help underwriters to see a more complete and accurate picture of a borrower than is available through only traditional data. Lenders have unique and robust incentives to find accurate information about consumers regardless of the tool. Alternative data represents another tool for lenders to increase their accuracy in finding new and previously underserved populations who maybe creditworthy, but who traditional credit modeling has failed to identify. It also helps lenders verify credit information and can help reduce fraud, even if the alternative data itself does not have predictive value in terms of credit scoring.

### *Benefits to Consumers*

Use of alternative data and modeling techniques helps to provide for greater access to credit, enhanced creditworthiness predictions, improved Know Your Customer processes, fraud prevention, more efficient information gathering and underwriting, and ultimately lower costs for consumers and businesses. Alternative data can help lenders safely and responsibly extend credit to the many of the more than 50 million U.S. adults who do not have FICO scores.<sup>2</sup> Alternative modeling techniques can help to review underlying disparities in traditional credit markets and help companies serve creditworthy consumers from any background. When used in tandem with traditional data, alternative data provides new ways to provide access to credit for those that are currently underserved.

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<sup>1</sup> FTC, *Big Data: A Tool for Inclusion or Exclusion?*, p. 5 (Jan. 2016), available at <https://www.ftc.gov/system/files/documents/reports/big-data-tool-inclusion-or-exclusion-understanding-issues/160106big-data.rpt.pdf>.

<sup>2</sup> See generally, Fair Isaac Corp., *Can Alternative Data Expand Credit Access*, Insights White Paper No. 90 (2015), available at <http://www.fico.com/en/latest-thinking/white-papers/can-alternative-date-expand-credit-access>.

ETA recommends that the FHFA to follow the protocols that have been used to manage recent GSE innovations including a strategic plan definition, followed by specific goals, rigorous public comments, regular updates, the adoption of an advisory panel, issuance of an implementation playbook and adopting a transition period. ETA also urges the FHFA to seek feedback from prudential regulators about any potential liquidity, systemic risk, and inclusiveness issues that may result from the process.

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We appreciate you taking the time to consider these important issues. If you have any questions or wish to discuss any issues, please contact me or ETA Senior Vice President, Scott Talbott at [Stalbott@electran.org](mailto:Stalbott@electran.org).

Respectfully submitted,



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